

PROSPECTUS



ALKALOID AD Skopje – Pharmaceutical Chemical Cosmetic Industry, based in Skopje, with premises located at Boulevard Aleksandar Makedonski No.12, registered with the Principal Court Trade Registry in Skopje, Reg. No. 9409/95

Quotation of shares of ALKALOID AD Skopje on the Official Macedonian Stock Exchange Long-Term Securities Market JSC Skopje

The request to authorize quotation of shares to ALKALOID AD has been lodged with the Official Macedonian Stock Exchange Long-Term Securities Market JSC in Skopje. The value per share shall be EUR 25.56. The request for quotation shall reflect the following types of shares:

- 1,209,550 ordinary shares with voting rights,
- 3,228 preference shares, without voting right, reserved for former proprietors,
- 88,452 preference shares, held by the Pension and Disability Insurance Fund of the Republic of Macedonia, which shall by venture be transformed in ordinary shares.

Prior to the listing on Official Market of the Macedonian Stock Exchange JSC, Skopje, ALKALOID's shares were traded on the Unofficial Market of the Macedonian Stock Exchange.

Listing activities were performed by

MAKOS-INVESTBROKER JSC Skopje STOCKBROKER

20 Mito Hadživasilev-Jasmin Street, 2nd floor
1000 Skopje,
Republic of Macedonia

STATEMENT by the PRESIDENT

The President of the Share Issuer's Management Board shall undertake full responsibility related to the foregoing instrument referred to as the Prospectus:

"We hereby acknowledge that we are fully acquainted with the data available herein, and claim that all data contained in the Prospectus shall be complete and unimpaired presentation of the assets, liabilities, profits and losses, Share Issuer's financial and business status, accurate value of the securities and We renounce omission of any data that may influence the accuracy and veracity of this Prospectus".

This Prospectus is governed by the Guidelines for Quotation of Securities on the Macedonian Stock Exchange JSC and the Law on Introduction and Supplementation of the Law on Securities (Official Gazette of the Republic of Macedonia, Number 37/2002).

PricewaterhouseCoopers from Skopje was assigned to audit the annual balance sheets of ALKALOID AD for 1999, 2000 and 2001.

The quotation of Alkaloid's shares was performed by the stockbroker MAKOS-INVESTBROKER JSC, Skopje.

The Prospectus shall neither be construed as an offer for sale, nor as procurement bid of ALKALOID's shares. It is not to be deemed as proposal to for venture of ALKALOID AD and every potential investor is well advised to make his own judgement on the financial position of ALKALOID AD Skopje.

Management Board
Trajče Mukaetov
President

(Manu propria)

TABLE OF CONTENTS

1. Outlook	5
2. Risk Factors	9
3. Company Profile	12
3.1. Introduction	12
3.2. Background	12
3.3. Business Strategy and Long-term Policy	13
3.4. Organizational Chart of ALKALOID AD	15
3.5. Business Activities of ALKALOID AD	16
3.5.1. Profit Centre Pharmaceuticals	16
3.5.2. Profit Centre Chemistry & Cosmetics	18
3.5.3. Profit Centre Botanicals	20
3.5.4. Profit Centre Coatings	22
3.6. Information Technology	23
3.7. Quality Assurance and Quality Control	23
3.8. Environmental Protection	24
3.9. Research and Development, Product Registration	25
3.10. Investments	25
3.11. Property	26
3.12. Insurance	26
3.13. Court Proceedings	26
3.14. Foreign Branches	27
4. Management and Employees	29
4.1. Supervisory Board	29
4.2. Management Board	29
4.3. Management	30
4.4. Employees	31
5. Share Capital	33
5.1. Shareholding	33
5.2. Limitations	34
5.3. Foreign Investments	34
5.4. Shareholders Registry	34
5.5. Voting Rights	34
5.6. ALKALOID AD at Macedonian Stock Exchange	35
6. Taxation	36
7. Brief Summary of the Statute of ALKALOID AD	37
8. Independent Auditors' Report for year 2001	40
9. Financial Statements of ALKALOID AD for the period January – June 2002	60
10. Additional Information	61
11. Participants in the Quotation	62

1. Outlook

1.1. About ALKALOID AD

1.2. Share Capital, Shareholders, Shares and Voting Rights

1.3. Dividend and Dividend Policy

1.4. Quotation

1.5. Quotation Promoter

1.6. Shareholders Registry

1.7. Risk Factors

1.8. Brief Financial Information

1.9. Capitalization and Indebtedness

1. Outlook

This outlook is a brief overview on the detailed data included in other sections hereto, aimed to provide a concise insight of ALKALOID AD.

1.1. About ALKALOID AD

ALKALOID AD was founded in 1936 as an enterprise for extraction of morphine from opium. The company has undergone numerous changes in terms of its status and organization. Today, it is a shareholding company with a private ownership status.

The major business activities of ALKALOID AD are manufacture of pharmaceutical, chemical and cosmetic products as well as products of herbal origin. Besides the main scope of activities ALKALOID AD, pursuant to the entry in the Trade Registry, can perform wholesale operations and foreign trading with food and non-food products. As on 30th September 2002, the number of employees is 1304. The company consists of four Profit Centres: PC Pharmaceuticals, PC Chemistry & Cosmetics, PC Botanicals and PC Coatings; and two Organizational Units: OU Informatics, Marketing, General Affairs and OU Finances. The leading Profit Centre is PC Pharmaceuticals. Foreign sales account for nearly 40% of the total sales in this Profit Centre. ALKALOID AD operates in accordance with the international standards for which it has been granted Certificates such as ISO 9001, ISO 14001 and GMP.

The major investment project is *Breakthrough on the World Market*, projected capital being EUR 35,400,000. It includes construction of two new facilities and a warehouse for raw materials and packaging materials in PC Pharmaceuticals. It is aimed at enhancing the production volume and quality. In accordance with the strategic development plan, sales are predominantly focused on the foreign markets. The project has been partly financed by internally generated funds, whereas the rest by resources provided by the international financial institutions such as EBRD and IFC, the sum being EUR 17,400,000. The loan disbursement commenced in year 2000 and it was divided into two tranches, the repayment period is 8 years with grace period of 2 years.

ALKALOID AD is determined to maintain its leading position in Macedonia. Its strategic goal is to become one of the leading pharmaceutical companies in South-Eastern Europe and eventually break into the Western European markets.

1.2. Share Capital, Shareholders, Shares and Voting Rights

The company's initial share capital amounts to 1,301,230 shares with value of EUR 25.56 per share or total sum of EUR 33,265,416.73. As of 30th September 2002, ALKALOID AD has totally 2534 shareholders. Of all the shares, 92.95% are ordinary shares, being completely paid off and have private ownership status; 6.8% preference shares without voting right, held by the Pension and Disability Insurance Fund of the Republic of Macedonia and 0.25% are preference shares without voting right, reserved for the former proprietors and proprietors who need to prove their ownership right of inheritance for estate now belonging to ALKALOID AD.

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

1.3. Dividend and Dividend Policy

Commencing from 1995, the year when the company was restructured, ALKALOID AD is regularly effectuating the dividends. Following the approval of the annual balance sheet, The Shareholders' Assembly, upon recommendation of the Supervisory and Management Board, ratifies a Decision on allocating the net profit along with the amount of the dividend. The fixed date for performing the right to a dividend is 31st of December.

The amount of the dividend per share in the past three years is shown in the following table:

<i>In MK Denars</i>	<i>2001</i>	<i>2000</i>	<i>1999</i>
Net dividend per share	58.43	77.70	77.48

Dividends are effectuated within the legally prescribed time limit.

The Assembly reserves the right to renounce the profit allocation for a certain type of shares, and to prescribe a different utilization of the profit. The company's Assembly has a discretion right to decide on the utilization of the net profit.

1.4. Quotation

An official listing request has been lodged with the Official Market of the Macedonian Stock Exchange. Starting from the formation of the Macedonian Stock Exchange in 1996, ALKALOID's shares were traded on the Third Unofficial Market. During this period, the shares have been considered as shares with the best liquidity.

1.5. Quotation Promoter

MAKOS-INVESTBROKER JSC, acted as stockbroker, located on 20 Mito Hadjivasilev-Jasmin Street, 2nd Floor, Skopje.

1.6. Shareholders Registry

The Shareholders Registry of ALKALOID AD is kept with the Central Depository of Securities.

1.7. Risk Factors

The risk factors are included in a separate section of this Prospectus and any potential buyer should read them very carefully before deciding to purchase shares from ALKALOID AD.

1.8. Brief Financial Information

The selected financial information are a part of the consolidated Audit Reports of ALKALOID Group, and cover the business years that ended on 31st December 2000 and 2001. These data are excerpts from the Audit Reports made by the Auditing Agency PricewaterhouseCoopers. The audit was conducted in accordance with the International Audit Standards, whereas the Financial Reports comply with the International Accounting Standards.

Performance results

<i>In thousand MK Denars</i>	<i>2001</i>	<i>2000</i>
Total revenues	3,584,964	3,726,610
Total expenditures	(3,359,150)	(3,371,861)
Profit before tax	225,814	354,749
Taxation	(29,833)	(61,692)
Net profit	195,981	293,057
Minority interest	(561)	(532)
Group Profit	195,420	292,525

Equity

<i>In thousand MK Denars</i>	<i>2001</i>	<i>2000</i>
Share capital, reserves, retained earnings and minority interest	4,141,590	3,985,963
Net increase (decrease) cash and cash equivalents	55,060	226,993

1.9. Capitalization and indebtedness

Capitalization and the indebtedness are presented as of 31st of December 2001 as follows:

<i>In thousand MK Denars</i>	<i>31 December 2001</i>
Share capital	1,675,470
Special reserves	128,225
Legal and revaluation reserves	1,042,183
Retained earnings	1,268,617
Translation differences	26,002
Minority interest	1,093
Capitalization	4,141,590
Long-term borrowings	490,812
Total	4,632,402

2. Risk Factors

- 2.1. Business Segments and Competition**
- 2.2. Environmental Protection**
- 2.3. Foreign Exchange Fluctuations**
- 2.4. Securities Market in Macedonia**
- 2.5. Legislation in Macedonia**
- 2.6. Socio Political Factors within the Region**

2. Risk Factors

2.1. Business Segments and Competition

ALKALOID AD has a wide range of production programmes in its Profit Centres: Pharmaceuticals, Chemistry & Cosmetics, Botanicals and Coatings. This enables the company to realise the projected results in event of sales decrease of certain products.

The projections on the domestic and foreign markets are based on long-term forecasts of the demand for certain products, although it is evident that the markets are prone to periodical incidental oscillations.

PC Pharmaceuticals, being the key segment, seems to be particularly sensitive due to numerous regulations and laws stipulating the conditions under which a medical product is launched on the market. Although in Europe the unification of the drug registration regulations is in process, yet every country acts on its national regulations, costs and registration terms. There is always a possibility that the registration certificate for a certain product or process would be withdrawn or rejected by the respective national regulatory institutions, which is considered as significant risk factor for every pharmaceutical company. Certain licence agreements pose very significant risk factors as well.

As for the domestic market, the competitors of our counterpart products are not only domestic producers but also producers from the Former Yugoslav Republics. With certain programmes, such as Cosmetics, our competitors are both renowned producers and also not so prominent ones. On certain occasions, we are faced with unfair competition by products of significantly inferior quality, or counterpart products, which do not comply with the national legislation and regulations. Moreover, some of the competition products are not even been registered.

The competition of each programme on the foreign markets is faced with the specific factors of the respective country. Besides the local competitors, there are relevant regional ones as well.

The responsibility of ALKALOID AD as producer of medical and food products is also considered a risk factor, as this sphere is additionally burdened with severe penalties for deficient products. To date, there are no charges pressed against ALKALOID AD for indemnification.

2.2. Environmental Protection

The wide range of products involves production processes in the field of pharmaceutical, chemical, cosmetic and food industry which are bound to produce waste materials. Pursuant to the existing legislation, ratified international agreements, standards and recommendations in the sphere of environmental protection as well as the GMP (Good Manufacturing Practice) norms, ALKALOID AD adopted a preventive strategy. The concept of resolving all problems at their occurrence origin is implemented, thus priority is given on the preventive actions. Insofar, ALKALOID AD was neither confronted with any indictments related to environmental issues, nor disputes were initiated against third parties which would give rise to indemnification procedures, or other sort of compensation activities. As with each manufacturer, there is no guarantee that ALKALOID AD would not have to cover certain additional costs regarding changes in the existing laws and regulations and their implementation.

2.3. Foreign Exchange Fluctuations

The business activities of the company are primarily oriented to the foreign markets. Raw material supplies and the product sales abroad are effectuated in US\$ and EUR so that the inter-currency exchange rate between the foreign currencies and the Macedonian denar may have a considerable leverage on the performance.

2.4. Securities Market in Macedonia

The turnover volume on the Macedonian Stock Exchange has been characterised by volatile dynamics. The block transactions and the sale of residual shares have proved to be dominant operations. On the Official Market of the Macedonian Stock Exchange the shares of 2 companies along with 3 governmental bonds are quoted. The turnover on the Official Market tends to show an upward trend.

2.5. Legislation in Macedonia

As a country, which is in a period of transition to market economy, Macedonia has completed the legislation and the legislative bodies involved in backing the capital market, which are now in compliance with the EU Directives.

2.6. Socio-political Situation in the Region

Following the collapse of former SFR Yugoslavia, Macedonia was the only country from the Former Yugoslav Republics, which managed peacefully, without being involved in war conflicts, to accomplish the transfer of power and gain independence. This period is marked by development of democratic processes and transition towards market economy, transfer of capital via privatisation process and efforts for integration in the international organizations and institutions.

Nevertheless, the presence of the war conflicts, various internal and external tensions, contributed to the occurrence of the armed incidents in 2001, which had brought about a period of instability in the country that ended with the signing of the Framework Agreement by the four major political parties. This has suspended the hostilities and absorbed the shocks of the warring activities.

3. Company Profile

3.1. Introduction

3.2. Background

3.3. Business Strategy and Long-term Policy

3.4. Organizational Chart of ALKALOID AD

3.5. Business Activities of ALKALOID AD

3.5.1. Profit Centre Pharmaceuticals

- 3.5.1.1. Summary
- 3.5.1.2. Production Programmes
- 3.5.1.3. Key Products
- 3.5.1.4. Licences

3.5.2. Profit Centre Chemistry & Cosmetics

- 3.5.2.1. Summary
- 3.5.2.2. Production programmes
- 3.5.2.3. Key products
- 3.5.2.4. Licences

3.5.3. Profit Centre Botanicals

- 3.5.3.1. Summary
- 3.5.3.2. Production Programmes
- 3.5.3.3. Key Products

3.5.4. Profit Centre Coatings

- 3.5.4.1. Summary
- 3.5.4.2. Production programmes
- 3.5.4.3. Key products

3.6. Information Technology

3.7. Quality Assurance and Quality Control

3.8. Environmental Protection

3.9. Research and Development, Products Registration

3.10. Investment

3.11. Property

3.12. Insurance

3.13. Court Proceedings

3.14. Foreign Branches

3. Company Profile

3.1. Introduction

Based on the statistical data released for year 2001, ALKALOID AD is considered to be the major pharmaceutical company according to the sales volume, and is also considered as one of the giants of the Macedonian economy. It consists of four Profit Centres: Pharmaceuticals, Chemistry & Cosmetics, Botanicals and Coatings. The production facilities and Profit Centres are based in different locations in Skopje. The Profit Centre Pharmaceuticals performs the main scope of work, its sales account for 60% of the total sales of the company. Sales on the domestic market are carried out in cooperation with a large number of business partners. For the purpose of improvement of the trade and marketing operations, ALKALOID AD has set up a network of subsidiaries in eight European countries. For certain markets, sales are conducted through exclusive distributors. What distinguishes ALKALOID AD is the wide range of various pharmaceutical, chemical, cosmetic, food, herbal, and coating products.

ALKALOID AD has dedicated special attention to new products introduction and development. The latest trends and development in the corresponding business fields are closely monitored and consequently, the existing technology is permanently updated. Some of these are worth mentioning: Installation of an automatic line in the cosmetic production facility; new computerized unit of IBM AS/400; completion of the civil construction works in the new production facility for coatings, and above all, our major project *Breakthrough on the World Market*.

3.2. Background

ALKALOID AD was established in 1936 with about 15 employees, as the only factory that dealt with morphine extraction from opium in the Balkans, known as "Yugoslav Factory for Alkaloids, Chemical and Pharmaceutical Products". Ever since then, the company has undergone major changes referring to its organization and ownership structure.

