ALKALOID AD SKOPJE
STATUTORY SEPARATE FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2020

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 unconsolidated financial statements (page 3 to 38) of ALKALOID AD Skopje (the "Company"), which comprise the unconsolidated statement of financial position as at December 31, 2020, and the unconsolidated statement of comprehensive income, unconsolidated statement of changes in equity and unconsolidated 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 unconsolidated 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 unconsolidated 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 unconsolidated 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 unconsolidated 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 unconsolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the unconsolidated 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 unconsolidated 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 unconsolidated 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 unconsolidated financial statements present fairly, in all material respects, the financial position of Alkaloid AD Skopje as at December 31, 2020, 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 unconsolidated annual report (Appendix 1 to the financial statements) and the Company's unconsolidated 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 9, 2021 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 unconsolidated annual report with the unconsolidated annual account and the unconsolidated 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 unconsolidated annual report is consistent with the unconsolidated annual account and the accompanying audited unconsolidated financial statements of the Company for the year ended December 31, 2020.

Aleksandar Arizanov
Certified Auditor
Director

Jane Ivanov
Certified Auditor

March 4, 2021

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 2020	2019
Assets			
Non-current assets			
Property, plant and equipment	6	5,951,609	5,196,692
Intangible assets	7	1,826,191	1,729,210
Available-for-sale financial assets	9	7,114	7,411
Investments in subsidiaries	10	513,278	509,977
Other non-current assets	13	61,980	114,566
		8,360,172	**7,557,856**
Current assets			
Inventories	11	2,850,915	2,369,208
Trade receivables	12	2,384,754	2,435,007
Other receivables	13	211,303	172,762
Cash and cash equivalents	14	144,421	139,182
		5,591,393	**5,116,159**
Total assets		**13,951,565**	**12,674,015**
Equity			
Capital and reserves			
Share capital	15	2,220,127	2,220,127
Treasury shares		(109,285)	(98,805)
Legal reserves		596,146	596,146
Other reserves	16	1,686,483	1,686,780
Retained earnings		6,323,541	5,686,873
		10,717,012	**10,091,121**
Non-current liabilities		604,335	288,057
Non-current borrowings	17	48,546	39,523
Retirement benefit obligations	18	**652,881**	**327,580**
Current liabilities			
Trade and other payables	20	2,176,078	1,949,435
Income tax		19,588	47,392
Current borrowings	17	386,006	258,487
		2,581,672	**2,255,314**
Total liabilities		**3,234,553**	**2,582,894**
Total equity and liabilities		**13,951,565**	**12,674,015**

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 9 February 2021.

Approved and signed on behalf of Alkaloid AD Skopje by:

Zhivko Mukaetov	Viktor Stojcevski
General Manager	Finance Manager

(In thousands of Denar)

SEPARATE STATEMENT OF PROFIT OR LOSS

	Notes	Year ended 31 December 2020	2019
Sales	5	9,188,259	8,428,009
Cost of sales	24	(5,534,946)	(5,078,027)
Gross profit		**3,653,313**	**3,349,982**
Research and development expenses	24	(121,368)	(109,931)
Selling and marketing expenses	24	(1,804,097)	(1,723,781)
Administrative expenses	24	(466,502)	(420,697)
Provision for other liabilities and charges	21	(9,023)	(10,063)
Other income	22	409,714	246,610
Other expenses	23	(399,309)	(191,815)
Operating profit		**1,262,728**	**1,140,305**
Finance expenses (net)	27	(14,714)	(11,517)
Profit before income tax		**1,248,014**	**1,128,788**
Income tax	28	(105,363)	(120,977)
Profit for the year		**1,142,651**	**1,007,811**
Earnings per share (in Denar)			
- Basic	29	811.00	712.17

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

(In thousands of Denar)

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended 31 December 2020	2019
Profit for the year		**1,142,651**	**1,007,811**
Other comprehensive income:			
Fair value gain on investments	16	(297)	592
Effects from revaluation of land	6	-	823,836
Other comprehensive income, net of tax		**(297)**	**824,428**
Total comprehensive income for the year		**1,142,354**	**1,832,239**

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

(In thousands of Denar)

