

ACTIVITY REPORT

For the first quarter
of 2017



TCHAIKAPHARMA HIGH QUALITY MEDICINES INC.

04.04.2017

General information about Tchaikapharma High Quality Medicines Inc.

History and development of Tchaikapharma High Quality Medicines Inc.

Legal and commercial name

The legal and commercial name of the company is Tchaikapharma High Quality Medicines Inc.

Location and registration. Unique Identification Code (UIC)

The Company was listed in the Commercial Registry by Decision from 14.03.2000 on the company case 1096/2000 of the Varna District Court as a joint stock company named TCHAIKA PHARMA INC.

By decision of the General Meeting of Shareholders from 04.07.2003, entered by Decision from 30.07.2003 on the company case 1096/2000 of the Varna District Court, the name was changed to TCHAIKAPHARMA HIGH QUALITY MEDICINES INC.

The Company is listed in the Commercial Register of the Registry Agency at the Ministry of Justice with **UIC 103524525**.

Foundation date and duration in time

The Company was founded and entered in the Commercial Registry by Decision from 14.03.2000 on the company case 1096/2000 of the Varna District Court as a joint stock company. The duration of the Company is not limited in time.

Country of Company registration, headquarters and address pursuant to the Statute; legal form; legislation under which the Company operates

Tchaikapharma High Quality Medicines Inc. is a joint stock company which operates in compliance with the legislation of the Republic of Bulgaria.

The Company was incorporated in the Republic of Bulgaria.

The headquarters and registered office of the Company:

Republic of Bulgaria, 1172 Sofia, 1 G.M. Dimitrov Blvd.

Contact Address: 1172 Sofia, 1 G.M. Dimitrov Blvd.

Telephone: (359 2) 960 3634

Internet site: www.tchaikapharma.com

Important events in the development of the business of the Company

Important events in the development of the Issuer for the last three years:

- Tchaikapharma High Quality Medicines Inc. was not transformed.
- Tchaikapharma High Quality Medicines Inc. was not transferred or pledged.
- There were no significant changes in the scope of activity of Tchaikapharma High Quality Medicines Inc.
- There were no filed claims for opening of insolvency proceedings.
- By Decision of the General Meeting of 26.08.2014 the capital was increased by BGN 32 000 000 to BGN 43 500 000, by issuing 11 500 000 (eleven million five hundred thousand) new ordinary shares with a nominal value of BGN 1 (one). The capital increase was carried out by capitalization of profits pursuant to Art. 197 of the Commerce Act.
- By Decision of the General Meeting of 20.04.2015 the capital was increased from BGN 43 500 000 to BGN 49 600 000, by issuing 6 100 000 (six million and one hundred thousand) new ordinary shares with a nominal value of BGN 1 (one). The capital increase was carried out by capitalization of profits pursuant to Art. 197 of the Commerce Act.
- By Decision of the General Meeting of 23.06.2016 the capital was increased from BGN 49 600 000 to BGN 56 600 000, by issuing 7 000 000 (seven million) new ordinary shares with a nominal value of BGN 1 (one). The increase of the capital was done by capitalization of profits pursuant to Art. 197 of the Commercial Code. The capital increase was entered in the Commercial Register of 19.07.2016
- The current capital of the Company is BGN 56 600 000 distributed in 56 600 000 ordinary dematerialized voting shares with a par value of BGN 1 (one) each.

Tchaikapharma High Quality Medicines Inc. is one of the fastest growing Bulgarian company specialized in manufacturing high quality and affordable generic and original medicines. The production facilities of the company are built in accordance with European requirements. The company is focused of quality and safety of the production of medicinal products for human medicine. In the years in which the company has been on the market it has proved its honesty and patient care. In the first quarter of 2017 Tchaikapharma continued to update its product range, which at this stage is over 150 medicinal products. Its main goal is the renewal of current trends in the worldwide drug therapy. The main priority for the company are medicinal products for the treatment of diabetes, diseases of the central nervous system, cancers and it is mainly focused on medications associated with the treatment of cardiovascular diseases.

Investments

Major investments for each of the following financial years: 2014, 2015 and 2016.

Overview of the investments in fixed assets by type and year is presented in the following table.

Investments for the period	2014	2015	2016
Tchaikapharma High Quality Medicines Inc.			
I. Fixed tangible assets	199	2 906	1 331
1. Plant, property and equipment	196	2 782	1 312
2. Other fixed assets	3	124	19
II. Fixed intangible assets	1 031	532	547
1. Industrial property rights	1 031	531	495
2. Software		1	9
3. Patents and licenses			43
Total amount of acquisition of fixed tangible and intangible assets	1 230	3 438	1 878

Major investments in progress

In the first quarter of 2017 there were no major investments.

Economic activity

The entered in the Commercial Register activity of the Company is: purchase of substances and formulations for the production and sale of pharmaceuticals in finished or processed form, (after Marketing Authorisation); primary and secondary packaging of formulations (after Marketing Authorisation); import, export, re-export and merchandising in original or processed form; barter transactions and commissions; commercial representation of foreign and domestic individuals and legal entities at home and abroad; industrial and commercial management; consulting, marketing, brokerage, leasing, licensing, entrepreneurship, transport and shipping, research and development activities.