In 1945 the factory continued its activities under the name "Federal State Factory for Alkaloids". In 1946, the factory changed its name into ALKALOID, and from a factory with federal status, was transferred into state property. With the launch of the "Galenic Plant" in 1957, commenced the production of finished drugs and the company demonstrated intensive upturn signs of development, growth, improvement of the working conditions, construction of new facilities and increase in the number of employees. In 1966 ALKALOID merged with "Bilka Export - Import" - Skopje, whose main line of business was purchase and import of medicinal herbs and poppy seed. In 1973, the company merged with the factory for production of soap and cosmetics "Cvetan Dimov" in Skopje, and immediately after that it had another merger with the factory "Lafoma" - a factory for production of laboratory chemicals, diazo and photo materials under a joint name: ALKALOID - Chemical and Cosmetic Industry. In 1976 the factory "Maleshevka" from Berovo was incorporated (promoted into independent company in 1986), and in 1977 had its last merger with the factory for coatings "Proleter".

In 1990 ALKALOID was registered as a joint stock company enjoying mixed ownership status with 2892 shareholders - employees and former employees of Alkaloid, and share capital of 54.65% whereas 45.36% is socially-owned capital. The principal share capital comprised 714,480 shares, out of which 390,400 are internal shares, the rest being socially-owned capital represented by 324,080 shares. By constitution of the Shareholders Assembly and the adoption of the Statute of the Company, ALKALOID AD was registered at the authorized registration court and officially transformed into a joint stock company with mixed ownership status.

In 1993 The Parliament of the Republic of Macedonia passed the Law on Transformation of Enterprises with Socially-Owned Capital. Pursuant to the provisions of this Law, assessment was made to estimate the real value of ALKALOID. The assessed value amounted to DM 65,000,000.

In 1995, pursuant to the Law on Transformation of Enterprises with Socially-Owned Capital, based on previously prepared Programme for Development of the Enterprise for the forthcoming 5 years, the model of shares venture to individuals - shareholders, who would take over the management of the company within the following 5 years was elected.

On a session held on 14th July 1995, the Shareholders Assembly adopted the Statute of Alkaloid and elected the members of the new Management Board. Following the revision of the overall documentation, on 11th August 1995, the Registration Court made an entry in the court docket of the transformation of ALKALOID.

Following the fulfilment of the provisions stipulated in the Agreement drafted by the Agency for Transformation of Socially-Owned Enterprises, 38.31% of the total number of shares were purchased and transferred into private property. Of 1,301,230 shares sum total; 1,209,550 ordinary shares were privatised being 92.95%; 3,228 (0.25%) are preference shares reserved for former proprietors who need to prove the ownership right of inheritance of an estate now belonging to ALKALOID AD, whereas the remaining 88,452 (6.80%) are preference shares owned by the Pension and Disability Insurance Fund of the Republic of Macedonia.

3.3. Business Strategy and Long-term Policy

ALKALOID AD has drawn definite targets and guidelines related to its business and long-term strategy. The current ten-year development plan encounters the period from 1999 to 2008.

The projections of ALKALOID AD are aimed to maintain its leading status in Macedonia, and to position the Company on the markets of South-East Europe as one of the leading pharmaceutical companies with recognized image and high-quality production programme.

The major principles of the business strategy of ALKALOID AD are based on the following tenets:

- ❑ Achievement of positive financial results aimed at increasing the share value
- ❑ Maintenance of high quality level of the operations in compliance with the International Standards
- ❑ Continual improvement and customer's satisfaction feedback
- ❑ Continual attention and improvement on the existing markets
- ❑ Breaking into new markets
- ❑ Investment in development and technology.
- ❑ Ongoing training and education of the employees
- ❑ Incessant feedback on the safety and the standards of the employees as well as the estate of the Company
- ❑ Strict adherence to the existing legislative
- ❑ Permanent commitment to environmental issues.

The realization of the major principles of ALKALOID AD shall be achieved by means of the following strategic goals:

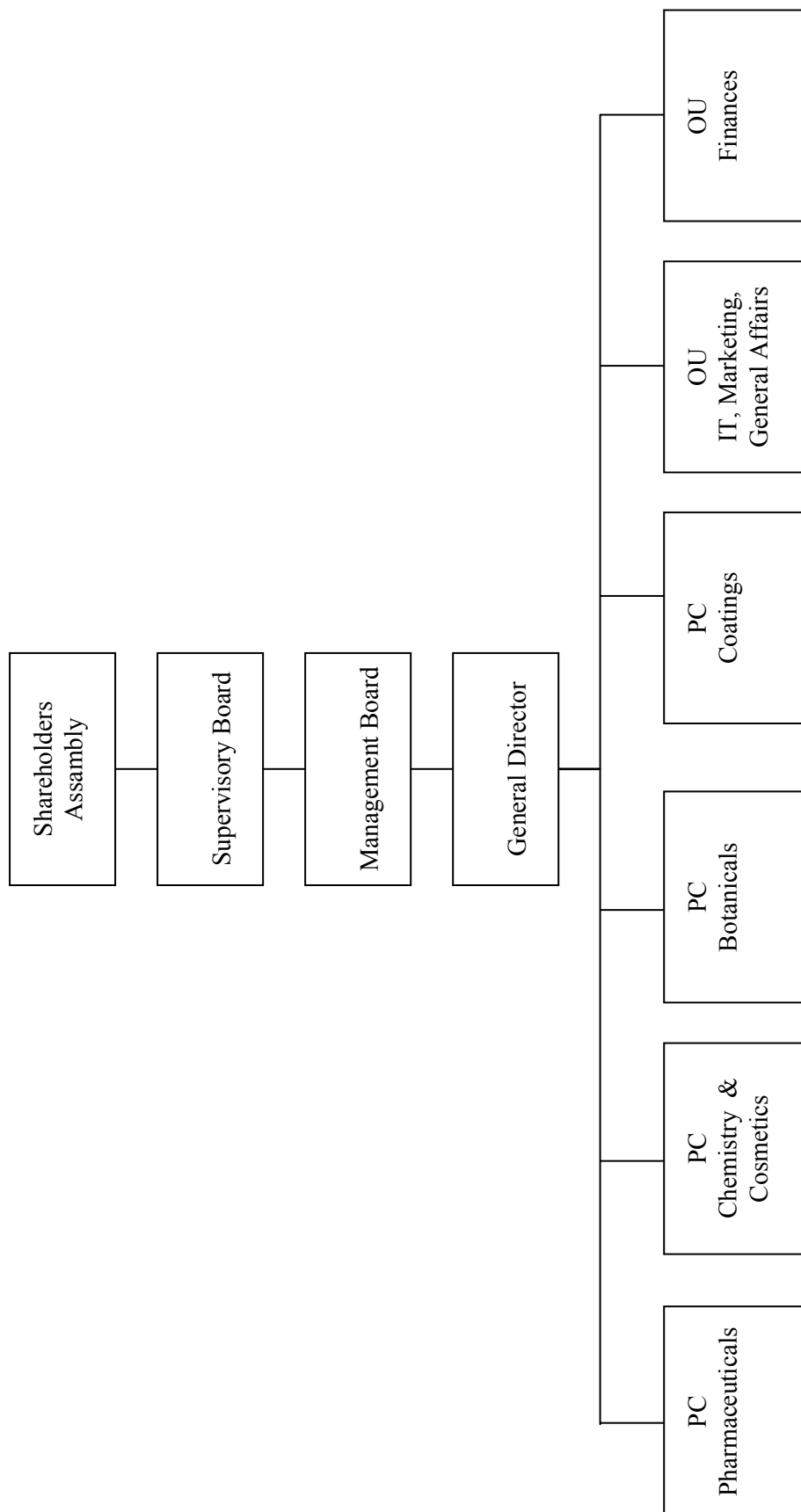
- Assurance of higher product quality standards at a low price
- Global organisational model. Alter the approach "country by country" (focused on the local economies, needs and features for every market separately) into "global model" (the basic principle being a standardised product with the possibility for worldwide marketing)

- Investments in production of healthy, environment-friendly products.
- Customer needs orientation
- Permanent awareness of the domestic market
- Breakthrough on the world market.

3.4. Organisational Chart of ALKALOID AD

The organisational chart related to the functional and line management of ALKALOID AD is presented at the following page.

3.4. Organisational Chart of ALKALOID AD



3.5. Business Activities of ALKALOID AD

The domestic market, as the main market for a large number of Alkaloid's products, has always been handled with special care, as the name ALKALOID AD stands for high quality products appreciated by the consumers.

About 40% of the total sales of ALKALOID AD are performed abroad through a developed network of branch offices in 8 European countries, via exclusive distributors as well as by direct sales to foreign buyers. The foreign markets of ALKALOID AD are grouped as follows:

- European Union: Austria, Germany, Italy, France, Nederland, Spain
- Former Yugoslav Republics: Bosnia and Herzegovina, Slovenia, FR Yugoslavia, Croatia
- Other European countries and Russia: Albania, Bulgaria, Poland, Romania, Czech Republic, Switzerland, Russian Federation, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Ukraine, Cyprus
- Other countries: Australia, Jordan, Korea, United Arab Emirates, USA

Our traditional customers are the Former Yugoslav Republics, where ALKALOID AD has been selling its products for decades. The countries of Former USSR, ALKALOID's traditional customers, following the dissolution of their system, and formation of new states, have been approached separately as new developing markets.

3.5.1. Profit Centre Pharmaceuticals

3.5.1.1. Summary

In 1957 the Profit Centre Pharmaceuticals began the production of galenical preparations in solid and liquid form, using its own raw materials. In 1961, it established an intensive cooperation with renowned pharmaceutical companies such as Theraplix - Paris, Pfizer - New York, Schering AG - Berlin, Spacia - Paris, Chemie Linz AG - Linz, Solco Basle AG - Basel. Initially, the licences were used for production of drugs, and later on a number of pharmaceutical raw materials along with finished drugs were produced according to proper technology. In 1968 a new plant for the extraction of alkaloids from poppy capsules was put in operation and in 1972 a new factory for production of finished drugs was built. Then followed the new production programmes for veterinary and cosmetic preparations. In 1999 the construction of high-rack warehouse for finished drugs was completed.

The ongoing project *Breakthrough on the World Market* comprises the following:

- High-rack warehouse for raw materials and packaging materials, in operation as of April 2000
- Facility for production of semi-synthetic antibiotics; in operation as of May 2002
- Facility for production of tablets; in operation as of May 2002.
- Facility for production of ampoules. Civil construction works are completed; equipment installation is in progress. Completion is planned for 2003.

All the facilities are completely constructed and equipped in strict compliance with GMP (Good Manufacturing Practice) standards.

ALKALOID AD is a member of the *European Generic Medicine Producer Association*. Apart from the generic products, the range includes licences for consignment stock of distinguished world producers.

3.5.1.2. Production Programmes

The production programmes of Profit Centre Pharmaceuticals are listed hereunder:

Drugs for Human Use: encounters a wide range of therapeutic areas.

Veterinary Drugs: Drugs for animals and various food additives.

Pharmaceutical raw materials: production of morphine and morphine derivatives, raw materials synthesis for pharmaceutical industry as well as numerous liquid extracts and tinctures intended for our manufacture.

The production programmes of PC Pharmaceuticals in the overall sales have their respective share, structured as follows:

<i>Programmes</i>	<i>2001</i>	<i>2000</i>	<i>(In %)</i> <i>1999</i>
Drugs for Human Use	98.9	98.4	97.8
Veterinary Drugs	1.1	1.6	2.2
Total	100.00	100.00	100.00

Competitors in the production of counterpart products are mostly pharmaceutical manufacturers from the former Yugoslav Republics, such as: Lek, Krka, Bayer-Farma, all from Slovenia; Pliva, Belupo – Croatia; ICN Galenika, Hemofarm, Zdravlje from FR Yugoslavia. Several world companies are also present on the domestic market being represented by registered companies, agents, or consignment stock agents. As local competitor is “Jaka 80” from Radovich.

The quality of the raw materials and finished products are constantly monitored by the specialists from the Quality Control Division, which is equipped with modern analytical equipment. This Division consists of several separate sections, with clearly defined responsibilities:

- Section for raw materials and packaging materials
- Section for control of semi-products and finished products
- Section for stability check
- Microbiology section
- Biology research section
- Coordination section

Parts of PC Pharmaceuticals are the departments of Commerce, R&D, Medical Information Service, Marketing, Design, IT and Investments Department.

Development activities are foreseen to be focused on the following group of products:

- Anti-inflammatory drugs
- Drugs for treatment of muscular, bone and connective tissue
- Anti-ulcer drugs
- Alimentary system and metabolism
- Cardio-vascular system
- Respiratory system

The leading role of ALKALOID AD in the Macedonian drugs market along with the efforts on the target markets, impose continual commitment for expansion of the products range. Thus, only in the period 1996 - 2001, solely by means of the company's know-how, the following products were included in the products range: Fluoxetin, Sumetrin, Nedocromil Etolac, Acyclovir, Propafenon,

Mendilex, Epial retard, Alsten, Pancef, Verapamil-retard, Pentoxifilin, Niremal, Albendazol, Alven, Atenolol, Caffetin trio, Cefaclor, Ceftriakson, Heparin, Losartan, Novamorf, Risperidone, Salbutamol, Skopryl plus, Terkoril, Tramadol.

3.5.1.3. Key Products

The product assortment of PC Pharmaceuticals includes a range of more than 100 products with over 200 presentations.

Overview of the top 5 products from the Pharmaceuticals programme – drugs for human use.

<i>Generic name</i>	<i>Share in the overall sales of drugs for human use (%)</i>		
	<i>2001</i>	<i>2000</i>	<i>1999</i>
Caffetin	16.9	16.5	16.4
Analgin	9.7	10.3	7.6
Solcoseryl	7.6	3.6	5.8
Pholcodin	4.6	4.7	3.8
Skopryl	3.9	3.0	3.3
Other	57.3	61.9	63.1
Total	100.0	100.0	100.0

3.5.1.4. Licences

Years of cooperation and continuous business relations with prominent and renowned pharmaceutical companies resulted in entering into consignment stock and distributorship agreements, according to which ALKALOID AD is authorised to represent them on several markets. For example, ALKALOID AD, is an exclusive distributor for Macedonia of the distinguished product Viagra, licence granted by Pfizer. It is also worth mentioning several other licence partners such as: Pfizer, Hoffman La Roche, Italfarmaco, Jacques Logeais, Mundipharma, Hafslund Nycomed, Rhone Poulenc Rorer, Sanofi-Synthelabo.

3.5.2. Profit Centre Chemistry & Cosmetics

3.5.2.1. Summary

The Chemical and Diazo and Photo-materials commenced its business operations at the end of 1956 with the foundation of “Lafoma” (LABoratory for production of chemicals and PHoto MAterials). The production process commenced with three employees in obsolete and dilapidated premises. In 1968 “Lafoma” was relocated to new premises, in the Western Industrial Zone of Skopje. Ever since then, the plant has marked steady growth in its four production plants: organic, inorganic, galvanization and production of exothermic powders. In 1973 “Lafoma” merged with ALKALOID. Within the plant’s production, the diazo and the photo material programmes have been developed. In 1980, the production and packaging of medical X-ray films began in cooperation with “Fuji Film” from Japan. By the end of 1981 a new plant for manufacturing flexible synthesis was constructed, and from 1989 - 1990 the premises of the inorganic plant were reconstructed.

Cosmetics and Soaps division commenced its activities in 1935 by launching a factory for production of soaps and jute bags “Aero”. In 1945 the factory was named “Cvetan Dimov” - factory for manufacturing soaps and cosmetics. In 1946 the factory was modernized by installing an automatic assembly line for washing soaps. In 1967 the production line for soaping and distillation of oily acids was installed, and in 1973 “Cvetan Dimov” merged with ALKALOID.

In 1984, with the construction of the new factory for production of cosmetic products and soaps located in the West Industrial Zone - Skopje, the relocation of the factory from the central city area begun. In 1988 the plant for toilette soap bars was relocated, and the technological process was completed in 1994.

3.5.2.2. Production Programmes

The Profit Centre Chemistry & Cosmetics is divided into two production units:

- **Chemistry** with the programmes: Chemicals and Diazo, Photo materials and X-ray films.
- **Cosmetics and Soaps** with the programmes: Cosmetics and Soap bars.

Programme Chemistry

Chemicals: Organic, Inorganic, Disinfectants and Antiseptics, Salts for thermal processing of metals, Liquid fertilizers.

Medical chemicals: Concentrated solutions for haemodialysis, Clinical and Biochemical reagents for diagnostic preparations.

Diazo, Photo materials and X-ray films: Diazo films on paper back for dry and semi-dry development, Copy paper, Tracing paper, Offset paper, Fax paper, Accessories for graphic industry, Medicinal X-ray films.