SEPARATE STATEMENT OF CHANGES IN EQUITY

	For the year ended December 31					
	Share capital	Treasury shares	Legal reserves	Other reserves	Retained earnings	Total
As at January 1, 2019	**2,220,127**	**(23,032)**	**596,146**	**879,136**	**5,115,593**	**8,787,970**
Purchase of treasury shares	-	(75,773)	-	-	-	(75.773)
Dividend payment and tax on dividend paid out			-	-	(453,315)	(453,315)
Deduction of reserves	-	-	-	(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	**2,220,127**	**(98,805)**	**596,146**	**1,686,780**	**5,686,873**	**10,091,121**
Purchase of treasury shares	-	(10,480)	-	-	-	(10,480)
Dividend payment and tax on dividend paid out	-	-	-	-	(505,983)	(505,983)
Profit for the year	-	-	-	-	1,142,651	1,142,651
Statement of comprehensive income						
Fair value gain on investments (Note 9)	-	-	-	(297)	-	(297)
	-	-	-	(297)	-	(297)
As at December 31, 2020	**2,220,127**	**(109,285)**	**596,146**	**1,686,483**	**6,323,541**	**10,717,012**

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	
	2020	**2019**
Cash flows from operating activities		
Cash receipts from customers	9,212,834	8,090,095
Cash paid to suppliers and employees	(7,823,550)	(6,883,778)
Cash generated from operations	**1,389,284**	**1,206,317**
Cash flows from investing activities		
Purchases of property, plant and equipment	(1,435,718)	(862,848)
Investments in subsidiaries (Note 10)	(3,301)	(135,286)
Dividends received	83,769	69,464
Subsidies received	121,190	85,831
Other payments to employees	(55,123)	(65,162)
Net cash used in investing activities	**(1,289,183)**	**(908,001)**
Cash flows from financing activities		
Proceeds from borrowings	2,415,943	1,553,535
Repayments of borrowings	(1,978,425)	(1,363,716)
Interest paid	(15,599)	(9,405)
Purchase of treasury shares	(10,480)	(75,773)
Dividends paid to shareholders, tax on dividends paid out and other profit allocations	(506,301)	(453,315)
Net cash used in financing activities	**(94,862)**	**(348,674)**
Net (decrease)/increase in cash and cash equivalents	**5,239**	**(50,358)**
Cash and cash equivalents at beginning of year	139,182	189,540
Cash and cash equivalents at the end of year	**144,421**	**139,182**

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 nineteen 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 separate Financial Statements

Pursuant to the provisions of the Company Law (Official Gazette nos. 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, 13/14, 41/14, 138/14, 88/15, 192/15, 6/16, 30/16, 61/16, 64/18, 120/18, 195/2018, 225/2018, 239/2018 and 290/20) legal entities in the Republic of North Macedonia are required to maintain their books of account and to prepare their financial statements in conformity with the International Financial Reporting Standards published in the Official Gazette of the Republic of North Macedonia.

A newly-issued Rulebook for Chart of Accounts (Official Gazette nos. 159/09, 164/10 and 107/11) was adopted on 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 from January 1, 2010.

Until the date of preparation of the accompanying financial statements, the amendments of the International Financial Reporting Standards ("IFRS/ISA") and interpretations of IFRIC in effect for the annual periods beginning on or after January 1, 2009, have not yet been translated and published in the Republic of North Macedonia.

Given the potentially material effects which the departures of accounting regulations applicable in Republic of North Macedonia from the International Financial Reporting Standards may have on the fairness of presentation made in the Company's separate financial statements, the accompanying separate financial statements cannot be treated as a set of separate financial statements prepared in accordance with the International Financial Reporting Standards.

However, the accompanying separate financial statements of the Company 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 a set of financial statements that differ in some respects from the presentation of certain amounts as required under the provisions of adopted IAS 1 - "Presentation of Financial Statements".

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1. Basis of Preparation and Presentation of the Separate Financial Statements (Continued)

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

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

The preparation of the separate financial statements in accordance with the Law on Trade Companies and the Rulebook on Accounting requires the application of estimates and assumptions by the management of the Company, which affect the positions expressed in the separate financial statements. Although management estimates are based on reasonable information and knowledge of events and activities, the actual results may differ from those estimated. Management estimates are shown in Note 4.

2.2. 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.

2.3. 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, 2020, 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)

2.3. 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.

2.4. 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)

2.5. Property, plant and equipment

The property plant and equipment, except the land, are initially recorded at cost. The land is subsequently stated at fair value, based on the appraisal performed by external independent appraisers. 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.

2.6. 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)

2.6. 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 amortized on a straight-line basis over their estimated useful lives of 10 years.

2.7. 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)

2.8. 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 2.10).

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 2.10.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9. 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.