Currently the main scope of activity of the Company can be summarized as follows:

- Production
- Packaging (primary and secondary)
- Marketing and promotion of medicines
- Research and Development

In the first quarter of 2017 Tchaikapharma continued to be one of the leading pharmaceutical companies in Bulgaria, which continued to add new products to its diverse portfolio and the following medicinal products are in the process of obtaining Marketing Authorisations:

- Pemetrexed-Tchaikapharma 500 mg powder for concentrate for solution for infusion - for treatment of cancer.
- Bortezomib-Tchaikapharma 3.5 mg powder for solution for injection - for treatment of cancer.
- Lidocaine-Tchaikapharma 10 mg/ml solution for injection and Lidocaine-Tchaikapharma 20 mg/ml solution for injection - for local anesthesia and treatment of severe heart rhythm disorders.

Tchaikapharma High Quality Medicines Inc., in its role as a high-quality manufacturer of medicines, has also focused on Kosovo, where it has received five new authorizations for the medicinal products Aroba, Co-Teltsart, Metformin-Tchaikapharma, Pizona and Rossta

Tchaikapharma High Quality Medicines Inc. continuously maintains production facilities in accordance with the modern European standards of Good Manufacturing Practice of pharmaceuticals. Currently the factories of the company produce more than 150 medicinal products. The premises and equipment of the plant are in full compliance with the European requirements for manufacturing of sterile medicinal products.

Tchaikapharma High Quality Medicines Inc. completed its first clinical trial of a medicinal product with INN Irbesartan. The report, which summarises the results of the study, was completed, issue date - 6.02.2017. Modules 2.4, 2.5, 2.6, 2.7, Module 4 and Module 5 are currently under preparation and will be part of the dossier of the medicinal product owned by Tchaikapharma High Quality Medicines Inc.

The newly created bioanalytical laboratory aims to investigate the pharmacokinetics and concentration of drug substances in human plasma. The work of the laboratory is currently related to the development and validation of a method for the study of irbesartan concentration in human plasma. A system of Standard Operating Procedures is also in place to ensure the quality and traceability of the results obtained.

Employees

As of 31.03.2017 the average number of employees in Tchaikapharma High Quality Medicines Inc. was 123 (126 as of 31.12.2016). In the table below detailed information about the employees in the company is provided

	31.03.2017	Share
Number of employees as of 31.12.2017	123	100%
Higher education	69	56%
Secondary education	53	43%
Primary education	1	1%
Employees under 30 years	33	27%
Employees 31 - 40 years	51	41%
Employees 41 - 50 years.	25	20%
Employees 51 - 60 years.	9	7%
Employees 60+ years	5	4%
Women	48	39%
Men	75	61%

Significant events since the beginning of the year until 31.03.2017

In the first quarter of 2017 there were no significant events.

Key financial indicators

Indicators	01-03/2017 BGN '000	01-03/2016 BGN '000	Change %
Sales revenue	7 644	8 351	-8.47%
Earnings before interest, taxes and depreciation (EBITDA)	3 978	3 812	4.35%
Net profit	2 856	2 552	11.91%

	01-03/2017 BGN '000	01-12/2016 BGN '000	Change %
Non-current assets	35 878	35 558	0.89%
Current assets	56 977	55 529	2.61%
Equity	75 851	72 995	3.91%
Non-current liabilities	2 266	2 366	-4.23%
Current liabilities	14 738	15 726	-6.28%

	01-03/2017	01-03/2016
EBITDA/Sales revenue	52%	46%
Net profit/Sales revenue	37%	31%

Review of the risk factors

- The Company's activities could be affected by any change in the regulatory requirements for the production of pharmaceutical products.
- Changes to the legislation regulating the Company's business are possible, and these can potentially increase the costs of compliance or have another effect on its operations.
- The production processes of the Company are subject to stringent requirements and approvals by regulatory authorities which may delay or interrupt the operations of the Company.
- The ability of the Company to pay dividends depends on a number of factors and there is no guarantee that in a year it will be able to pay dividends in accordance with its dividend policy.
- The Company is exposed to operational risk, which is inherent in its business activities.
- The Company is subject to multitude laws and regulations in the field of environmental protection and health and safety conditions and is exposed to potential liabilities related to the environment.
- The Company is exposed to strong competition.
- The Company operates in active exchange with foreign suppliers and customers. It is therefore exposed to currency risk, mainly against the US dollar. Currency risk is related to the adverse movement in the exchange rate of the US dollar against the Bulgarian lev in future business operations, recognized foreign currency assets and liabilities. The rest of the company's operations are usually denominated in Bulgarian lev and/or in euros.