Programme Cosmetics and Soaps

Cosmetics: Body hygiene products, Household hygiene agents, Perfumes, Toilet waters and lotions, Cosmetic preparation and Beauty products.

Soaps: Soap bars (washing soaps, toilet and hotel soaps), Aerosol products.

The production programmes in the Profit Centre Chemistry & Cosmetics have the following sales structures:

<i>Programme</i>	<i>2001</i>	<i>2000</i>	<i>(In %)</i> <i>1999</i>
Chemistry	50.3	54.3	55.5
- Chemicals	34.9	40.2	39.8
- Diazo, Photo materials and X-ray films	15.4	14.1	15.7
Cosmetics and soaps	49.7	45.7	44.5
Total	100.0	100.0	100.0

The main competitors of the **Chemistry** programme are the domestic producers "OHIS" from Skopje, as well as a number of other small local manufacturers with limited assortment. Foreign competitors come predominantly from the Former Yugoslav Republics with their programmes intended for industrial producers and partly with the diazo programmes. The Laboratory Chemicals Programmes, diagnostic and X-ray programmes are mostly represented by foreign producers.

Cosmetics and Soaps is a programme with many competitors. Domestic competitors are "Jaka 80" - Radovish and "OHIS" - Skopje. Other smaller manufacturers have emerged whose scope of work includes the production and sales of household hygiene agents. Foreign competitors are "Henkel" - Maribor, "Saponija" - Osijek, "Ilirija" - Ljubljana, "Krka" - Novo Mesto, "Lek" - Ljubljana and other less prominent world companies.

3.5.2.3. Key Products

Overview of the top 5 groups of products from each programme of the Profit Centre
Chemistry & Cosmetics.

<i>Brand name</i>	<i>Share in overall sale (%)</i>		
	<i>2001</i>	<i>2000</i>	<i>1999</i>
Programme Chemicals			
Argentum salts - AL	15.0	13.9	13.1
Alcohols	7.0	8.4	7.6
Acetic acid for food - AL	6.4	5.6	5.6
Sodium hydraxidatum - AL	5.9	5.3	1.9
RANDOX	5.5	3.6	4.1
Other	60.2	63.2	67.7
Total	100.0	100.0	100.0
Programme Diazo and photo materials			
Xerox paper	24.7	23.8	16.7
NCR-paper	18.9	17.5	9.6
Amokop	13.7	13.8	12.1
X-ray film	13.6	17.5	31.1
Offset paper	13.3	9.0	5.7
Other	15.8	18.4	24.8
Total	100.0	100.0	100.0
Programme Cosmetics and soaps			
Becutan collection	31.3	31.3	29.4
Soaps	17.0	17.6	23.0
Shampoos	13.5	13.1	12.6
Gloss collection	13.5	13.8	17.2
Perfumes	6.2	4.2	2.4
Other	18.5	20.0	15.4
Total	100.0	100.0	100.0

3.5.2.4. Licences

The Licence Agreement was entered between ALKALOID AD and the German company BASF on the production and sales of antifreeze - Glysantin in October 2000.

3.5.3. Profit Centre Botanicals

3.5.3.1. Summary

In 1955 "Bilka Export-Import" emerged as independent organization with principal activity purchase and export of medicinal herbs and poppy seed. In 1963 the factory was relocated, whereas in 1966 "Bilka Export-Import" merged with ALKALOID. The growth of botanicals production and final consumer goods started in 1967-1968 with the production of several loose teas. In 1973 began the production of 12 magisterial and 24 medicinal loose teas. From 1979-1996 the production lines for manufacture of loose teas were substantially improved. In 1977, gourmet spices were included in the range of products and from 1979-1996 the dry plant production line was equipped with a concession unit. In 1990 the manufacture of para-pharmaceutical products began whereas in 1991 the production

of Začinal (food condiment) began. In 1995 the production of soups commenced (cream, clear and instant soups). The collection and purchase of naturally grown and dried medicinal plants is conducted through the purchase stations in Skopje, Berovo, Bitola and Veles.

Besides “Vitaminska” from Prilep, there are other minor competitors with a limited range of products. Foreign competitors come predominantly from the Former Yugoslav Republics. Competitors for packed tea, instant soups and packed spice programmes are “Droga” - Portoroz and “Kolinska” - Ljubljana, whereas “Podravka” - Koprivnica has proved to be the main competitor for the product “Začinal”. This programme has its foreign competitors such as producers from Turkey, Greece and other European countries.

3.5.3.2. Production Programmes

All products are subject to strict chemical and health controls. Organic production verification with the EKO label has once again proved the quality of Alkaloid’s herbal raw materials and products. Production quality is confirmed by the international standards ISO 9001 and ISO 14001.

The existing range of products is constantly expanding. The tea programme, characterized by rich assortment and superb quality is the most appealing to the consumers.

Production programmes:

Teas: Organic teas (with ecological Skal Eko certificate). Teas in commercial packaging “Good Nature”

Food Products: Packed food products, spices, Dried vegetables, Soups, Diet products

OTC: Medicinal teas (blend of medicinal herbs, do not contain synthetic additives), Herbal remedies

Industrial herbal products: Dried vegetable products in compressed form, Selected Vegetable products, Selected dried mushrooms

The Botanical Pharmacy in Skopje is part of the Profit Centre Botanicals. Its pioneer role helped enormously in promoting the professional utilization of natural herbal products. Besides its sales activities, the Botanical Pharmacy renders professional assistance and advisory work.

3.5.3.3. Key Products

Overview of the top three group of products within the Profit Centre Botanicals

<i>Brand name</i>	<i>Share in the overall sales of PC Botanicals (%)</i>		
	<i>2001</i>	<i>2000</i>	<i>1999</i>
Teas	31.1	26.6	30.9
Medicinal herbs	28.7	33.7	29.2
Začinal	16.3	11.9	14.6
Other	23.9	27.8	25.3
Total	100.0	100.0	100.0

One part of the herbal raw materials are of seasonal character, depending on the prime harvesting time of each respective herb. The sales scope of some of the products may vary, depending on the season. A typical example are the teas, whose demand is increased during the winter period.

3.5.4. Profit Centre Coatings

3.5.4.1. Summary

Establishment of the factory for paints and polishes "Proleter" dates back in 1946. In 1977 "Proleter" merged with ALKALOID. The present production programme comprises a wide range of coatings, glues and various accessories with widely recognised quality and design. These products prove to be indispensable for the wood, construction and metal industry. Quality and assortment are major concern of the professionals employed with the company. The Latest world trends and achievements are closely followed, which has had a positive effect on our presence in the regional markets.

The competitors in Macedonia are: "OHIS" - Skopje, "Hemik" - Skopje, "Seda" - Prilep, "Bahem" - Gostivar and "Sahem" - Gostivar. Foreign competitors are the Slovenian companies "Color", "Helios" and "Belinka" and the Croatian "Hromos" with parallels on the overall assortment. For the programme car enamels, the Yugoslav company "Duga" is our competitor. Other countries import mostly from Turkey and Bulgaria.

3.5.4.2. Production Programmes

Coating agents: Industrial (wood, metal and civil construction industry). Consumer goods such as glues or dilute agents.

Synthetic resin: Alkyd resin, Urea formaldehyde resin, plastic substances.

The coating agents have different application possibilities. The entire range of products is produced in line with the quality standards (DIN, ISO, MKS), starting from raw materials to the finished product. This is subject to quality certificate. Brand names are protected by trademarks. Most of the products are patent protected.

3.5.4.3. Key Products

Overview of the top 5 groups of products in PC Coatings

<i>Brand name</i>	<i>Share in the overall sales of PC Coatings (%)</i>		
	<i>2001</i>	<i>2000</i>	<i>1999</i>
Duropol	26.3	25.9	30.9
Nitrolin	8.7	7.5	6.9
Eko-nal	8.2	4.8	-
Pronal	7.6	6.9	8.1
Karolin	6.5	5.5	6.0
Other	42.7	49.4	48.1
Total	100.0	100.0	100.0

Major part of the assortment of PC Coatings is characterised by seasonal character. Sales volume of major part of the coating agents is reduced during the winter period.

3.6. Information Technology

The IT segment has significant contribution to the successful business performance of ALKALOID AD. Its beginning is traced back to 1974, when the CADP (Centre for Automatic Data Processing) was founded.

All five central computer units are interconnected within a local network. The complete terminal structure of all four locations is connected online to the central IBM AS/400 units, and the personal computers are also integrated, connected through the Ethernet network to the three central network servers.

Most of the user applications are developed in ALKALOID AD. There is an ongoing project for development of an integrated IT system. In PC Pharmaceuticals, in the production section and warehouse operation, a system with integrated bar-code technology is in function.

3.7. Quality Assurance and Quality Control

The quality of the production process and the products, as well as the environmental protection, are elements of primary importance, and ALKALOID AD dedicates enormous attention to these. At the beginning, a separate organizational unit functioning on a central level was in charge of these operations. In 2001, the responsibilities were delegated to each profit centre separately, with the following general duties:

- Quality and environmental systems
- Quality policy and environmental policy
- Preparation of system documents
- Periodical plans, periodical control and reports

In the area of functioning of the quality, control and ecology segment the following activities are included, which are completely independent from the regular controls with respect to taking decisions:

- Preventive actions
- Input materials control (raw materials, packaging materials, labels, etc)
- Control of semi-finished products and the products in all the stages
- Waste materials control
- Corrective actions

The following standards are used in sample testing:

- International standards
- Pharmacopoeia
- Standards established by renown companies
- Legal regulations
- National standards
- Internal standards

Overview of the standards as used per Profit Centre:

<i>Profit Centre</i>	<i>Standards</i>
Pharmaceuticals	<ul style="list-style-type: none"> ▪ ISO 9001, ISO 14001, Ph.EUR, USP, BP, DAB, IS ▪ GMP (for the project <i>Breakthrough on the World Market</i>)
Chemistry & Cosmetics	<ul style="list-style-type: none"> ▪ ISO 9001, Ph.EUR, USP, BP, IS, MKS, DIN, ASTM, ACS, Fuji, Guidelines ▪ The products are not tested on animals ▪ The products do not harm the ozone layer ▪ The products are dermatologically and clinically tested
Botanicals	<ul style="list-style-type: none"> ▪ ISO 9001, ISO 14001, IS, DAB, Guidelines ▪ ECO Certificate for Organic Production
Coatings	<ul style="list-style-type: none"> ▪ ISO 9001, DIN, MKS

3.8. Environmental Protection

The wide range of products includes production procedures from the pharmaceutical, chemical, cosmetic and food processing industries. These production activities are subject to various legal regulations in the Republic of Macedonia, as well as the international agreements relevant for the environmental issues, healthcare and safety, to which the Republic of Macedonia is signatory. Furthermore, ALKALOID AD implemented international standards for Environmental Protection. In that respect, in the last few years ALKALOID AD initiated a range of activities, among which the most significant are:

- Development of the *Environmental Protection Programme*
- Promotion of the *Environmental Policy*, which has a character of a public document
- Within the *Project for Improvement and Modernisation of Alkaloid's facilities* there is an *Environmental Protection Action Plan*, an integral part for the EBRD/IFC Loan Agreement
- *EMS (Environmental Management System) Certification and ISO 14001* (ecology standards) for PC Pharmaceuticals and PC Botanicals
- Preparation of *Environmental Protection Elaborate for Semi-synthetic Penicillin Production Plant* (within the project *Breakthrough on the World Market*) with *Purification Station for Waste Waters Project*
- Complete project documentation *Reclamation and Reconstruction of the Waste Water Purification Station* in the locality Gjorce Petrov
- Within the activities of the Office for Ozone Layer Protection within the Ministry of Environment and Urban Planning, there is a *Programme for Substitution of CFC 11 and 12*, which has been approved by the Multilateral Fund of the Montreal Treaty.

The *Environmental Protection Action Plan* of ALKALOID AD includes activities for pinpointed problems, which include aspects of environment, safety and health of employees of all the profit centres of ALKALOID AD. It provides dynamics of realisation, including potential financial expenses and anticipated ecological effects.

- The basic approach and objective of the plan, is realisation of the required improvements of the production facilities from the aspects of environment, safety and health of the employees, so enabling compliance with the national legislation, as well as the GMP standards.

ALKALOID AD never violated any environmental issue related to dangerous or toxic materials. In that regard, as of 30th September 2002, no indemnity claims were lodged against ALKALOID AD, which is a result of the decisive implementation of the legal requirements in the environmental sphere.

3.9. Research and Development, Product Registration

Each Profit Centre comprises separate research and development department.

The main task of ALKALOID's registration agents, employed at the Company – is to protect the industrial property rights. These rights include: patents, trademarks, and designs.

Overview of pending / registered patents, trademarks and designs as of September 2002.

<i>Country</i>	<i>P a t e n t s</i>		<i>Trademarks</i>	<i>Designs</i>
	<i>Pending</i>	<i>Valid</i>		
Macedonia	22	2	154	2
Croatia	3	-	42	-
FR Yugoslavia	29	-	117	-
Slovenia	3	-	69	-
Bosnia and Herzegovina	-	-	39	-
International	-	-	205	-
Total	57	2	626	2

Besides being a holder to its own rights, ALKALOID AD reserved certain industrial property rights, based on Licence Agreements, signed with several companies. Special attention is paid to the protection of the trademark rights in the modern exchange of goods and services.

3.10. Investments

In accordance with the strategy for technological development, ALKALOID AD permanently invests in changing the existing and introduction of new technical and technological lines. During the last two years, the following investments are in process:

- Automatic production line in the Cosmetics sector, 2000.
- Central computer unit IBM AS/4000 model 730e, 2000.
- Factory for production of lacquers in PC Coatings, ongoing
- *Breakthrough on the World Market Project* in PC Pharmaceuticals, ongoing

The project includes complete construction and equipment installation pursuant to the GMP standards:

- High-rack Warehouse for raw materials and packaging materials; in operation since April 2000.
- Factory for production of semi-synthetic antibiotics; in operation since May 2002.
- Factory for production of solid forms; in operation since May 2002.
- Factory for production of ampoule forms; the civil construction works are completed, the equipment installation is in process, completion is planned for 2003.

The projected investments amount to approximately EUR 35,400,000. EUR 17,400,000 of this sum were provided by convertible loan from the EBRD and IFC. The loan disbursement commenced in year 2000 and it was divided into two tranches, the repayment period is 8 years with grace period of 2 years. According to the Long-term Strategic Plan, this project increases the scope of production in the pharmaceutical segment, improves the products quality, which, combined with the market research of the target markets (parallel with the project), will enable placement on the Western European markets.

3.11. Property

The head office of the company is located at Boulevard Aleksandar Makedonski No. 12 in Skopje. The production facilities are located at several areas on the territory of Skopje:

<i>Site</i>	<i>Description</i>
Avtokomanda	<ul style="list-style-type: none"> ▪ Production facilities of PC Pharmaceuticals ▪ Accompanying structures of the Company
Madžari	<ul style="list-style-type: none"> ▪ Production facilities of PC Coatings
Gjorče Petrov	<ul style="list-style-type: none"> ▪ Production facilities of PC Chemistry & Cosmetics ▪ Part of production facilities of PC Pharmaceuticals
Kisela Voda	<ul style="list-style-type: none"> ▪ Production facilities of PC Botanicals

ALKALOID AD owns purchase stations in: Berovo, Bitola, Veles and Skopje; Herbal Pharmacy in Skopje, vacation and recreation facility in Star Dojran, real-estates in FR Yugoslavia, Croatia, Slovenia and Bosnia and Herzegovina.

3.12. Insurance

ALKALOID AD has entered into long-term agreement with "QBE" - Makedonija for mutual cooperation in the insurance area. Based on the Agreement ALKALOID AD has undertaken the following insurance policies:

- I. Property insurance (facilities and equipment)
- II. Vehicles insurance (complete vehicle insurance)
- III. Insurance of goods in domestic transport
- IV. Insurance of goods in foreign transport
- V. Joint employees' insurance against accidents

3.13. Court Proceedings

The disputes as of September 30th 2002 are grouped according to the plaintiff claims.

I. Working Disputes

Nineteen cases are in process, out of which in 16 plaintiffs are present or former employees in ALKALOID AD, while in three of the cases the plaintiff is ALKALOID AD. ALKALOID'S claims related to these proceedings amount to 2,292,300 MK Denars.

II. Property Rights Disputes

Five cases are in process, including 2 claims lodged by one former owner of the same property. The remaining 3 cases are to determine the ownership right of a property now belonging to ALKALOID AD.

III. Disputes in the Privatisation Process

9 cases are in process, filed by shareholders, former employees of ALKALOID AD.