2.10. 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'.

2.11. Cash and cash equivalents

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

2.12. 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.

2.13. 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.

2.14. 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)

2.15. 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 tax is calculated using the current tax rate. Deferred tax liabilities are recognized for all taxable time differences. 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 assets are 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.

2.16. 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)

2.16. Employee benefits(Continued)

Termination benefits

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

Profit-sharing and bonus plans

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

2.17.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.

2.18.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)

2.19. 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.

2.20. 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.

2.21. Going concern principle

The rapid spread of the Covid-19 virus and its economic effects in the Republic of North Macedonia and globally may result in a reassessment of assumptions and estimates, which could have an impact of material adjustment to the present value of assets and liabilities over the following business period. At this stage, management is unable to assess the effect with certainty, as new events occur on a daily basis.

Based on the performed analyzes according to the current developments, the Company determined that difficulties in the operation related to liquidity and servicing of liabilities to suppliers currently are not expected.

Until the date of issuance of the financial statements, no information has been received regarding cancellation of a contract due to the current situation. The Company continued to operate at full capacity and revenues exceeded budgeted revenues.

For the year ended 31.12.2020, the Company achieved a net profit of 1,142,651 thousand Denars (2019: 1,007,811 thousand Denars). The Company in the previous periods achieved significant business and financial results, thereby expects stable revenues and that the increase in costs will be with a lower trend than the increase in revenues. As a result, the accompanying separate financial statements have been prepared in accordance with the going concern principle which implies that the Company will continue to operate in the foreseeable future.

Furthermore, the Company established a Crisis committee, which on a daily basis monitors all emergency measures and conditions in the country, macroeconomic indicators, established measures, global developments and based on that prepares an action plan.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

3. FINANCIAL RISK MANAGEMENT

3.1. Financial risk factors

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

Market risk

a) Foreign exchange risk

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

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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

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.

Fair value of land

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.

(In thousands of Denar)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

4. ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

Impairment of Trade and Other Receivables

The allowance for impairment of doubtful receivables is formed based on the estimated losses arising from customer's default. The management's assessment is based on the ageing analysis of accounts receivable, historical write-offs, customer creditworthiness and changes in the terms of sale, identified upon determining the adequacy of allowance for impairment of doubtful receivables. This includes the assumptions on future customer behavior and future collections arising therefrom. The management believes that no allowance for impairment, except for the provisions already included in the financial statements, is necessary

Provisions

Provisions in general are highly judgmental. The Company assesses the probability of an adverse event as a result of a past event to happen. The Company is rather prudent in these assessments, but due to the high level of uncertainty, in some cases the evaluation may not prove to be in line with the eventual outcome of the case.

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**	
	2020	**2019**	**2020**	**2019**
Pharmaceutical product	7,582,603	6,880,030	1,138,741	1,054,874
Chemical products	289,039	257,655	33,276	6,467
Cosmetic products	927,830	878,853	34,140	1,874
Botanical products	388,787	411,471	56,571	77,090
Total	**9,188,259**	**8,428,009**	**1,262,728**	**1,140,305**
Finance costs			(14,714)	(11,517)
Profit before tax			**1,248,014**	**1,128,788**
Income tax expense			(105,363)	(120,977)
Profit for the year			**1,142,651**	**1,007,811**

(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

	2020	2019
Pharmaceutical product	12,724,837	11,577,178
Chemical products	529,014	506,549
Cosmetic products	461,617	323,020
Botanical products	236,097	267,268
Total assets	**13,951,565**	**12,674,015**

Segment liabilities

	2020	2019
Pharmaceutical product	2,755,543	2,195,842
Chemical products	122,929	127,221
Cosmetic products	306,640	200,126
Botanical products	49,441	59,705
Total liabilities	**3,234,553**	**2,582,894**

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

	Depreciation and amortization		**Addition to non-current assets**	
	2020	**2019**	**2020**	**2019**
Pharmaceutical product	622,499	566,551	1,255,281	873,341
Chemical products	16,298	14,853	13,730	34,870
Cosmetic products	28,704	27,498	167,038	15,556
Botanical products	29,621	25,285	113,166	26,162
Total liabilities	**697,122**	**634,187**	**1,549,215**	**949,929**

Geographical information

The Republic of North Macedonia is the domicile country of the Company where the significant part of the business activities have been held.