Sales by types of dosage forms

Revenue by dosage forms	01-03/2017 BGN '000	01-03/2016 BGN '000
Tablets	6 547	7 325
Ampules	421	471
Vials	649	500
Total:	7 617	8 296

Revenue by therapeutic groups	01-03/2017 BGN '000	01-03/2016 BGN '000
Cardiovascular system	6 238	6 544
Musculoskeletal system and connective tissue	41	40
Respiratory system and antibiotics	660	794
Nervous system	323	50
Endocrine system	255	281
Other products	100	72
Digestive system and metabolism	-	162
Oncology	-	353
Total:	7 617	8 296

Changes in the inventories of products and work in progress	-374	-294
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Other operating income	01-03/2017 BGN '000	01-03/2016 BGN '000
Income from rent	11	9
Other income	15	46
Total:	26	55

Financial income	01-03/2017 BGN '000	01-03/2016 BGN '000
Income from interest		1
Income from exchange rate differences	7	35
Other financial income	-	-
Total:	7	36

Core activity expenses

Operating expenses	01-03/2017 BGN '000	01-03/2016 BGN '000
Book value of sold products	164	1 307
Materials	2 179	2 079
External services	872	602
Salaries	649	620
Social security costs	133	122
Depreciation costs	729	867
Other	26	111
Total:	4 752	5 708

Cost of materials	01-03/2017 <i>BGN '000</i>	01-03/2016 <i>BGN '000</i>
Basic material	1 982	1 931
Electricity	79	63
Fuels and lubricants	13	11
Spare parts and laboratory materials	42	40
Water	4	2
Other materials	59	32
Total:	2 179	2 079

Costs of external services	01-03/2017 <i>BGN '000</i>	01-03/2016 <i>BGN '000</i>
Rents	51	33
Security	53	21
Insurance	7	19
Telephone and postage expenses	6	13
Equipment maintenance and subscription	28	7
Fees	10	5
Transport costs	15	10
Other costs for external services	702	494
Total:	872	602

Financial expenses	01-03/2017 <i>BGN '000</i>	01-03/2016 <i>BGN '000</i>
Interest expenses	76	109
Expenses from exchange rate differences	13	12
Other financial expenses	11	16
Total:	100	137

Assets

	01-03/2017 <i>BGN '000</i>	01-12/2016 <i>BGN '000</i>
Non-current assets		
Property, plant and equipment	26 069	25 888
Intangible assets	3 728	3 644
Investments with minority interest	1	1
Trade receivables	6 080	6 025
Total non-current assets	35 878	35 558

Current assets

Inventories	5 106	5 082
Trade and other receivables	51 823	50 373
Financial assets with maturity	8	24
Cash and cash equivalents	40	50
Total current assets	56 977	55 529
Total Assets	92 855	91 087

01-03/2017 01-12/2016
BGN '000 BGN '000

Property, plant and equipment

Land and buildings	11 460	11 568
Machinery and equipment	13 783	13 988
Other	242	261
In the process of acquisition	584	71
	26 069	25 888

Inventories

01-03/2017 01-12/2016
BGN '000 BGN '000

Materials	4 304	4 629
Production	507	138
Goods	169	192
Work in progress	126	123
Total:	5 106	5 082

Equity and liabilities

01-03/2017 01-12/2016
BGN '000 BGN '000

Registered capital	56 600	56 600
Statutory reserve	7 810	7 810
Undistributed profit	11 441	8 585
Total Equity	75 851	72 995

Liabilities

01-03/2017 01-12/2016
BGN '000 BGN '000

Non-current liabilities

Long-term loans	915	1 015
Deferred tax liabilities	1 284	1 284
Liabilities to employees on retirement	67	67
Total non-current liabilities	2 266	2 366

Current liabilities

Trade and other liabilities	3 121	2 909
Short term loans	10 169	11 349

Current part of long-term loans	748	869
Current corporate income tax	71	55
Other tax liabilities	629	544
Total current liabilities	14 738	15 726
Total liabilities	17 004	18 092
Total equity and liabilities	92 855	91 087

Financial indicators

01-03/2017 01-12/2016

Debt ratio	0.22	0.27
Financial autonomy ratio	4.46	3.73

Information on the shares of Tchaikapharma High Quality Medicines Inc.

The total amount of shares issued as of 31.03.2017 was 56 600 000 with a nominal value of BGN 1 per share. All issued shares are registered, dematerialized, ordinary and indivisible under the Statute of the Company. All issued shares are of the same type. Each share gives equal rights to its owner in proportion to the nominal value of the share. The shares of Tchaikapharma High Quality Medicines Inc. are traded on the official market of the Bulgarian Stock Exchange-Sofia.

Essential information on the shares of Tchaikapharma High Quality Medicines Inc.

	1-03/2017	1-03/2016
Total number of issued shares	56 600 000	49 600 000
Number of shares in circulation at end of period	56 600 000	49 600 000
Price per share at the end of the period in BGN	7.35	5.78
Market capitalization at the end of the period in BGN	416 010 000	286 688 000

Biser Georgiev

/Executive Director/