IV. Economic Disputes

610 lawsuits are filed, and in 600 of them ALKALOID AD appears as a plaintiff, while in 10 as a defendant. The total claim of the plaintiffs amounts to MK Denars 211,031,535 while the total debt toward the creditors is MK Denars 10,563,197.

3.14. Foreign Branches

ALKALOID AD has set up limited liability companies abroad with 100 % of ownership, with the exception of **Albalkaloid Ltd. Tirana** with 51% of ownership. (Alkaloidpharm AG incorporates the branches in Fribourg and Moscow).

<i>Name of the company</i>	<i>Business activity</i>	<i>Number of employees</i>	<i>Ownership in MK Denars</i>
1. Alkaloid DOO Belgrade, FR Yugoslavia	Wholesale	10	31,215,228
2. Alkaloid DOO Zagreb, Croatia	Wholesale of drugs and OTC	14	49,668,022
3. Alkaloid DOO Ljubljana, Slovenia	Wholesale	8	8,298,526
4. Alkaloid DOO Sarajevo, Bosnia and Herzegovina	Wholesale	7	195,349
5. Alkaloid EOOD Sofia, Bulgaria	Wholesale	5	925,608
6. Albalkaloid Ltd. Tirana, Albania	Wholesale	6	1,261,167
7. Alkaloidpharm AG Fribourg, Switzerland	Wholesale	Fribourg: 2 Moscow: 8	6,960,391

4. Management and Employees

4.1. Supervisory Board

4.2. Management Board

4.3. Management

4.4. Employees

4. Management and Employees

The standing, rights and obligations of the shareholders are defined in the Statute of the Company, passed on at the session of the Shareholders Assembly held on 21 December 2001. Shareholder's rights and interests are effectuated at the Assembly, which is the highest instance of the Company, personally or by authorized representative. The Assembly can pass decisions only if the session is attended by at least one half of the shareholders with a voting right. The voting right at the Assembly is proportional to the number of shares, one vote per each share.

The management of the joint stock company is organised according to dual rank system, i.e. the Supervisory Board (SB) and the Management Board (MB)

4.1. Supervisory Board (SB)

The SB consists of 3 members elected by the Shareholders Assembly, with mandate of 4 years and possibility for re-election without limitations. At least one of the members of the SB must be Macedonian national. The primary role of the SB is to supervise the management of the Company. All other members of the SB, pursuant to their legally determined position, have the same rights and responsibilities, regardless of the deployment of the rights and responsibilities among the SB members. The members of the SB must protect the interests of ALKALOID AD, the shareholders and the employees. As receiving party, they are obliged not to disclose any information regarding the operations of the Company, addressed to them as confidential. This obligation shall continue even after the termination of the SB membership. MB members cannot be SB members.

The present members of the SB of ALKALOID AD were elected on 26th March 1998, and they are:

Prof. Miodrag Micajkov, PhD	President
Prof. Ilija Džonov, PhD	Member
Bojančo Krlevski	Member

Resume of the Supervisory Board Members of ALKALOID AD

Professor Miodrag Micajkov, PhD is the President of the Supervisory Board of the Company. He was born on 27th August 1944 in Kavadarci, Republic of Macedonia. He has a PhD. in Law. He is employed at the Faculty of Law in Skopje and is Macedonian national.

Professor Ilija Džonov, PhD is a member of the Supervisory Board of the Company. He was born on 24th November 1943 in Štip, Republic of Macedonia. He has a PhD. in Medicine. He is employed at the Faculty of Medicine in Skopje. He is a Macedonian national.

Bojančo Krlevski is a member of the Supervisory Board of the Company. He was born on 8 March 1951 in Skopje, Republic of Macedonia. He has graduated from the Faculty of Natural Sciences, and he is a B.Sc. in chemical engineering. He has 23 years professional experience. As an Area Assistant at PC/OU Coatings, responsible for the production segment in PC Coatings. He is a Macedonian national.

4.2. Management Board (MB)

The MB consists of 5 members elected by the SB of the Company, with mandate of 6 years and a possibility for re-election without limitations. The primary function of the MB is to manage the Company, and has unlimited authorities to act on behalf of the Company, excluding the authorities granted to the MB and the Shareholders Assembly.

Members of the Management Board of ALKALOID AD

Name	Status	Elected/Re-elected
Trajče Mukaetov	President	19 th September 1998
Zorka Zlatanović	Member	19 th September 1998
Dimitar Pejčinovski	Member	19 th September 1998
Cvetanka Simonovska	Member	19 th September 1998
Ilija Anevski	Member	21 st July 2000

Resume of the Management Board Members of ALKALOID AD

Trajče Mukaetov is the President of the Management Board and General Director of the Company. He was born on 20th September 1945 in Kavadarci, Republic of Macedonia. He graduated from the Faculty of Electrical Engineering and he is B. Sc. in electrical engineering. He has 31 years of professional experience. He is CEO of Alkaloid since 1985. He is a Macedonian national.

Zorka Zlatanović is a member of the Management Board and Director of PC/OU Pharmaceuticals. She was born on 13th January 1947 in Gevgelija, Republic of Macedonia. She has graduated from the Faculty of Chemical Engineering and Metallurgy and she is a B. Sc. in chemical engineering. She has 32 years of professional experience. She is a Macedonian national.

Dimitar Pejčinovski is a member of the Management Board and Director of PC/OU IT, Marketing, and General Affairs. He was born on 22nd December 1946 in Skopje, Republic of Macedonia. He has graduated from the Faculty of Electrical Engineering and is a B. Sc. in electrical engineering. He has 29 years of professional experience. He is a Macedonian national.

Cvetanka Simonovska is a member of the Management Board and Director of PC/OU Finances. She was born on 27th November 1953 in Gevgelija, Republic of Macedonia. She has graduated from the Faculty of Economy and is a B. Sc. in economy. She has 24 years of professional experience. She is a Macedonian national.

Ilija Anevski is a member of the Management Board. He was born on 1st August 1945 in Skopje, Republic of Macedonia. He has graduated from the Faculty of Economy and he is B. Sc. in economy. He has 30 years of professional experience. He is a Macedonian national.

4.3. Management

In accordance with the organisational structure, the names of the management of ALKALOID AD are listed hereunder:

Name	Title	Segment
Trajče Mukaetov	General Director	ALKALOID AD
Zorka Zlatanović	PC/OU Director	PC Pharmaceuticals
Milkica Gligorova	Director	PC Pharmaceuticals
Petar Angelovski	PC/OU Director	PC Chemistry & Cosmetics
Nikola Dimovski	PC/OU Director	PC Botanicals
Lidija Sofrevska Andonova	PC/OU Director	PC Coatings
Dimitar Pejčinovski	PC/OU Director	OU IT, Marketing, General Affairs
Cvetanka Simonovska	PC/OU Director	OU Finances

4.4. Employees

The number of employees records a declining trend. This number was reduced from 1623 as of 31st December 1999 to 1384 as of 31st December 2001. This reduction is due to the legal retirement or voluntary termination of the work contracts.

Number of employees in ALKALOID AD - as of 31 December

<i>Segment</i>	<i>2001</i>		<i>2000</i>		<i>1999</i>	
	<i>Total</i>	<i>%</i>	<i>Total</i>	<i>%</i>	<i>Total</i>	<i>%</i>
PC Pharmaceuticals	793	57.3	742	47.0	798	49.2
PC Chemistry & Cosmetics	253	18.2	295	18.7	258	18.4
PC Botanicals	123	8.9	132	8.4	131	8.1
PC Coatings	113	8.2	122	7.7	116	7.1
OU IT, Marketing, General Affairs	48	3.5	233	14.7	222	13.7
OU Finances	54	3.9	55	3.5	58	3.5
ALKALOID AD	1384	100.0	1579	100.0	1623	100.0

Qualification structure of the employees in ALKALOID AD

<i>Employee Qualification</i>	<i>2001</i>		<i>2000</i>		<i>1999</i>	
	<i>Total</i>	<i>%</i>	<i>Total</i>	<i>%</i>	<i>Total</i>	<i>%</i>
M.A.	23	1.7	25	1.6	27	1.7
University graduates	298	21.5	319	20.2	325	20.0
Senior high school	49	3.5	60	3.8	63	3.9
Junior high school	539	38.9	568	36.0	568	35.0
Qualified	376	27.2	454	28.7	478	29.4
Primary school	99	7.2	153	9.7	162	10.0
Total	1384	100.0	1579	100.0	1623	100.0

The qualification structure of the employees of ALKALOID AD is in line with the business activities of the Company, whereby 92.8 percent of the employees have appropriate qualifications, and only 7.2 percent of the employees have only primary school education.

5. Share Capital

5.1. Shareholding

5.2. Limitations

5.3. Foreign Investments

5.4. Shareholders Registry

5.5. Voting Rights

5.6. ALKALOID AD at the Macedonian Stock Exchange

5. Share Capital

5.1. Shareholding

The share capital of the Company amounts to EUR 33,265,416.73 - divided into 1,301,230 shares.

The share capital is defined in the privatisation process according to the Law on Transformation of Enterprises with Socially-Owned Capital, passed by the Macedonian Parliament in 1993. (Official Gazette of the Republic of Macedonia, No. 38/93). In 1995, pursuant to the provisions of this Law, a value assessment of ALKALOID AD was executed. The assessed value was DEM 65,000,000. 54,64% was share capital, and 45,36% state capital.

By means of agreement entered into between the Agency for Transformation of Enterprises with Socially-Owned Capital of the Republic of Macedonia and the individuals who assumed the management, transformation was made on the remaining part of the state capital by venturing the enterprise to individuals who assumed the management of the Company.

The fulfilment of the liabilities set forth in the Agreement with the Agency, ALKALOID AD was 92.95% privatised.

Out of the total number of shares, 1,209,550 or 92.95% are ordinary shares with voting right; 88,452 or 6.80% are preference shares without voting rights*, which belong to the Health and Disability Insurance Fund of the Republic of Macedonia, and 3,228 or 0.25% are preference shares without voting rights reserved for the former owners**.

Share Capital Structure as on 30th September 2002

<i>Shareholders</i>	<i>Type of share</i>	<i>Number of shares</i>	<i>%</i>
Shareholders – physical entities	Ordinary	1,079,018	82.92
Management	Ordinary	130,532	10.03
Health and Disability Insurance Fund of the Republic of Macedonia	Preference	88,452	6.80
Former Owners	Preference	3,228	0.25
Total		1,301,230	100.00

As on the date this Prospectus was published, none of the shareholders of ALKALOID AD held more than 10% of ordinary shares.

* According to the Law on Transformation of Companies with Socially-owned Capital dated 1993 (Official Gazette of the Republic of Macedonia No. 38/93), 15% of the state capital belongs to the Health and Disability Insurance Fund of the Republic Macedonia, and these are preference shares entitled to fixed annual dividend of 2%. In an event of insolvency or liquidation of the Company, they entitle the holder to proportional share in dividing the rest of the insolvency, i.e. liquidation mass.

By means of venture, these shares shall be transformed into ordinary shares with voting rights.

** According to the Law on Transformation of Companies with Socially-owned Capital dated 1993 (Official Gazette of the Republic of Macedonia No. 38/93), in the process of transformation, the company is obliged to consult the former owners and their heirs (claimants) by means of press release, to announce their claims to the Company within 60 days after the publication of the release.

The share capital is assessed according to the existing regulations. The par value of each ordinary share is EUR 25.56. The Shareholders Assembly may denominate the share value by increasing or decreasing their par value, only if the amount of share capital remains unaltered. In that respect, with a decision passed by the Management Board of the Company dated 19th November 1998 a final division of the share capital of the Company was executed, changing the par value of each share from DM 91 to DM 50, and a split in ratio 1:1.82, increasing the total number of shares from 714,524 to 1,300,000 shares. In order to arrange the number for each of shareholders, according to the Shareholders Registry, as of 19th November 1998 and arrangement of share par value, the share capital of the Company was increased by 1,230 shares with a value of DM 61,500 in MK Denars counter value. By increasing the share capital of the Company, the total number of the shares amounted to 1,301,230 shares with total value of DM 65,061,500, i.e. EUR 33,265,416.73.

5.2. Limitations

The MB President and 1,586 shareholders have signed Agreements for Arrangement of mutual relationships, between the shareholder who entrusts the management and the representative to whom the management is being entrusted. These agreements incorporate 913,488 ordinary shares, or 75.52% of the total number of ordinary shares. According to the provisions in the Agreements there is a limitation in the voting right and limitation to the transfer of the shares. In the event of claim made by the owner of the shares for venture of shares, the Agreement shall be terminated.

Out of the total number of shareholders, 997 shareholders holding 296,062 ordinary shares, or 24.48% of the total number of ordinary shares, do not have any limitations regarding management and disposal of the ordinary shares.

5.3. Foreign Investments

In accordance with the agreements dated 20th July 1999, for convertible loan entered into between EBRD and IFC and ALKALOID AD, value amounting to EUR 17,400,000, convertible bonds were issued, equivalent to the total value of the loan. The scope of convertible bonds owned by EBRD and IFC will be reduced by repayment of the loan, i.e. it shall correspond to the outstanding debt of the loan. In case of claim made by the Banks, the bonds may be converted into ordinary shares, and the value of each bond will be identical with the par value of each ordinary share.

5.4. Shareholders Registry

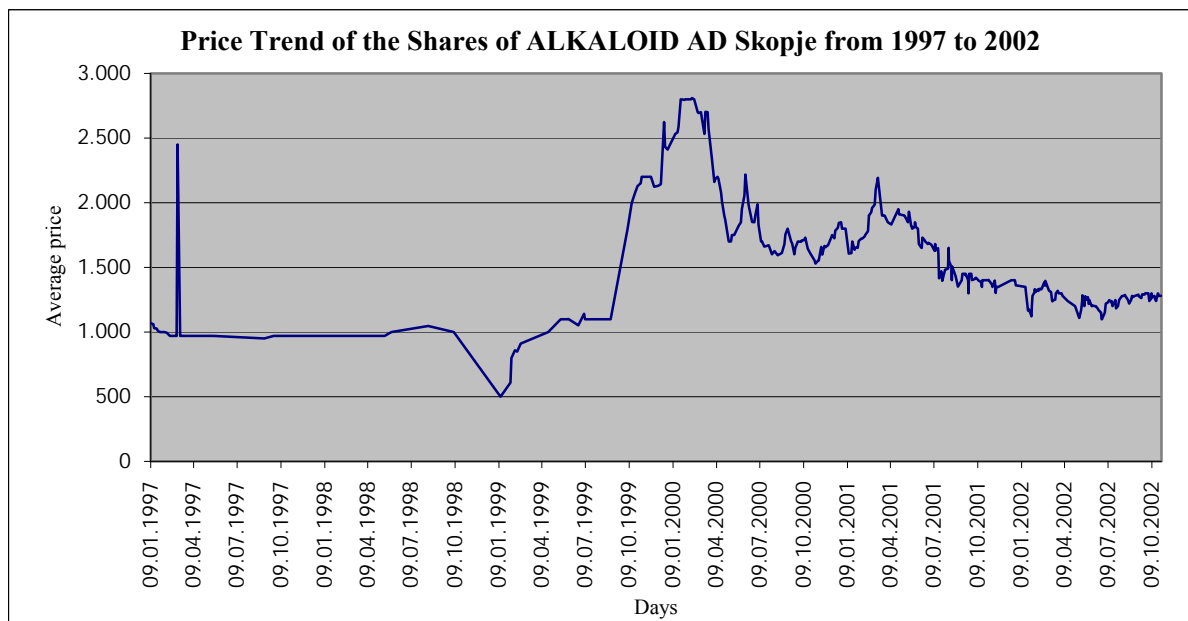
With the formation of the Central Depository of Securities, the Shareholders Registry is maintained as immaterial in the Central Depository of Securities, as provided by Law.

5.5. Voting Rights

The shareholders are entitled to effectuate their voting rights at the Shareholders Assembly according to the par value of the shares. By pledging the shares, the shareholder is not deprived of the voting right. Voting procedures are determined by the Assembly, except in cases where the Law states otherwise. The decisions of the Assembly, which may unfavourably change the right of certain type of shares are made valid, only if the shareholders representing that type of shares give their consent with a two-thirds majority of votes.

5.6. ALKALOID AD at the Macedonian Stock Exchange

With the establishment and commencement of the official trade at the Macedonian Stock Exchange dated 26 March 1996, begun the trade of the shares of ALKALOID AD at the third Unofficial Market. In the period from 1997 to 2002, the lowest price of the shares was recorded in January 1999 (MK Denars 500) and the highest price was recorded in February 2000 (MK Denars 2,850). In September 2002 the average price of the share was MK Denars 1,288.24.