	Sales revenue		**Non-current assets**	
	2020	**2019**	**2020**	**2019**
Republic of North Macedonia	3,030,385	2,778,870	7,777,800	6,925,902
Serbia	1,754,980	1,480,071	-	-
Bosnia and Herzegovina	866,891	807,740	-	-
Croatia	509,497	491,903	-	-
Kosovo	411,961	346,577	-	-
Other countries	2,614,545	2,522,848	-	-
Total	**9,188,259**	**8,428,009**	**7,777,800**	**6,925,902**

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

(In thousands of Denar)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

5. SEGMENT REPORTING (Continued)

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 15.6% (2019: 27.6%) in direct sales.
In the sales of Cosmetic products, there is one major customer with a share of 16.4% (2019: 16.2%) in direct sales.
In the sales of Botanical products, there is one major customer with a share of 59.2% (2019: 65%) in direct sales.

Sales by category	**2020**	**2019**
Sales of goods	7,324,714	6,764,412
Sales of commodities	1,721,615	1,524,582
Revenue from services	141,930	139,015
	9,188,259	**8,428,009**

(In thousands of Denar)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

6. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Equipment	Construction in progress	Total
Cost or valuation					
At January 1, 2019	**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 January 1, 2019	**-**	**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**
At January 1, 2020	**1,659,696**	**3,375,332**	**4,371,849**	**245,691**	**9,652,568**
Additions	-	32	20,365	1,126,843	1,147,240
Transfer from construction in progress	1,971	269,595	777,901	(1,049,467)	-
Elimination of cost	(38)	(5,487)	(1,085)	-	(6,610)
As at December 31, 2020	**1,661,629**	**3,639,472**	**5,169,030**	**323,067**	**10,793,198**
Accumulated depreciation					
At January 1, 2020	**-**	**1,835,712**	**2,620,164**	**-**	**4,455,876**
Depreciation charge	-	84,351	307,777	-	392,128
Elimination of accumulated depreciation	-	(5,487)	(928)	-	(6,415)
As at December 31, 2020	**-**	**1,914,576**	**2,927,013**	**-**	**4,841,589**
Net book value as at December 31, 2020	**1,661,629**	**1,724,896**	**2,242,017**	**323,067**	**5,951,609**

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, 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 December 31, 2019	**365,287**	**2,636,704**	**91,704**	**72,148**	**3,165,843**
Accumulated depreciation					
At January 1, 2019	**325,997**	**794,722**	**47,784**	**-**	**1,168,503**
Depreciation charge	13,337	246,695	8,098	-	268,130
As at December 31, 2019	**339,334**	**1,041,417**	**55,882**	**-**	**1,436,633**
Net book value as at December 31, 2019	**25,953**	**1,595,287**	**35,822**	**72,148**	**1,729,210**
Cost or valuation					
At 1 January 2020	**365,287**	**2,636,704**	**91,704**	**72,148**	**3,165,843**
Additions	-	6,593	-	395,382	401,975
Transfer from construction in progress	1,951	378,043	5,124	(385,118)	-
As at 31 December 2020	**367,238**	**3,021,340**	**96,828**	**82,412**	**3,567,818**
Accumulated depreciation					
At 1 January 2020	**339,334**	**1,041,417**	**55,882**	**-**	**1,436,633**
Depreciation charge	8,643	288,296	8,055	-	304,994
As at 31 December 2020	**347,977**	**1,329,713**	**63,937**	**-**	**1,741,627**
Net book value as at 31 December 2020	**19,261**	**1,691,627**	**32,891**	**82,412**	**1,826,191**

The net book value of software is Denar 113,418 thousand (2019: Denar 110,053 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.

	2020	2019
Debt	990,341	546,544
Cash and cash equivalents	(144,421)	(139,182)
Net debt	845,920	407,362
Equity	10,717,012	10,091,121
Net debt to equity ratio	7.89%	4.04%

(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	
	2020	2019	2020	2019
EUR	723,469	810,919	1,785,433	1,814,806
RUR	-	-	561,172	648,671
USD	145,810	233,077	58,421	75,000
CHF	15,368	15,155	1,208	337
Other currencies	285	910	994	942

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	
	2020	2019	2020	2019
EUR	(106,196)	(100,389)	106,196	100,389
RUR	(56,117)	(64,867)	56,117	64,867
USD	8,739	15,808	(8,739)	(15,808)
CHF	1,416	1,482	(1,416)	(1,482)
Other currencies	(71)	(3)	71	3
Impact on the profit or loss and equity	**(152,229)**	**(147,969)**	**152,229**	**147,969**

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%	
	2020	2019	2020	2019
Borrowings	1,465	1,152	(1,465)	(1,152)
Profit and loss and equity	**(1,465)**	**(1,152)**	**1,465**	**1,152**

Had the interest rates been 10% higher the Company's profit for the year ended December 31, 2020 and retained earnings would have decreased by Denar 1,465 thousand and vice versa, had the interest rates been 10% lower, the Company's profit for the year ended December 31, 2020 and retained earnings would have increased by Denar 1,465 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.