The share of ALKALOID AD, as one of the most liquid shares for trading on the Macedonian Stock Exchange for Long-term securities, is a part of the Macedonian Stock Exchange Index (MSI). The Macedonian Stock Exchange Index started on 1st November 2001.

6. Taxation

Summary on taxation and treatment with respect to trade and ownership of the shares was performed based on the laws and regulations, which were valid as on the date of compiling this Prospectus. Eventual changes in the regulations, judicial and administrative decisions may project differently from what is presented herein. Therefore, we highly recommend each potential investor to consult its own tax advisor with respect to taxation regulations and the consequences, which may emerge in relation with ownership, or share trading. When reaching a decision, refer to the international agreements to which Macedonia is a signatory.

According to the legal regulations, ALKALOID AD is a regular taxpayer and pays the following taxes:

- I. Value Added Tax
- II. Income tax
- III. Personal income tax

According to the legal and taxation regulations of the Republic of Macedonia:

- Capital profit is not subject to taxes in the period until 2006
- Share trading is tax exempt
- Incomes from shares, including dividend, are levied by 15% on 50% gross dividend, according to Article 49 from the Law on Personal Income Tax.
- Listed Companies are 50% exempted from Income Tax for 3 years, in the period until 2006, according to the Law on Income Tax.

7. Brief Summary of the Statute of ALKALOID AD

Subject to review is the current Statute of the Company, passed at the regular session of the Shareholding Assembly dated 21st December 2001.

Scope of work

All activities performed by the Company within its scope of work are indicated in Article 10 of the Statute.

Share Capital and Shares

The share capital of the Company is EUR 33,265,416.73 EUR. It is divided into 1,301,230 shares, 1,209,550 of which are ordinary shares; 88,452 are preference shares, held by the Health and Disability Insurance Fund of the Republic of Macedonia and which belong to the Fund pursuant to the Law on Socially-owned Capital from 1990; 3,228 preference shares, reserved for the former owners. The share capital is assessed in accordance with the regulations. The par value of each ordinary share is EUR 25.56. The Shareholding Assembly may amend this Statute and denominate the value of the shares, to increase or decrease their value provided that the value of the share capital remains unchanged.

The Shareholders Registry is maintained as immaterial in the Central Depository of Securities, in a manner as determined by Law.

Increasing the Share Capital

Increase of the share capital is effectuated by issuance of new shares, in accordance with the Law on Securities.

Decreasing the Share Capital

Decision for decrease of the share capital can be passed by majority of three quarters of the votes representing the share capital of the Company at the moment the referenced decision is passed.

Decisions and Management of the Company

Shareholders Assembly

The Assembly is called forth by the Management Board, the Supervisory Board or at request of shareholders whose joint participation in the Company is one third of the share capital. The Assembly is called at the latest three months following the compilation of the Annual Balance Sheet and the Annual Report. The Assembly elects a president among the shareholders, with two-years mandate, responsible for heading the sessions. The Shareholders Assembly is called by press release to the shareholders. Each shareholder may appoint a person who will act as representative at the Assembly.

The shareholders exercise their voting rights at the Assembly according to the par value of the shares. By pledging the shares, a shareholder cannot be deprived of the voting right. The voting procedure is determined by the Assembly, except in cases where the Law states otherwise. The decisions of the Assembly, which may unfavourably change the right of certain type of shares are made valid, only if the shareholders representing that type of shares give their consent with a two-thirds majority of votes.

Management of the Relations in the Company

The relations in the company are arranged by the Statute, guidelines, and decisions, which manage the general affairs. The Assembly, the Management Board and the Supervisory Board may pass manuals, which will organise the manner of operation and reaching decisions, as well as other general acts. The employment relations, salaries and other rights originating from the employment relations are governed by rules, guidelines and collective agreements, which are reached, i.e. passed by the Management Board of the Company.

Business Records and Determination of Business Results; Allocation of Profit

Following the completion of each business year, the Management Board is obliged to compile an Annual Balance Sheet and a Report on the operations of the Company for the previous business year. The balance sheets are compiled also for shorter terms of the business year, as determined by the Management Board.

After the Annual Balance Sheet is approved and profit allocation is recorded and determined, the Assembly determines the share, which is granted to the shareholders in form of a dividend.

Termination of the Company

The Company shall terminate by a decision passed by the Shareholding Assembly reached by three-quarters of the votes of the share capital, represented at the Shareholding Assembly at the time of reaching the decision.

8. Independent Auditors' Report for year 2001

Consolidated Financial Statements for years 2001 and 2000

Notes to the Financial Statements for year 2001

Financial Statements of ALKALOID AD for years 2001, 2000 and 1999

8. Independent Auditors Report for year 2001

GENERAL

The Alkaloid Group, consist of 7 (seven) subsidiaries, in different countries. The names of the subsidiaries are stated in Note 8, from the Notes to the financial statements.

Alkaloid AD – Skopje, the parent company is the joint stock company, established and with head office in Republic of Macedonia.

The address of the company is:

*Aleksandar Makedonski 12
1000 Skopje,
Republic of Macedonia*

Alkaloid A.D.– Skopje was established in 1936 and in the last 64 years grows in contemporary industrial capacity with wide pallets of products. Production program consists of the variety of pharmacy, chemistry and cosmetics products, as well as paints and polishes for the construction and wood processing industry.

The shares of the Alkaloid AD – Skopje are not listed on the first market of the Macedonian Stock Exchange, but are publicly traded on the third (unofficial) market.

Employees

As of 31 December 2001 Alkaloid AD – Skopje employed 1,420 people (31 December 2000 1,625).

Directors

The names of the Directors of Alkaloid AD – Skopje serving during the financial year and to the date of this report are as follows:

General Manager
Trajče Mukaetov

Financial Manager
Cvetanka Simonovska

CONSOLIDATED INCOME STATEMENT

<i>(all amounts in thousands of MK Denars)</i>	Notes	Year ended 31 December	
		2001	2000
Sales	1	3,431,410	3,421,594
Cost of sales		(2,508,479)	(2,685,255)
Gross profit		922,931	736,339
Other operating income		153,554	305,016
Distribution costs		(281,598)	(232,545)
Administrative expenses		(301,091)	(294,001)
Other operating expenses		(215,542)	(76,919)
Operating profit	2	278,254	437,890
Finance (expenses) income	4	(52,440)	(83,141)
Profit before tax		225,814	354,749
Tax	5	(29,833)	(61,692)
Net profit		195,981	293,057
Minority interest	20	(561)	(532)
Group profit		195,420	292,525

CONSOLIDATED BALANCE SHEET

<i>(all amounts in thousands of Denars)</i>	Notes	Year ended 31 December	
		2001	2000
ASSETS			
Non-current assets			
Property, plant and equipment	7	3,267,308	2,804,190
Advances for investments		12,004	-
Available-for-sale Investments	8	11,773	11,385
Other long term receivables		17,418	17,452
		3,308,503	2,833,027
Current assets			
Inventories	9	910,111	992,174
Payments in advance	10	13,558	62,215
Trade receivables	11	761,568	713,350
Other current assets	12	112,692	43,342
Cash and cash equivalents	13	409,775	354,715
		2,207,704	2,165,796
TOTAL ASSETS		5,516,207	4,998,823
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital		1,675,470	1,664,178
Special reserve		128,225	-
Legal and Revaluation reserves		1,042,183	986,310
Retained earnings		1,268,617	1,313,061
Translation differences		26,002	21,882
		4,140,497	3,985,431
Minority interest	20	1,093	532
Long term liabilities			
Long term borrowings		490,812	510,689
Other long term liabilities		80,839	82,411
	14	571,651	593,100
Current liabilities			
Trade payables	15	318,586	276,563
Customer prepayments	16	23,217	20,097
Short term borrowings	17	379,457	-
Other current liabilities	18	60,375	123,100
Current portion of long term borrowings		21,331	-
		802,966	419,760
Total liabilities		1,374,617	1,012,860
TOTAL EQUITY AND LIABILITIES		5,516,207	4,998,823

On 22 March 2002 the Board of Directors authorised these draft financial statement for issue.

Trajče Mukaetov
General Manager

Cvetanka Simonovska
Financial Manager

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<i>(all amounts in thousands of Denars)</i>	Share capital	Special reserves	Treasury shares	Legal and Revaluation reserves	Retained earnings	TOTAL
Balance at 1 January 2000	1,675,470	-	-	890,242	1,262,267	3,827,979
<i>(consolidated)</i>						
Consolidation adjustments	(4,874)	-	-	11,404	(8,454)	(1,924)
Dividends	-	-	-	-	(148,613)	(148,613)
Legal reserves	-	-	-	84,664	(84,664)	-
Treasury shares	(6,418)	-	-	-	-	(6,418)
Net income for 2000	-	-	-	-	292,525	292,525
Translation differences	-	-	-	-	21,882	21,882
Balance at 31 December 2000	1,664,178	-	-	986,310	1,334,943	3,985,431
<i>(consolidated)</i>						
Transfer	11,292	62,623	(11,292)	(62,623)	-	-
Dividends	-	-	-	-	(136,540)	(136,540)
Reserves	-	67,592	-	35,980	(103,324)	248
Treasury shares	-	-	(160)	-	-	(160)
Sale of treasury shares	-	(1,990)	11,452	-	-	9,462
Revaluation reserve adjustment	-	-	-	82,516	-	82,516
Net income for 2001	-	-	-	-	195,420	195,420
Translation differences	-	-	-	-	4,120	4,120
Balance at 31 December 2001	1,675,470	128,225	-	1,042,183	1,294,619	4,140,497

Share capital comprises 1,301,230 shares at a nominal value of Den. 1,675,470.

CONSOLIDATED CASH FLOW STATEMENT

<i>(all amounts in thousands of Denars)</i>	Year ended 31 December	
	2001	2000
CASH FLOW FROM OPERATING ACTIVITIES		
Cash receipts from customers	2,826,217	2,986,431
Cash paid to suppliers and employees	(2,300,084)	(2,927,234)
Cash generated from operations	526,133	59,197
Interest received	3,243	1,591
Interest paid	(46,360)	(27,212)
Income taxes paid	87,281	45,298
Payment in advance / Advances received	(3,912)	-
Other current liabilities	(4,750)	-
Payments to /proceeds from insurance company	6,396	(22,189)
NET CASH FROM OPERATING ACTIVITIES	568,031	56,685
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(583,642)	(157,489)
Sale of fixed assets	256	126
Dividends received	9	767
NET CASH USED IN INVESTING ACTIVITIES	(583,377)	(156,596)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from / payment of short-term borrowings	207,108	1,561
Proceeds from / payment of long-term borrowings	-	476,307
Acquisition of treasury shares	(159)	(6,418)
Dividends paid	(136,602)	(146,824)
NET CASH FROM FINANCING ACTIVITIES	70,347	324,626
NET INCREASE IN CASH	55,001	224,715
Translation difference	59	2,278
NET INCREASE / DECREASE / IN CASH	55,060	226,993
Movements in the cash and cash equivalents		
At the beginning of the year	354,715	75,823
Consolidation adjustments	-	51,899
Net increase in cash	55,060	226,993
At the end of the year	409,775	354,715

Non-monetary transactions, which participate with approximately 25 % of total inflow and outflow during the year, are excluded from the Consolidated cash flow statement.

ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of this consolidated financial statements are set out below:

1 Basis of preparation

The Consolidated financial statements are prepared in accordance with and comply with International Accounting Standards. The Consolidated financial statements are prepared under the historical cost convention.

In 2001 the Company adopted IAS 39-Financial Instruments: Recognition and Measurement. The Company does not hold derivatives; thus the adoption of IAS 39 had no effect.

Consolidated financial statements are presented in thousands of Denars.

2 Consolidation

Subsidiary undertakings, which are those companies in which the Group directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, have been consolidated. All intercompany transactions, balances and unrealised surpluses and deficits on transactions have been eliminated. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

The list of the subsidiaries are presented in Note 8 of the consolidated financial statements

3 Foreign currencies

Transactions denominated in foreign currencies are recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction. Outstanding foreign currency monetary items at the balance sheet date are reported at the closing rate. Exchange differences arising on the settlement of monetary items at rates different from those at which they were initially recorded in the period, are recognised as income or expenses for the period in which they arise.

Exchange differences arising from the re-translation of the financial statements of the foreign subsidiary are taken to shareholders equity.

The exchange rate for the currencies used for preparation of financial statements of the subsidiaries are stated below:

Foreign currency	2001	
	Closing rate	Average rate
1 Croatian Kuna (HRK)	8.2838	8.1836
1 Slovenian Tolar (SIT)	0.2753	0.2814
1 Swiss Frank (CHF)	41.1093	40.4647
1 Yugoslavian Dinar (YUD)	0.9794	0.9723
1 Bosnian Konvertible Mark (KM)	31.1688	31.1248
1 Bulgarian Lev (BLV)	31.1688	31.1248
1 Albanian Lek (AL)	0.5160	0.4844

4 Investments available for sale

In 2001 the Company adopted IAS 39 and classified its investments into the category available for sale investments. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available for sale and classified in non-current assets.

The available for sale investments comprise amounts invested in share capital in banks. The Company earns dividend on these investments.

The available for sale investments is carried at fair value.

5 Property, plant and equipment

Property, plant and equipment are recorded at cost. Cost represents the prices by suppliers together with all costs incurred in bringing new property, plant and equipment into use.

Alkaloid AD – Skopje has revalued its property, plant and equipment in 1999 and before, using official revaluation coefficients based on the general manufactured goods price increase index. Such coefficients have been applied to historical cost or later valuation and to accumulated depreciation. The effect of the revaluation of property, plant and equipment has been credited to the revaluation reserve.

Because the coefficients used are not closely correlated to the market values of the particular assets, but merely inflation adjusted, they are inappropriate basis for revaluation of property, plant and equipment according to IAS 16.

Land is stated in the balance sheet at an estimated market value.

The interest on long term borrowings is capitalised in full.

Items of property, plant and equipment that are retired or otherwise disposed off are eliminated from the balance sheet, along with the corresponding accumulated depreciation. Any gain or loss resulting from such retirement or disposal is recorded as gain or loss to the profit and loss account.

Depreciation of property, plant and equipment is designed to write off the cost or valuation of property, plant and equipment, on the straight line basis over their estimated useful lives. The principal depreciation rates in use are :

Buildings	1 - 10%
Equipment	5 - 20%

Land is not depreciated as it is deemed to have an infinite life.

6 Inventories

Inventories are stated at the lower cost and net realisable value. Cost is calculated on standard cost basis, corrected for the variances incurred during the accounting period. Cost of work in progress, semi-finished products and finished goods includes all direct production cost and production overheads.

Provisions, which are charged to other expenses, are made where appropriate to reduce the value of inventories to net releasable value.

Tools and consumable stores are written-off 100% when consumed.

7 Trade receivables

Trade receivables are carried at anticipated realisable value. According to the management estimation, provision on bad debts has been made in the year in which they are identified.

8 Employee benefits

The Company, in the normal course of business, makes payments on behalf of its employees for pensions, health care, employment and personnel tax which are calculated according to the statutory rates in force during the year, based on gross salaries and wages. Food allowances, travel expenses and holiday allowances are also calculated according to the local legislation. The Company makes these contributions to the Government's health and retirement funds. The cost of these payments is charged to the income statement in the same period as the related salary cost.

The Company does not operate any other pension scheme or post retirement benefits plan and consequently, has no obligation in respect of pensions. In addition, the Company is not obligated to provide further benefits to current and former employees.

9 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, giro account and bank balances.

10 Share capital

The share capital is consisting of ordinary and preference shares.

Dividends on ordinary shares are recognised in equity in the period in which they are declared.

The purchase of own shares is disclosed as a decreasing of share capital.

11 Borrowings

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised costs.

12 Revenue recognition

Sales are recognised upon delivery of products and customer acceptance, net of sales taxes and discounts.

Other revenues earned by the Company are recognised on the following bases:

Interest income – as it accrues unless collectibility is in doubt;

Dividend income – when the shareholder's right to receive payment is established.

Financial risk management

The Company's activities expose it to a variety of financial risks. The company's risk management approach is focused on unpredictability of the financial market and seeks to minimise potential adverse effects. Risk management is carried out under policies approved by the Board of Directors.

1) Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from local currency exposure to various major foreign currencies. To reduce this exposure the Company has policy to maintain sufficient cash on foreign currency bank account to meet its current trade payables in foreign currency.

2) Credit risk

Trade receivables consist of large number of balances. The Company's credit risk management include reducing as much as reasonable concentration of the client's portfolio. Also, the Company has policy that sales of products are made to customers with appropriate credit history.