2020	Less than 1 month	1 - 3 months	3 - 12 months	12 - 60 months	Total
Trade payables	908,147	665,892	105,002	5,643	**1,684,684**
Borrowings	6,667	249,609	129,730	604,335	**990,341**
	914,814	**915,501**	**234,732**	**609,978**	**2,675,025**

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**

(In thousands of Denar)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

8. FINANCIAL INSTRUMENTS (Continued)

Liquidity risk (Continued)

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

2020	Less than 1 month	1 - 3 months	3 - 12 months	12 - 60 months	Total
Trade receivables	498,048	1,016,503	870,203	-	**2,384,754**
Cash and cash equivalents	144,421				**144,421**
	642,469	**1,016,503**	**870,203**	**-**	**2,529,175**

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**

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2020	2019
At January 1	**7,411**	**6,819**
Additions	572	592
Disposals	(869)	-
At 31 December	**7,114**	**7,411**

Available-for-sale financial assets consist of:

	2020	2019
Available-for-sale financial assets in non-quoted companies	2,388	2,531
Available-for-sale financial assets in quoted companies	4,726	4,880
	7,114	**7,411**

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

	2020	2019
Alkaloid DOO Beograd, Serbia	173,256	173,256
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	5,429	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	-	-
Alkaloid DOO Podgorica, Montenegro	3,000	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	2,616
Alkaloid ILAC TLS Istanbul, Turkey	308	308
ALKA-LAB DOO Ljubljana, Slovenia	43,081	43,081
Alkaloid Shpk Tirana, Albania	308	308
Alkaloid Kiev CO, LTD, Ukraine	2,157	2,157
Alkaloid LGL DOO, Zagreb	2,157	-
	513,278	**509,977**

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 2020 a new subsidiary was established in Croatia with a name Alkaloid LGL DOO, Zagreb.

In 2020 the company has increased its investment in one of its subsidiaries, in Alkaloidpharm SA Fribourg, Switzerland in the amount of 20 thousand Swiss francs. The subsidiary is 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

	2020	2019
Raw materials	1,154,941	967,497
Spare parts	209	365
Tools and consumable supplies	2,653	1,675
Work in progress	332,653	357,181
Finished goods	996,425	797,166
Commodities	364,034	245,324
	2,850,915	**2,369,208**

(In thousands of Denar)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

12. TRADE RECEIVABLES

	2020	2019
Trade receivables	2,561,479	2,612,053
Less: provision for impairment of receivables	(176,725)	(177,046)
Trade receivables – net	**2,384,754**	**2,435,007**

Changes in the provision are as follows:

	2020	2019
At January 1	**177,046**	**176,827**
Charge for the year	-	219
Collected bad and doubtful debts	(321)	-
As at December 31	**176,725**	**177,046**

	2020	2019
Up to 1 year	-	-
Over 1 year	176,725	177,046
As at December 31	**176,725**	**177,046**

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

	2020	2019
Prepayments	36,813	46,212
Prepaid taxes	119,452	90,329
Other receivables	55,038	36,221
	211,303	**172,762**

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

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:

	2020	2019
Prepayments for property, plant and equipment	61,980	114,566

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

	2020	2019
The effective interest rate	2.75%	2.75%

(In thousands of Denar)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

14. CASH AND CASH EQUIVALENTS

	2020	2019
Cash balances held with banks	143,496	138,550
Cash in hand	907	580
Other	18	52
	144,421	**139,182**

15. SHARE CAPITAL

	Ordinary shares	Treasury shares	Total
At 1 January 2019	**2,220,127**	**(23,032)**	**2,197,095**
Purchase of treasury shares	-	(75,773)	(75,773)
As at 31 December 2019	**2,220,127**	**(98,805)**	**2,121,322**
Purchase of treasury shares	-	(10,480)	(10,480)
As at 31 December 2020	**2,220,127**	**(109,285)**	**2,110,842**

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. As of 31.12.2020, the number of voting shares is 1,408,796 shares.

During 2020, the Company acquired 800 of its own shares through Macedonian stock exchange and held as treasury shares. The total number of treasury shares is 22,557. 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

	Land	Available-for-sale investments	Fund for shares	Total
At January 1, 2019	**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	**1,471,688**	**2,960**	**212,132**	**1,686,780**
Increase	-	(297)	-	**(297)**
As at December 31, 2020	**1,471,688**	**2,663**	**212,132**	**1,686,483**

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

- Revaluation reserves for land 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

	2020	2019
Non-current borrowings	604,335	288,057
Current borrowings	386,006	258,487
	990,341	**546,544**

The maturity of the borrowings is as follows:

	2020	2019
Up to 1 year	386,006	258,487
Between 1 and 3 years	604,335	288,057
	990,341	**546,544**

The borrowings are denominated in following currencies:

	2020	2019
EUR	-	131,632
MKD	990,341	414,912
	990,341	**546,544**

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

	December 31, 2020			December 31, 2019		
	EUR	USD	MKD	EUR	USD	MKD
Interest rates	-	-	1.6-1.9%	6 month EURIBOR +2.4 – 2.5%	-	1.9– 2.8%

18. RETIREMENT BENEFIT OBLIGATIONS

	2020	2019
Retirement benefits	48,546	39,523

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:

	2020	2019
As at January 1	**39,523**	**29,460**
Increase in calculation	9,023	10,063
Decrease in calculation	-	-
As at December 31	**48,546**	**39,523**

(In thousands of Denar)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

18. RETIREMENT BENEFIT OBLIGATIONS (Continued)

The principal actuarial assumptions used were as follows:

	2020	**2019**
Discount rate	2.32%	2.62%

19. DEFERRED TAX

	2020	**2019**
Deferred tax assets	-	-
	-	-

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

	2020	**2019**
At January 1	**-**	**17,817**
Deferred tax included in income statement	-	(17,817)
As at December 31	**-**	**-**

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

	Accruals	**Fair value**	**Total**
At January 1, 2019	**17,817**	**-**	**17,817**
Charged to the income statement	(17,817)	-	(17,817)
Realized deferred tax liabilities	-	-	-
As at December 31, 2019	**-**	**-**	**-**
Charged to the income statement	-	-	-
Realized deferred tax liabilities	-	-	-
As at December 31, 2020	**-**	**-**	**-**

20. TRADE AND OTHER PAYABLES

	2020	**2019**
Trade payables	1,684,684	1,639,058
Customer’s prepayments	2,638	2,045
Payables to employees	82,334	71,645
Dividends	9,304	9,304
Deferred income from subsidies	166,219	75,521
Other payables	230,899	151,862
	2,176,078	**1,949,435**

(In thousands of Denar)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

21. PROVISION FOR OTHER LIABILITIES AND CHARGES

	2020	2019
Provision for retirement benefits	9,023	10,063
	9,023	**10,063**

22. OTHER INCOME

	2020	2019
Collected written-off receivables	320	-
Dividends income	83,769	69,464
Interest income	409	525
Foreign exchange transaction gains	238,252	115,367
Other income	86,964	61,254
	409,714	**246,610**

23. OTHER EXPENSES

	2020	2019
Interest expenses	100	-
Foreign exchange transaction losses	329,561	77,527
Write-off of non-current assets	-	494
Write-off of inventories	46,493	80,706
Other expenses	23,155	33,088
	399,309	**191,815**

24. EXPENSES BY NATURE

	2020	2019
Raw materials	2,806,311	2,666,318
Cost of goods sold and raw materials	1,100,472	1,009,397
Employee benefit expenses	1,725,937	1,559,534
Depreciation and amortization	697,122	634,187
Utilities	159,942	163,828
Impairment of trade receivables	-	219
Write off trade receivables	1,935	-
Transportation	191,151	165,529
Changes in the inventories	(224,185)	(290,645)
Marketing and sponsorship	810,964	828,440
Other expenses	657,264	595,629
	7,926,913	**7,332,436**

(In thousands of Denar)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

25. EMPLOYEE BENEFIT EXPENSES

	2020	2019
Gross salaries	1,441,173	1,286,885
Other employees benefits	284,764	272,649
	1,725,937	**1,559,534**
Number of employees at December 31	**1,787**	**1,653**

26. OPERATING LEASING

Operating leasing refers to the rental of business premises and vehicles. The usual rental period ranges from 3-5 years. The company has no option to buy the business premises and vehicles.