3) Fair value estimation

The fair value of publicly available-for-sale investments is based on quoted market price at the balance sheet date and annual movements of the equity prices on the Macedonian Stock Exchange, as well as the local macro economic trends and political stability in the country. For valuation of unquoted equity investments purposes the reference to current market price of another security has been applied.

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*(In the Notes all amounts are shown in Denars thousands)***1 Analysis of sales**

	2001	2000
Sale on domestic market	2,365,416	2,983,861
Sale on foreign market	1,060,832	434,402
Other	5,162	3,331
Total	3,431,410	3,421,594

2 Operating profit

	2001	2000
Materials	1,078,117	1,123,248
Energy	77,316	71,683
Transport costs	64,281	64,698
Depreciation (Note 7)	90,547	85,611
Employee costs (Note 3)	731,008	818,769
Changes in Work in progress and finished goods	30,099	49,164
Provision of inventories (Note 9)	18,831	16,681
Provision for bad and doubtful debts	112,992	44,208
Other expenses	1,040,539	1,014,658
Collected written off receivables	(108,772)	(90,273)
Other incomes	(50,166)	(214,743)
Tax on financial transactions	68,364	-
Total	3,153,156	2,983,704

3 Staff costs

	2001	2000
Gross wages and salaries	731,008	818,769
	731,008	818,769
Average monthly number of persons employed by the company during the year	1,420	1,625

4 Finance costs

	2001	2000
Interest income	838	8,372
Dividend income	1,143	767
Other	278	934
	2,259	10,073
Net foreign exchange transaction gains/(losses)	11,276	(67,964)
Interest expense	(64,940)	(24,277)
Other	(1,035)	(973)
Total	(52,440)	(83,141)

5 Income tax and contributions

	2001	2000
Profit before tax	225,814	354,749
Calculated turnover tax	36,832	34,979
Contribution for health	-	1,245
Income not subject to tax	(16,889)	(18,501)
Expenses not deductible for tax purposes	30,136	27,864
Reduction of the tax base	(12,520)	-
Tax assets	(8,236)	-
Effect of different tax rates in other countries	510	16,105
Tax charge	29,833	61,692

6 Dividend per share

These financial statements do not reflect the dividend payable, which will be accounted in shareholders' equity after the acceptance on the Annual General Shareholders' Assembly in 2002.

7 Property, plant & equipment

<i>(all amounts in thousands of Denars)</i>	Land and buildings	Equipment	Construction in progress	Intangibles	Total
2000 (consolidated)					
Cost or valuation					
At 1 January 2000	2,415,185	692,137	582,375	313	3,690,010
Opening balance adjustments	-	(10,762)	-	10,762	-
Consolidated adjustments	21,403	14,603	-	1,108	37,114
Additions in the year	-	1,987	189,829	65,269	257,085
Transfer from construction in progress	81,582	71,525	(153,107)	-	-
Disposal in the year	(1,624)	(3,271)	-	-	(4,895)
Translation differences	(5,380)	(2,810)	-	43	(8,147)
At 31 December 2000	2,511,166	763,409	619,097	77,495	3,971,167
Depreciation					
At 1 January 2000	588,580	488,174	-	196	1,076,950
Consolidation adjustments	1,818	8,092	-	78	9,988
Charge for the year	31,656	53,628	-	327	85,611
Disposal in the year	(1,258)	(2,741)	-	-	(3,999)
Translation differences	(226)	(1,360)	-	13	(1,573)
At 31 December 2000	620,570	545,793	-	614	1,166,977
Net book value at 31 December 2000	1,890,596	217,616	619,097	76,881	2,804,190
2001 (consolidated)					
Cost or valuation					
At 1 January 2001	2,511,166	763,409	619,097	77,495	3,971,167
Opening balance adjustments	-	-	(42,867)	-	(42,867)
Consolidated adjustments	1,428	753	-	14	2,195
Additions in the year	-	687	669,374	12,666	682,727
Transfer from construction in progress	333,107	27,851	(370,441)	9,483	-
Transfer to cost	-	-	-	(87,431)	(87,431)
Disposal in the year	(649)	(1,454)	-	(248)	(2,351)
At 31 December 2001	2,845,052	791,246	875,163	11,979	4,523,440
Depreciation					
At 1 January 2001	620,570	545,793	-	614	1,166,977
Consolidation adjustments	122	513	-	(162)	473
Charge for the year	38,127	50,308	-	2,112	90,547
Disposal in the year	(406)	(1,438)	-	(21)	(1,865)
At 31 December 2001	658,413	595,176	-	2,543	1,256,132
Net book value at 31 December 2001	2,186,639	196,070	875,163	9,436	3,267,308

7 Property, plant & equipment (continue)

According the long-term agreement with EBRD and IFC the company has pledged as the loan securities part of the new drug factory, part of the administration buildings and land, in total amount of Den. 1,062,785,000.

8 Investments available for sale

	2001	2000
Other financial investments	9,723	9,335
Other investments	2,050	2,050
Total	11,773	11,385

Investments are stated at revalued value.

Investment in subsidiaries	% of ownership	2001	2000
Alkaloidfarm, Switzerland	100	5,361	5,204
Alkaloid, Bulgaria	100	899	155
Albalkaloid, Albania	51	235	222
Alkaloid, Slovenia	100	462	483
Alkaloid, Croatia	100	29,551	28,688
Alkaloid, Yugoslavia	100	1,552	1,538
Alkaloid, Bosnia i Herzegovina	100	56	55
Total		38,116	36,345

No acquiring or disposal of the subsidiary is identified during 2001.

The representative office in Moscow is included in the operations of Alkaloidfarm, Switzerland.

9 Inventories

	2001	2000
Raw materials	426,838	563,261
Spare parts	11,104	12,098
Tools and consumable stores	20,974	19,317
Work in progress	43,168	74,025
Finished goods	395,321	334,365
Commodities	31,537	5,796
Less: Provision	(18,831)	(16,688)
Total	910,111	992,174

9 Inventories (continue)

Provision on inventories relates to:

	2001	2000
Provision on tools and consumable stores	18,831	16,688
Total	18,831	16,688

10 Payments in advance

	2001	2000
Payments in advance to suppliers	13,558	62,215
Total	13,558	62,215

Payments in advance are made for purchasing of raw materials.

11 Trade receivables

	2001	2000
Domestic customers	694,498	622,831
Foreign customers	426,124	604,359
Less: Provision	(359,054)	(513,840)
Total	761,568	713,350

12 Other current assets

	2001	2000
Receivables from employees	12,046	5,582
Prepaid expenses	19,867	1,785
Receivables for prepaid tax	76,889	33,021
Other current assets	3,890	2,954
Total	112,692	43,342

The company as a result of the large import of the raw material has prepayments for VAT. The Inland Revenue office has returned the prepayment in the beginning of 2002.

13 Cash and bank balances

	2001	2000
Giro account	310,069	84,583
Bank accounts	94,828	260,890
Letters of credit	(11)	9
Cash in hand-in foreign currencies	542	5,264
Cash in hand-in local currencies	4,344	969
Other	3	3,000
Total	409,775	354,715

14 Long term liabilities

	2001	2000
Long term borrowings	490,812	510,689
Collective consumption liabilities for housing	32,737	32,760
Collective consumption liabilities for other purposes	47,429	48,978
Other	673	673
Total	571,651	593,100

Long term borrowings

	Due date	Interest rate	2001	2000
EBRD	2002	Variable	256,036	255,309
IFC	2002	Libor (6 months)	256,036	255,309
Other			71	71
			512,143	510,689
Less: Current portion of long term borrowings			(21,331)	-
			490,812	510,689

Alkaloid AD – Skopje entered into long-term agreement with EBRD in total amount of EUR 8,700,000, available in two tranches, Transhe 1 in amount of EUR 4,900,000 and Transhe 2 in amount of EUR 3,800,000.

Alkaloid AD – Skopje entered into long-term agreement with IFC in total amount of EUR 8,700,000, available in two tranches, Transhe 1 in amount of EUR 4,900,000 and Transhe 2 in amount of EUR 3,800,000.

15 Trade payables	2001	2000
Domestic suppliers	164,613	102,019
Foreign suppliers	141,427	165,958
Uninvoiced suppliers (goods in transit)	7,455	8,329
Commission sale	5,091	257
Total	318,586	276,563

16 Customer prepayments	2001	2000
Prepayments from domestic customers	20,493	19,143
Prepayments from foreign customers	2,724	954
Total	23,217	20,097

17 Short-term loans	2001	2000
Stopanska banka-Bitola	65,000	-
Makroprom	44,000	-
Invest Banka AD Skopje	40,000	-
Other	230,457	-
Total	379,457	-

18 Other current liabilities	2001	2000
Liabilities to the employees for salaries and wages	30,491	42,670
Dividends payable	8,827	9,352
Accrued expenses	13,449	9,151
Taxes	4,340	16,820
Interest	830	23,493
Other	2,438	21,614
Total	60,375	123,100

19 Shares

The shareholder structure are:

Owners structure	Type of Share	2001			2000		
		No. shares	Value in DEM	%	No. shares	Value in DEM	%
Shareholders	Ordinary	1,209,550	60,477,500	92.95	1,209,550	60,477,500	92.95
Pension fond	Preference	88,452	4,422,600	6.80	88,452	4,422,600	6.80
Ex-owner	Preference	3,228	161,400	0.25	3,228	161,400	0.25
Total		1,301,230	65,061,500	100.00	1,301,230	65,061,500	100.00

The total number of authorised and issued shares is 1,301,230 with nominal value of DEM 50 per share. The issued shares are fully paid.

During the 2001, the Company, on the third market of Macedonian Stock Exchange, has re-acquired 80 own shares for Den. 160,000. The total number of treasury shares as at 31 December 2001 are 4,731, in amount of Den. 11,452,000.

On the 18th of October 2001, the Company has sold 4,371 shares, on the third market of Macedonian Stock Exchange, in amount of Den. 9,462,000.

20 Minority interest

	2001	2000
At 1 January 2001	532	-
Appropriation of net profit	561	532
Total	1,093	532



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REPORT OF THE AUDITORS

To the Shareholders and Board of Directors of Alkaloid Group

1. We have audited the accompanying balance sheet of Alkaloid Group as of 31 December 2001, and the related income and cash flow statements for the year then ended. These financial statements set out on pages 3 to 18 are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

3. In our opinion, the financial statements present fairly, in all material respects, the financial position of Alkaloid Group as at 31 December 2001, and of the results of its operations and cash flows for the year that ended in accordance with International Accounting Standards.

4. Without further qualifying our opinion we draw your attention to Note 5 to the Accounting policies. Alkaloid AD – Skopje has history of revaluation of its property, plant and equipment and association accumulated depreciation, by applying the official revaluation coefficient, based on changes in the general manufactured goods price index, in accordance with local regulations. As a result of such revaluations made in the past, the opening balances for the reporting period include revaluation in the historical cost or valuation of these assets and related accumulated depreciation. Because the coefficients used are not closely correlated to the market values of the particular assets, but merely inflation adjusted, they are inappropriate basis for revaluation of property, plant and equipment

PricewaterhouseCoopers
Skopje
22 March 2002

Audited Financial statements of ALKALOID AD for years 2001, 2000 and 1999**INCOME STATEMENT**

<i>(all amounts in thousands of Denars)</i>	Notes	Year ended 31 December		
		2001	2000	1999
Sales	1	3,214,605	3,320,217	3,000,538
Cost of sales		(2,368,700)	(2,685,071)	(2,257,959)
Gross profit		845,905	635,146	742,579
Other operating income		128,523	97,336	317,733
Distribution costs		(191,532)	(202,848)	(240,227)
Administrative expenses		(275,104)	(228,218)	(306,514)
Other operating expenses		(207,365)	(67,293)	(246,826)
Operating profit	2	300,427	234,123	266,745
Finance (expenses) income	4	(54,882)	(931)	5,618
Profit before tax		245,545	233,192	272,363
Tax	5	(29,323)	(45,587)	(31,744)
Net profit		216,222	187,605	240,619

BALANCE SHEET

<i>(all amounts in thousands of Denars)</i>	Notes	Year ended 31 December		
		2001	2000	1999
ASSETS				
Non-current assets				
Property, plant and equipment	7	3,247,752	2,784,407	2,613,060
Advances for investments		23,889	118,548	-
Investments available for sale	8	9,723	9,335	14,065
Other long term investments	9	40,166	38,395	44,430
Other long term receivables		17,418	17,452	17,616
		3,338,948	2,968,137	2,689,171
Current assets				
Inventories	10	829,392	917,920	841,682
Payments in advance	11	11,542	23,385	45,282
Trade receivables	12	878,930	847,585	809,153
Other current assets	13	102,239	27,551	49,190
Cash and cash equivalents	14	195,781	273,528	75,823
		2,017,884	2,089,969	1,821,130
TOTAL ASSETS		5,356,832	5,058,106	4,510,301
EQUITY AND LIABILITIES				
Capital and reserves				
Share capital		1,675,470	1,664,178	1,675,470
Special reserves		128,225	-	-
Legal and revaluation reserve		1,030,266	974,393	890,242
Retained earnings		1,192,953	1,216,595	1,262,267
Translation differences		(5,646)	(6,492)	-
		4,021,268	3,848,674	3,827,979
Long term liabilities				
Long term borrowings	15	490,812	510,689	71
Other long term liabilities		80,839	82,411	81,717
		571,651	593,100	81,788
Current liabilities				
Trade payables	16	505,277	480,629	426,706
Customer prepayments	17	35,263	35,356	48,190
Short term borrowings	18	149,000	-	28,820
Current portion of long term borrowings	15	21,331	-	-
Other current liabilities	19	53,042	100,347	96,818
		763,913	616,332	600,534
Total liabilities		1,335,564	1,209,432	682,322
TOTAL EQUITY AND LIABILITIES		5,356,832	5,085,106	4,510,301

On 22 March 2002 the Board of Directors authorised these financial statement for issue.

Trajče Mukaetov
General Manager

Cvetanka Simonovska
Financial Manager

9. Financial Statements of ALKALOID AD for the period January - June 2002

All Financial Statements in the Republic of Macedonia (Income Statement and Balance Sheet) are prepared according to the Macedonian Law on Accounting, which in some aspects differs from the International Accounting Standards.

The Annual Balance Sheets, according to Article 556 from the Law on Commercial Companies (Official Gazette of the Republic of Macedonia No 28/96), are audited by authorised auditors according to the International Accounting Standards.

The Shareholders Assembly upon proposal by the Management Board approves the net profit allocation pursuant to the Macedonian Accounting Standards.

NON-AUDITED BALANCE* SHEET OF REVENUES AND EXPENDITURES OF ALKALOID AD FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2002

<i>(in thousand of Denars)</i>	<i>(for the period 1 January - 30 June 2002)</i>
Sales	1,591,074
Cost of sales	(1,082,573)
Gross profit	508,501
General and administrative expenses	354,400
Operating profit	154,101
Other incomes	95,259
Interest receivable	650
Exchange gain	19,896
Other	74,713
Other expenses	(81,406)
Interest payable	(32,028)
Loss on exchange	(29,444)
Other	(19,934)
Profit before tax	167,954
Tax	19,787
Net Profit	148,167

* The Balance is reclassified according to the International Accounting Standards

10. Additional Information

The assessment of the Joint Stock Company ALKALOID AD – Skopje at the Macedonian Stock Exchange of Long-term Securities was approved by the Management Board of the Company, at the session held on 7 October 2002 in the Company's premises. In regard with the quotation, copies of the following documents may be obtained:

- Prospectus
- Statute of ALKALOID AD
- Management Board Manual
- Supervisory Board Manual
- Collective Agreement
- Excerpt from the Court Registry
- Communications form auditors, legal representative

The documents can be accessed to in the facilities of ALKALOID AD at Boulevard Aleksandar Makedonski No. 12 in Skopje, every working day from 11:30 AM to 01:30 PM.

All documents (approvals, authorisations and consents) can be accessed at the premises of the Company, the stockbroker and the Macedonian Stock Exchange, pursuant to the legal and stock exchange regulations of the Republic of Macedonia.

11. Participants in the Quotation

ALKALOID AD

Boulevard Aleksandar Makedonski No. 12
1000 Skopje, Republic of Macedonia

Auditor

PricewaterhouseCoopers
12 Marshal Tito Street
Palata Makedonija, IV Floor
1000 Skopje, Republic of Macedonia

Depository

Central Securities Depository JSC Skopje
1 Kuzman Josifovski Pitu Street
1000 Skopje, Republic of Macedonia

Stockbroker

Makos-Investbroker AD Skopje
20 Mito Hadživasilev-Jasmin Street, II Floor
1000 Skopje, Republic of Macedonia

Depository Bank

Komercijalna Banka AD - Skopje
Kej Dimitar Vlahov 4
1000 Skopje, Republic of Macedonia



ALKALOID GROUP

**CONSOLIDATED FINANCIAL
STATEMENTS PREPARED IN ACCORDANCE
WITH INTERNATIONAL FINANCIAL
REPORTING STANDARDS**

31 DECEMBER 2002

WITH THE REPORT OF THE AUDITORS THEREON

GENERAL

Alkaloid A.D.– Skopje was established in 1936 and in the past years grows in contemporary industrial capacity with wide pallets of products. Production program consists of the variety of pharmacy, chemistry and cosmetics products, as well as paints and polishes for the construction and wood processing industry.