Expenses recorded in the Income statement are:

Minimum operating leasing	**2020**	**2019**
	35,258	33,728
	35,258	**33,728**

Future irrevocable liabilities	**2020**	**2019**
Up to 1 year	12,470	7,609
Between 2 - 5 years	26,243	19,028
	38,713	**26,637**

27. FINANCE EXPENSES

	2020	2019
Net foreign exchange transaction gains/(losses) on borrowings	(63)	7
Interest expense on borrowings	(14,651)	(11,524)
	(14,714)	**(11,517)**

28. INCOME TAX

	2020	2019
Current income tax	105,363	103,160
Deferred income tax (Note 19)	-	17,817
	105,363	**120,977**

(In thousands of Denar)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

28. INCOME TAX (Continued)

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

	2020	2019
Profit before tax	**1,248,014**	**1,128,788**
Tax calculated at tax rate of 10%	124,801	112,879
Tax on expenses not deductible for tax purposes	42,942	42,745
Tax allowances	(62,380)	(52,464)
Deferred income tax	-	17,817
Income tax	**105,363**	**120,977**
Effective tax rate	**8.44%**	**10.72%**

29. EARNINGS PER SHARE

	2020	2019
Basic earnings per share		
Profit attributable to the shareholders (in Denar)	1,142,650,910	1,007,811,167
Number of shares	1,408,938	1,415,132
Basic earnings per share (in Denar)	**811.00**	**712.17**

30. 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 6, 2020 amounted to Denar 515,287 thousands for the year ended December 31, 2019. 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.

31. COMMITMENTS

Capital expenditures contracted for acquisition of property, plant and equipment at the reporting date but not yet incurred amount to Denar 51,500 thousand; (2019: Denar 264,322 thousand).

32. CONTINGENT LIABILITIES

The Company has contingent liabilities with respect to the guaranties issued to third parties in the amount of Denar 58,599 thousand (2019: Denar 129,968 thousand).

(In thousands of Denar)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

33. 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

	2020	2019
Alkaloid DOO Belgrade, Serbia	254,179	165,347
Alkaloid INT DOO Ljubljana, Slovenia	1,300,636	1,204,657
ALK&KOS Pharmaceuticals Shpk Pristine, Kosovo	281,862	212,673
Alkaloidpharm SA Fribourg, Switzerland	26	20
Alkaloid Kons DOOEL Skopje, N. Macedonia	166,165	193,369
OOO Alkaloid RUS, Moscow, Russia	518,123	633,362
Alkaloid Veledrogerija DOO Beograd, Serbia	1,050,067	916,901
Alkaloid Bilna apteka DOOEL Skopje, N. Macedonia	6,382	6,100
	3,577,440	**3,332,429**

Purchase of goods and services

	2020	2019
Alkaloid DOO Belgrade, Serbia	21,360	16,692
Alkaloid DOO Zagreb, Croatia	11,452	11,918
Alkaloid DOO Ljubljana INT, Slovenia	22,460	36,151
Alkaloid DOO Sarajevo, Bosnia and Herzegovina	115,558	116,811
Alkaloid EOOD Sofia, Bulgaria	2,272	1,933
ALK&KOS Pharmaceuticals Shpk Pristine, Kosovo	4,591	5,808
Alkaloidpharm SA Fribourg, Switzerland	219,040	216,382
Alkaloid Kons DOOEL Skopje, N. Macedonia	5,495	2,941
Alkaloid DOO Podgorica, Montenegro	45,498	48,056
Fund “Trajce Mukaetov” Skopje, N, Macedonia	10,027	9,423
OOO Alkaloid RUS, Moscow, Russia	96,790	94,828
Alkaloid Veledrogerija DOO Beograd, Serbia	922	5,259
Alkaloid ILAC TLS Istanbul, Turkey	10,147	9,203
Alkaloid Bilna apteka DOOEL Skopje, N. Macedonia	3,036	2,880
ALKA-LAB DOO Ljubljana, Slovenia	1,146	236
Alkaloid Shpk Tirana, Albania	13,630	4,498
Alkaloid Kiev CO, LTD, Ukraine	158,406	158,120
Alkaloid LGL DOO, Zagreb	1,083	-
	742,913	**741,139**

Interest expenses

	2020	2019
Alkaloid Kons DOOEL Skopje, N. Macedonia	38	9
	38	**9**

(In thousands of Denar)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

33. 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	**2020**	**2019**
Alkaloid DOO Belgrade, Serbia	115,612	24,776
Alkaloid DOO Ljubljana INT, Slovenia	270,754	298,213
ALK&KOS Pharmaceuticals Shpk Pristine, Kosovo	67,169	47,676
Alkaloid Kons DOOEL Skopje, N, Macedonia	54,919	62,535
OOO Alkaloid RUS, Moscow, Russia	478,848	539,439
Alkaloid Veledrogerija DOO Beograd, Serbia	510,209	536,674
Alkaloid ILAC TLS Istanbul, Turkey	-	2,519
Alkaloid Bilna apteka DOOEL Skopje, N. Macedonia	1,780	2,490
	1,499,291	**1,514,322**

Accounts payable	**2020**	**2019**
Alkaloid DOO Belgrade, Serbia	950	1,155
Alkaloid DOO Zagreb, Croatia	4,887	3,239
Alkaloid DOO Ljubljana INT, Slovenia	20,653	57,125
Alkaloid DOO Sarajevo, Bosnia and Herzegovina	15,327	16,247
Alkaloid EOOD Sofia, Bulgaria	129	126
ALK&KOS Pharmaceuticals Shpk Pristine, Kosovo	932	1,671
Alkaloidpharm SA Fribourg, Switzerland	109,882	156,457
Alkaloid Kons DOOEL Skopje, N, Macedonia	1,182	1,006
Alkaloid DOO Podgorica, Montenegro	8,738	7,941
Alkaloid Veledrogerija DOO Beograd, Serbia	-	1,133
Alkaloid ILAC TLS Istanbul, Turkey	666	-
Alkaloid Bilna apteka DOOEL Skopje, N. Macedonia	951	979
ALKA-LAB DOO Ljubljana, Slovenia	1,383	236
Alkaloid Shpk Tirana, Albania	288	301
Alkaloid Kiev CO, LTD, Ukraine	10,947	9,498
Alkaloid LGL DOO, Zagreb	403	-
	177,318	**257,114**

Short-term loans	**2020**	**2019**
Alkaloid DOO Belgrade, Serbia	-	1,929
	-	**1,929**

Interest from loans	**2020**	**2019**
Alkaloidpharm SA Fribourg, Switzerland	-	2,325
	-	**2,325**

(In thousands of Denar)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

33. RELATED PARTY TRANSACTIONS (Continued)

Key management compensations

No compensations were paid to the Managing Board members in 2020 for the purpose of participation in the Managing board. In 2020, the amount of Denar 4,288 thousand was paid to the Supervisory Board members (2019: Denar 4,402 thousand).

34. EXCHANGE RATES OF PRINCIPAL CURRENCIES

Closing rates:

	31-Dec-2020	31-Dec-2019
EUR	61.69	61.49
RUR	0.67	0.89
USD	50.23	54.95
CHF	56.82	56.56

35. TAXATION RISK

The Republic of North Macedonia currently has several tax laws in effect, as imposed by the Ministry of Finance of the Republic of North Macedonia. The applicable taxes include: value added tax, corporate income tax, and personal income tax, among others. Apart from that, the regulations governing these taxes were not enforced for substantial periods of time; in contrast to similar legislation in more developed market economies. Moreover, the regulations defining the implementation of these laws are often unclear or non-existent. Hence, few precedents with regard to tax issues have been established in the Republic of North Macedonia. Often, contrary opinions pertaining to legal interpretations exist both among, and within, governmental ministries and organizations, thus creating uncertainties and areas of legal contention. Tax returns, together with all other areas regulated by the law (such as customs) are reviewed and controlled by competent authorities by several authorized vested in powers to assess severe fines and penalties.
The Company performs significant transactions with its related parties. Although the management believes that the Company possesses sufficient and adequate documentation on transfer prices, it is still uncertain whether the tax and other authorities' requirements and interpretations of the tax legislation will differ from those of the management. The management believes that any varying interpretations will have no material effects on the Company's separate financial statements.
The interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Company may not coincide with that of the management. As a result, transactions may be challenged by tax authorities and the Company may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for five years. The abovementioned explanations pose tax risks in the Republic of North Macedonia which are materially more significant than those common in the countries with more developed tax systems.

36. EVENTS AFTER THE REPORTING PERIOD

Alkaloid AD Skopje registered a new subsidiary in Great Britain named Alkaloid UK Limited. The subsidiary is 100% owned by Alkaloid AD Skopje.

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