The Alkaloid Group, consist of 8 (eight) subsidiaries, in different countries. The names of the subsidiaries are stated in Note 11, from the Notes to the financial statements.

Alkaloid AD – Skopje, the parent company is the joint stock company, established and with head office in Republic of Macedonia.

The registered address of the company is:

*Aleksandar Makedonski 12
1000 Skopje,
Republic of Macedonia*

Commencing the 2002, the shares of the Alkaloid AD – Skopje became listed on the Macedonian Stock Exchange, above their par value.

During 2002, the part of capital investment project called “Penetration on the world market”, has been completed consist of:

- ? Warehouse for raw materials and packing materials (April 2002)
- ? Semi synthetics antibiotics production plant (May 2002)
- ? Solid pharmaceutical forms production plant (May 2002)

The completions of construction part of new plant for production of dragee forms are in process. The finalisation is planned during 2003.

The design of the buildings is in accordance with the principles and regulations of Good manufacturing practice (GMP) standards.

As of 31 December 2002 Alkaloid Group employed 1,378 people (31 December 2001 1,420).

The names of the Directors of Alkaloid Group serving during the financial year and to the date of this report are as follows:

General Manager	Trajce Mukaetov
Director of PC OE	Dimitar Pejcinovski
Director of PC OE	Cvetanka Simonovska

CONSOLIDATED INCOME STATEMENT

<i>(all amounts in thousands of Denars)</i>	Notes	Year ended 31 December	
		2002	2001
Sales	2	3,182,848	3,431,410
Cost of sales		(2,192,386)	(2,508,479)
Gross profit		990,462	922,931
Other operating income		249,190	153,554
Administrative and distribution costs		(679,656)	(582,689)
Other operating expenses		(204,842)	(215,542)
Operating profit	3	355,154	278,254
Finance (expenses) income	5	(91,040)	(52,440)
Profit before tax		264,114	225,814
Income Tax	6	(43,312)	(29,833)
Net profit		220,802	195,981
Minority interest	24	(455)	(561)
Group profit		220,347	195,420
Earnings per share			
? Basic (<i>in Denars</i>)	7	169.34	122.53
? Diluted (<i>in Denars</i>)	7	157.03	125.89

CONSOLIDATED BALANCE SHEET

<i>(all amounts in thousands of Denars)</i>	Notes	As at 31 December	
		2002	2001
ASSETS			
Non-current assets			
Property, plant and equipment	9	3,285,109	3,257,872
Intangible assets	10	6,141	9,436
Advances for investments		9,319	12,004
Available -for- sale Investments	11	11,893	11,773
Other long term receivables		15,027	17,418
Deferred tax assets	18	1,585	-
		3,329,074	3,308,503
Current assets			
Inventories	12	933,331	910,111
Payments in advance	13	18,523	13,558
Trade receivables	14	860,099	761,568
Other current assets	15	54,683	112,692
Cash and cash equivalents	16	360,765	409,775
		2,227,401	2,207,704
TOTAL ASSETS		5,556,475	5,516,207
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital		1,675,470	1,675,470
Legal reserves		190,872	156,183
Other reserves		1,154,742	1,095,064
Retained earnings		1,327,908	1,294,619
		4,348,992	4,221,336
Minority interest	24	834	1,093
Long term liabilities			
Long term borrowings	17	485,628	469,400
Deferred tax liabilities	18	9,440	-
Other long-term liabilities		71	71
		495,139	469,471
Current liabilities			
Trade payables	19	439,737	318,586
Customer prepayments	20	11,561	23,217
Short term borrowings	21	48,000	379,457
Other current liabilities	22	142,097	60,375
Current portion of long term borrowings	17	70,115	42,672
		711,510	824,307
Total liabilities		1,206,649	1,293,778
TOTAL EQUITY AND LIABILITIES		5,556,475	5,516,207

Trajce Mukaetov
General Manager

Cvetanka Simonovska
Director of PC OE

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<i>(all amounts in thousands of Denars)</i>	Share capital	Legal reserves	Other reserves	Retained earnings	TOTAL
At 1 January 2001	1,664,178	120,203	948,518	1,334,943	4,067,842
Dividends	-	-	-	(136,540)	(136,540)
Reserves	-	35,980	67,592	(103,324)	248
Treasury shares	(160)	-	-	-	(160)
Sale of treasury shares	11,452	-	(1,990)	-	9,462
Revaluation reserve adjustment	-	-	82,516	-	82,516
Decrease of other reserves	-	-	(1,572)	-	(1,572)
Net income for 2001	-	-	-	195,420	195,420
Translation differences	-	-	-	4,120	4,120
At 31 December 2001	1,675,470	156,183	1,095,064	1,294,619	4,221,336
Presentation adjustments	-	-	(82,404)	82,515	111
Dividends	-	-	-	(85,840)	(85,840)
Reserves	-	34,748	143,672	(178,420)	-
Net income for 2002	-	-	-	220,347	220,347
Decrease of other reserves	-	-	(1,590)	-	(1,590)
Appropriation of loss from prior years	-	(59)	-	(40)	(99)
Translation differences	-	-	-	(5,273)	(5,273)
At 31 December 2002	1,675,470	190,872	1,154,742	1,327,908	4,348,992

CONSOLIDATED CASH FLOW STATEMENT

<i>(all amounts in thousands of Denars)</i>	Year ended 31 December	
	2002	2001
CASH FLOW FROM OPERATING ACTIVITIES		
Cash receipts from customers	2,424,254	2,826,217
Cash paid to suppliers and employees	(2,060,298)	(2,300,084)
Cash generated from operations	363,956	526,133
Interest received	(12,903)	3,243
Income taxes paid	(26,774)	87,281
(Payment in advance) / Advances received (net)	(16,621)	(3,912)
Other current liabilities	-	(4,750)
(Payments to) /proceeds from insurance company	(24,131)	6,396
NET CASH FROM OPERATING ACTIVITIES	283,527	614,391
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(132,467)	(583,642)
Sale of fixed assets	5,958	256
Dividends received	1,695	9
NET CASH USED IN INVESTING ACTIVITIES	(124,814)	(583,377)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from / (payment) of short-term borrowings	(101,000)	207,108
Proceeds from long-term borrowings	43,671	-
Interest paid	(60,992)	(46,360)
Acquisition of treasury shares	-	(159)
Dividends paid	(89,402)	(136,602)
NET CASH USED IN FINANCING ACTIVITIES	(207,723)	23,987
NET INCREASE/ (DECREASE) IN CASH	(49,010)	55,001
Translation difference	-	59
NET INCREASE / (DECREASE) IN CASH	(49,010)	55,060
Movements in the cash and cash equivalents		
At the beginning of the year	409,775	354,715
Net increase in cash	(49,010)	55,060
At the end of the year	360,765	409,775

ACCOUNTING POLICIES

1	Basis of preparation	8
2	Consolidation	8
3	Foreign currency translation	8
4	Property, plant and equipment	9
5	Intangible assets	9
6	Impairment of long lived assets	10
7	Investments	10
8	Inventories	10
9	Trade receivables	11
10	Cash and cash equivalents	11
11	Share capital	11
12	Borrowings	11
13	Employee benefits	11
14	Income tax	11
15	Revenue recognition	12
16	Dividends	12
17	Segmental reporting	12
18	Comparatives	12

ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of this consolidated financial statements are set out below:

1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of property, plant & equipment and intangible assets and investments available for sale.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates.

The Group adopted IAS 39 Financial Instruments: Recognition and Measurement in 2001. The Company does not hold derivatives; thus the adoption of IAS 39 had no effect.

Commencing the 2002, as a result of the quotation on the Macedonian Stock Exchange, the Group adopted IAS 14 – Segmental Reporting and IAS 33 – Earnings per share. The financial effects of adopting these standards were reported in the previous year's consolidated financial statements.

Consolidated financial statements are presented in thousands of Denars.

2 Consolidation

Subsidiary undertakings, which are those companies in which the Group directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, have been consolidated.

All intercompany transactions, balances and unrealised surpluses and deficits on transactions have been eliminated. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

The list of the subsidiaries is presented in Note 11 of the consolidated financial statements.

3 Foreign currency translation

Transactions denominated in foreign currencies are recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction. Outstanding foreign currency monetary items at the balance sheet date are reported at the closing rate. Exchange differences arising on the settlement of monetary items at rates different from those at which they were initially recorded in the period, are recognised as income or expenses for the period in which they arise.

Exchange differences arising from the re-translation of the financial statements of the foreign subsidiary are taken to shareholders equity.

ACCOUNTING POLICIES (continued)

3 Foreign currency translation (continued)

The exchange rate for the currencies used for preparation of financial statements of the subsidiaries are stated below:

Foreign currency	2002		2001	
	Closing rate	Average rate	Closing rate	Average rate
1 Croatian Kuna (HRK)	8.2237	8.2538	8.2838	8.1836
1 Slovenian Tolar (SIT)	0.2653	0.2703	0.2753	0.2814
1 Swiss Frank (CHF)	41.9787	41.5440	41.1093	40.4647
1 Yugoslavian Dinar (YUD)	0.9928	0.9794	0.9794	0.9723
1 Bosnian Konvertible Mark (KM)	31.2249	31.1968	31.1688	31.1248
1 Bulgarian Lev (BLV)	31.2249	31.1968	31.1688	31.1248
1 Albanian Lek (AL)	0.4460	0.4810	0.5160	0.4844

4 Property, plant and equipment

Property, plant and equipment are recorded at cost less depreciation. Cost represents the invoiced amount together with all costs incurred in bringing new property, plant and equipment into use.

Land is stated in the balance sheet at an estimated market value.

Depreciation of property, plant and equipment is designed to write off the cost or valuation of property, plant and equipment, on the straight-line basis over their estimated useful lives. The principal depreciation rates in use are:

Buildings	1 - 10%
Equipment	5 - 20%

Land is not depreciated as it is deemed to have an infinite life.

Items of property, plant and equipment that are retired or otherwise disposed off are eliminated from the balance sheet, along with the corresponding accumulated depreciation. Any gain or loss resulting from such retirement or disposal is recorded as gain or loss to the profit and loss account.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

5 Intangible assets

Intangible assets consist of brands and they are recorded at cost less subsequent depreciation. Cost represents the invoiced amount together with all costs incurred in bringing new intangible assets.

ACCOUNTING POLICIES (continued)

5 Intangible assets (continued)

The intangible assets is capitalised and amortised using the straight-line method over their useful lives, but not exceeding 5 years.

6 Impairment of long lived assets

Property, plant and equipment and other non-current assets, including goodwill and intangible assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

7 Investments

In 2001 the Company adopted IAS 39 and classified its investments into the category available for sale investments. The Company's classification of its investments depends of their purposes and maturity.

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available for sale and classified in non-current assets. The available for sale investments comprise amounts invested in share capital in domestic enterprises and banks. The Company earns dividend on these investments.

Purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Trading and available-for-sale investments are subsequently carried at fair value.

The changes of value are included in income statement.

The fair values of investments are based on the last bid price of the share on the Macedonian Stock Exchange. Investments for which fair values cannot be measured reliably are recognised at cost or revalued value less impairment.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

8 Inventories

Inventories are stated at the lower cost and net realisable value. Cost is calculated on standard cost basis, corrected for the variances incurred during the accounting period. Cost of work in progress, semi-finished products and finished goods includes all direct production cost and production overheads.

Provisions, which are charged to other expenses, are made where appropriate to reduce the value of inventories to net releasable value.

Tools and consumable stores are written-off 100% when consumed.

ACCOUNTING POLICIES (continued)

9 Trade receivables

Trade receivables are carried at anticipated realisable value. According to the management estimation, provision on bad debts has been made in the year in which they are identified.

10 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, giro account and bank balances.

11 Share capital

The share capital is consisting of ordinary and preference shares.

Dividends on ordinary shares are recognised in equity in the period in which they are declared.

The purchase of own shares is disclosed as a decreasing of share capital.

12 Borrowings

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised costs.

The Group has issued convertible bonds, as a guaranty for long-term borrowings. The issued convertible bonds cannot be exchanged on the stock exchange market as securities, but can be converted into shares, only on request of the creditors, and in that case this conversion will be recognised and included in shareholders' equity.

13 Employee benefits

The Company, in the normal course of business, makes payments on behalf of its employees for pensions, health care, employment and personnel tax which are calculated according to the statutory rates in force during the year, based on gross salaries and wages. Food allowances, travel expenses and holiday allowances are also calculated according to the local legislation. The Company makes these contributions to the Government's health and retirement funds. The cost of these payments is charged to the income statement in the same period as the related salary cost.

The Company does not operate any other pension scheme or post retirement benefits plan and consequently, has no obligation in respect of pensions. In addition, the Company is not obligated to provide further benefits to current and former employees.

14 Income tax

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

ACCOUNTING POLICIES (continued)

14 Income tax (continue)

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

15 Revenue recognition

Revenue comprises the invoiced value for the sale of goods and services net of value-added tax, rebates and discounts, and after eliminating sales within the Group. Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer.

Other revenues earned by the Company are recognised on the following bases:

Interest income ? as it accrues unless collectibility is in doubt;

Dividend income ? when the shareholder's right to receive payment is established.

16 Dividends

Dividends are recorded in the Group's financial statements in the period in which they are approved by the Group's shareholders.

17 Segment reporting

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments.

18 Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

FINANCIAL RISK MANAGEMENT

Financial risk factors

The Group's activities expose it to a variety of financial risks. The Group's risk management approach is focused on unpredictability of the financial market and seeks to minimise potential adverse effects. Risk management is carried out under policies approved by the Board of Directors.

1) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from local currency exposure to various major foreign currencies. To reduce this exposure the Group has policy to maintain sufficient cash on foreign currency bank account to meet its current trade payables in foreign currency.

2) Credit risk

Trade receivables consist of large number of balances. The Group's credit risk management include reducing as much as reasonable concentration of the client's portfolio. Also, the Group has policy that sales of products are made to customers with appropriate credit history.

Fair value estimation

The fair value of publicly available -for-sale investments is based on quoted market price at the balance sheet date and annual movements of the equity prices on the Macedonian Stock Exchange, as well as the local macro economic trends and political stability in the country. For valuation of unquoted equity investments purposes the reference to current market price of another security has been applied.

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1	Segment information	15
2	Analysis of sales	16
3	Operating profit	17
4	Staff costs	17
5	Finance costs	17
6	Income tax	18
7	Earnings per share	18
8	Dividend per share	19
9	Property, plant and equipment	19
10	Intangible assets	20
11	Investments	20
12	Inventories	21
13	Payments in advance	21
14	Trade receivables	22
15	Other current receivables	22
16	Cash and cash equivalents	22
17	Long-term borrowings	23
18	Deferred taxes	24
19	Trade payables	24
20	Customer prepayments	24
21	Short-term borrowings	24
22	Other current liabilities	25
23	Shares	25
24	Minority interests	25
25	Related party transactions	26
26	Post balance sheet event	27

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In the Notes all amounts are shown in Denars thousands)

1 Segment information

Primary reporting format – business segments

31 December 2002	Pharmaceuticals	Chemicals & Cosmetics	Botanicals	Coatings	Group
Sales	1,962,597	594,481	250,308	375,462	3,182,848
Segment result	357,408	41,178	(36,605)	11,030	373,011
Unallocated costs					(17,857)
Profit from operations					355,154
Finance costs – net					(91,040)
Profit before tax					264,114
Income tax					(43,312)
Net profit					220,802
Segment assets	3,051,631	1,344,406	376,606	730,735	5,503,378
Unallocated assets					53,097
Total assets					5,556,475
Segment liabilities	(993,283)	(89,802)	(41,066)	(82,498)	(1,206,649)
Unallocated liabilities					-
Total liabilities					(1,206,649)
31 December 2001	Pharmaceuticals	Chemicals & Cosmetics	Botanicals	Coatings	Group
Sales	2,072,478	693,458	264,889	400,585	3,431,410
Segment result	248,513	75,950	(46,186)	35,342	313,619
Unallocated costs					(35,365)
Profit from operations					278,254
Finance costs – net					(52,440)
Profit before tax					225,814
Income tax					(29,833)
Net profit					195,981
Segment assets	2,819,073	1,340,308	360,105	710,391	5,229,877
Unallocated assets					286,330
Total assets					5,516,207
Segment liabilities	(1,056,573)	(104,207)	(33,403)	(57,544)	(1,251,727)
Unallocated liabilities					(42,051)
Total liabilities					(1,293,778)

1 Segment information (continued)

At 31 December 2002, the Company is organised on a worldwide basis into four main business segments:

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

Secondary reporting format – geographical segments

Although the Group's four business segments are managed on a worldwide basis, they operate in five main geographical areas.

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

The sales by the main geographical areas are as follows:

Sales

	<u>2002</u>	<u>2001</u>
Republic of Macedonia	1,809,298	1,889,597
Central and Eastern Europa	1,086,895	1,150,171
Russian Federation and other countries in CIS	141,616	195,730
Western Europa (EU and EFTA)	144,380	195,912
Other countries	659	-
	<u>3,182,848</u>	<u>3,431,410</u>

With the exception of Republic of Macedonia, no other individual country contributed more than 10% of consolidated sales.

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

2 Analysis of sales

	<u>2002</u>	<u>2001</u>
Sale on domestic market	1,804,751	1,884,435
Sale on foreign market	1,372,935	1,541,813
Other	5,162	5,162
	<u>3,182,848</u>	<u>3,431,410</u>

3 Operating profit

	<u>2002</u>	<u>2001</u>
Sales	3,182,848	3,431,410
Other operating income	249,190	153,554
Materials	(1,331,504)	(1,078,117)
Energy	(99,416)	(77,316)
Transport costs	(63,273)	(64,281)
Depreciation (Note 9)	(107,290)	(90,547)
Staff costs (Note 4)	(800,633)	(903,526)
Changes in Work in progress and finished goods	21,133	(30,099)
Provision for bad and doubtful debts	(10,566)	(112,992)
Other expenses	(625,800)	(881,468)
Tax on financial transactions	(59,535)	(68,364)
	3,076,884	3,306,710
	355,154	278,254

4 Staff costs

	<u>2002</u>	<u>2001</u>
Gross wages and salaries	623,321	731,008
Transport expenses	29,395	28,841
Food allowances	41,291	29,393
Holiday allowances	14,658	16,329
Severance payments	33,452	57,973
Costs for business trip	28,434	28,090
Other benefits	30,082	11,892
	800,633	903,526

5 Finance costs

	<u>2002</u>	<u>2001</u>
Interest income	12,903	838
Dividend income	8,784	1,143
Other	917	278
	22,604	2,259
Net foreign exchange transaction gains/(losses)	34,476	11,276
Interest expense	(60,623)	(64,940)
Other	(87,497)	(1,035)
	(148,120)	(65,975)
	(91,040)	(52,440)

6 Income tax	<u>2002</u>	<u>2001</u>
Current income tax	35,457	29,833
Deferred income tax (Note 18)	7,855	-
	<u>43,312</u>	<u>29,833</u>

The income tax differs from the amount that would arise using the base tax rate of the home country of the Company as follows:

Profit before tax	<u>264,114</u>	<u>225,814</u>
Tax calculated at a tax rate of 15%	39,617	36,832
Income not subject to tax	(9,577)	(16,889)
Expenses not deductible for tax purposes	21,130	30,136
Reduction of the tax base	(14,786)	(12,520)
Tax assets	(1,416)	(8,236)
Effect of different tax rates in other countries	489	510
Tax charge	<u>35,457</u>	<u>29,833</u>
Effective tax rate	<u>13.4%</u>	<u>13.2%</u>

7 Earnings per share

	<u>2002</u>	<u>2001</u>
Net profit attributable to shareholders	220,347	159,440
Weighted average number of shares	1,301,230	1,301,230
Basic earnings per share (in Denars)	<u>169.34</u>	<u>122.53</u>
Net profit attributable to shareholders	220,347	159,440
Interest expense on convertible debt	39,900	45,737
Net profit used to determine diluted earnings per share	<u>260,247</u>	<u>205,177</u>
Weighted average number of shares	1,301,230	1,301,230
Assumed conversion of convertible debt	<u>356,025</u>	<u>328,550</u>
Weighted average number of shares for diluted earnings per share	<u>1,657,255</u>	<u>1,629,780</u>
Diluted earnings per share (in Denars)	<u>157.03</u>	<u>125.89</u>

8 Dividend per share

At the Annual General Meeting during the 2002, a dividend in respect of 2001 of Den. 85,840,000 (Den.66 per share) was approved and paid. The dividend declared is disclosed in the equity as an appropriation of the retained earnings.

9 Property, plant & equipment

<i>(all amounts in thousands of Denars)</i>	Land and buildings	Equipment	Construction in progress	Total
<i>Cost or valuation</i>				
At 1 January 2002	2,845,052	791,246	875,163	4,511,461
Additions in the year	-	2,188	134,901	137,089
Transfer from construction in progress	327,463	409,156	(736,619)	-
Disposal in the year	(2,236)	(7,099)	-	(9,335)
At 31 December 2002	3,170,279	1,195,491	273,445	4,639,215
<i>Depreciation</i>				
At 1 January 2002	658,413	595,176	-	1,253,589
Charge for the year	41,282	66,008	-	107,290
Disposal in the year	(1,362)	(5,411)	-	(6,773)
At 31 December 2002	698,333	655,773	-	1,354,106
Net book value at 31 December 2002	2,471,946	539,718	273,445	3,285,109
Net book value at 31 December 2001	2,186,639	196,070	875,163	3,257,872

According to the long-term agreement with EBRD and IFC the company has pledged as the loan securities part of the new drug factory, part of the administration buildings and land, in total amount of Den. 1,062,785,000.

10 Intangible assets

Intangible assets consist of seals for registration of trademarks for medicaments, chemistry and cosmetics, botanicals and coatings.

	<u>2002</u>	<u>2001</u>
<i>Cost or valuation</i>		
At 1 January	11,979	77,495
Additions in the year	288	12,680
Transfer from construction in progress	-	9,483
Transfer to costs	-	(87,431)
Disposal in the year	(1,652)	(248)
	<u>10,615</u>	<u>11,979</u>
At 31 December 2002		
<i>Depreciation</i>		
At 1 January	2,543	614
Charge for the year	1,931	2,112
Disposal in the year	-	(183)
	<u>4,474</u>	<u>2,543</u>
At 31 December		
Net book value at 31 December	<u>6,141</u>	<u>9,436</u>

11 Investments

	<u>2002</u>	<u>2001</u>
Investments in banks	17,806	17,795
Investments in insurance company	1,116	1,116
Investments in enterprises	3,732	2,694
	<u>22,654</u>	<u>21,605</u>
Less: Provision	(10,761)	(9,832)
	<u>11,893</u>	<u>11,773</u>

The investments are carried at fair value.

<i>Investments in banks:</i>	<u>2002</u>	<u>2001</u>
Komercijalna banka A.D. - Skopje	14,758	14,752
Stopanska Banka - Skopje	2,550	2,550
Invest Banka	439	434
Other	59	59
	<u>17,806</u>	<u>17,795</u>
Less: Provision	(9,832)	(9,832)
	<u>7,974</u>	<u>7,963</u>

11 Investments (continued)

Investment in subsidiaries	%	2002	2001
Alkaloidfarm, Switzerland	100	5,474	5,361
Alkaloid, Bulgaria	100	901	899
Albakaloid, Albania	51	199	235
Alkaloid, Slovenia	100	557	462
Alkaloid, Croatia	100	29,441	29,551
Alkaloid, Serbia and Montenegro	100	2,132	1,552
Alkaloid, Bosnia and Herzegovina	100	56	56
Total		38,760	38,116

During the 2002 with Decision of Managing Board of the Company the investments of subsidiaries of Slovenia and Serbia and Montenegro are increased due to legislative requirements in respective countries. There are no investments in new Companies or sales of existing subsidiaries. The increases of other investments in subsidiaries results of exchange differences.

The representative office in Moscow is included in the operations of the Company.

12 Inventories

	2002	2001
Raw materials	425,559	426,838
Spare parts	12,644	11,104
Tools and consumable stores	21,562	20,974
Work in progress	58,761	43,168
Finished goods	427,258	395,321
Commodities	6,287	31,537
	952,071	928,942
Less: Provision	(18,740)	(18,831)
	933,331	910,111

Provision on inventories relates to:

	2002	2001
Provision on tools and consumable stores	18,740	18,831
	18,740	18,831

13 Payments in advance	2002	2001
Payments in advance for raw materials	18,523	13,558
	18,523	13,558
<p>Payments in advance to foreign suppliers are made for purchasing of raw materials.</p>		
14 Trade receivables	2002	2001
Domestic customers	650,584	694,498
Foreign customers	443,663	426,124
Less: Provision	(234,148)	(359,054)
	860,099	761,568
15 Other current assets	2002	2001
Receivables from employees	3,521	12,046
Prepaid expenses	7,369	19,867
Receivables for prepaid VAT	17,345	60,967
Receivables for prepaid Income tax	21,065	15,922
Other current assets	5,383	3,890
	54,683	112,692
16 Cash and bank balances	2002	2001
Bank accounts -in denars	22,788	100,440
Bank accounts-in foreign currency	330,525	304,457
Letters of credit in foreign currency	(4)	(11)
Cash in hand-in foreign currency	6,251	4,688
Cash in hand-in denars	236	198
Other	969	3
	360,765	409,775

17 Long term borrowings

Banks	Due date	Interest rate	2001	2000
EBRD	2002	Variable	277,872	256,036
IFC	2002	Libor (6 months)	277,871	256,036
			555,743	512,072
Less: Current portion of long term borrowings			(70,115)	(42,672)
			485,628	469,400

The Group entered into long-term agreement with EBRD in total amount of EUR 8,700,000, available in two tranches, Transhe 1 in amount of EUR 4,900,000 and Transhe 2 in amount of EUR 3,800,000.

The Group entered into long-term agreement with IFC in total amount of EUR 8,700,000, available in two tranches, Transhe 1 in amount of EUR 4,900,000 and Transhe 2 in amount of EUR 3,800,000.

As at 31 December 2002, the first tranche out of two loans is completely used.

The maturity of the long-term borrowings are as follows:

Banks	1 year	1-3 years	Over 3 years	Total
EBRD	37,979	174,214	65,679	277,872
IFC	32,136	180,056	65,679	277,871
	70,115	354,270	131,358	555,743

The Group has issued convertible bonds as guaranty for long-term borrowings named on the creditors. The details about the issued convertible bonds are presented below:

Banks	Number of issued bonds	Nominal value in EUR	Value in EUR
EBRD	164,209	25.57	4,199,981.59
IFC	164,209	25.57	4,199,981.59
	328,418	25.57	8,399,963.18

In accordance with the long-term agreements, the difference between the liability for long-term borrowings and the issued convertible bonds as at 31 December 2002, the Group has liability to issue additional convertible bonds in the total amount of approximately EUR 700,000.00 as guaranty for the creditors.

18 Deferred taxes

	<u>2002</u>	<u>2001</u>
Deferred tax asset	(1,585)	-
Deferred tax liability	9,440	-
	<u>7,855</u>	<u>-</u>
	<u>2002</u>	<u>2001</u>
At 1 January	-	-
Unrecognised provision	(1,585)	-
Temporary differences from customers	9,440	-
	<u>7,855</u>	<u>-</u>

The expected period for differed tax assets/liabilities to be recovered/settled is no longer than 12 months.

19 Trade payables

	<u>2002</u>	<u>2001</u>
Domestic suppliers	216,400	164,613
Foreign suppliers	202,614	141,427
Uninvoiced suppliers (goods in transit)	8,164	7,455
Commission sale	12,559	5,091
	<u>439,737</u>	<u>318,586</u>

20 Customer prepayments

	<u>2002</u>	<u>2001</u>
Prepayments from domestic customers	10,448	20,493
Prepayments from foreign customers	1,113	2,724
	<u>11,561</u>	<u>23,217</u>

21 Short-term borrowings

	<u>2002</u>	<u>2001</u>
Stopanska banka AD -Bitola	30,000	65,000
Komercijalna banka AD - Skopje	18,000	-
Makroprom	-	44,000
Invest Banka AD Skopje	-	40,000
Other	-	230,457
	<u>48,000</u>	<u>379,457</u>

22 Other current liabilities

	2001	2001
Liabilities to the employees for salaries and wages	36,075	30,491
Dividends payable	5,980	8,827
Accrued expenses	25,285	13,449
Taxes	17,298	4,340
Interest	701	830
Other	56,758	2,438
	142,097	60,375

23 Shares

The shareholder structure are:

Owners structure	Type of Share	31 December 2002		
		No. shares	%	Value in EUR
Shareholders	Ordinary	1,209,550	92.95	30,929,133.92
Pension fond	Preference	88,452	6.80	2,261,983.91
Ex-owner	Preference	3,228	0.25	82,539.89
		1,301,230	100.00	33,273,657.72

The total number of authorised and issued shares is 1,301,230 with nominal value of EUR 25.56 per share. The issued shares are fully paid.

During the 2002, the Group has not issued new shares.

24 Minority interest

	2002	2001
At 1 January	1,093	532
Appropriation of net profit	455	561
Payment of the minority interest	(714)	-
	834	1,093

25 Related party transactions

Alkaloid Ad – Skopje has investments in seven subsidiaries stated in Note 11 above. Sales and purchases of goods and services are based on regular market terms and prices.

The transactions with the related parties are stated below:

Sale of goods and services

	<u>2002</u>	<u>2001</u>
Alkaloidfarm, Switzerland	85,388	-
Alkaloid, Croatia	267,186	304,330
Alkaloid, Albania	31,913	26,631
Alkaloid, Serbia and Montenegro	26,031	26,366
Alkaloid, Bosnia and Herzegovina	30,993	21,482
Alkaloid, Bulgaria	23,239	18,092
Alkaloid, Slovenia	4,911	5,000
	<u>469,661</u>	<u>401,901</u>

Purchases of goods and services

	<u>2002</u>	<u>2001</u>
Alkaloidfarm, Switzerland	67,451	176,019
Alkaloid, Slovenia	24,374	20,794
Alkaloid, Bosnia and Herzegovina	23,023	19,426
Alkaloid, Serbia and Montenegro	31,284	16,880
Alkaloid, Bulgaria	1,133	4,825
Alkaloid, Croatia	31,701	3,098
Albalkaloid, Albania	4,464	3,065
	<u>183,430</u>	<u>244,107</u>

Outstanding balances arising from the transactions mentioned above are presented below:

Sale of goods and services

	<u>2002</u>	<u>2001</u>
Alkaloidfarm, Switzerland	66,109	-
Alkaloid, Croatia	158,548	172,322
Alkaloid, Serbia and Montenegro	128,643	145,814
Alkaloid, Bosnia and Herzegovina	22,249	15,567
Alkaloid, Bulgaria	10,792	11,883
Alkaloid, Albania	11,580	8,621
Alkaloid, Slovenia	3,949	3,642
	<u>401,870</u>	<u>357,849</u>

25 Related party transactions (continue)

Purchases of goods and services

	<u>2002</u>	<u>2001</u>
Alkaloidfarm, Switzerland	124,615	171,053
Alkaloid, Serbia and Montenegro	33,507	35,926
Alkaloid, Slovenia	7,241	6,991
Alkaloid, Bosnia i Hercegovina	5,319	1,478
Alkaloid, Croatia	29,411	660
Alkaloid, Bulgaria	-	152
Albalkaloid, Albania	40	-
	<u>200,133</u>	<u>216,260</u>

Paid advances

	<u>2002</u>	<u>2001</u>
Alkaloidfarm, Switzerland	-	11,885
	<u>-</u>	<u>11,885</u>

For the acquisition of the equipment for the new factory the advance is given to the Alkaloidfarm, Switzerland

Liabilities towards received advances

	<u>2002</u>	<u>2001</u>
Alkaloidfarm, Switzerland	9,632	13,101
	<u>9,632</u>	<u>13,101</u>

26 Post balance sheet event

Starting from the 1st of April 2003, the VAT general tax rate is 18% instead of 19% (Official Gazzete of RM no.21/2003). With this change, the medicaments will be charged with the general tax rate, instead of the privileged tax rate of 5%.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Alkaloid Group

1. We have audited the accompanying balance sheet of Alkaloid Group as of 31 December 2002, and the related income and cash flow statements for the year then ended. These financial statements set out on pages 3 to 27 are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

3. In our opinion, the financial statements present fairly, in all material respects, the financial position of Alkaloid Group as at 31 December 2002, and of the results of its operations and cash flows for the year that ended in accordance with International Financial Reporting Standards.

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Skopje
04 April 2003