

ACTIVITY REPORT

For the fourth quarter
of 2019



TCHAIKAPHARMA
HIGH QUALITY MEDICINES

TCHAIKAPHARMA HIGH QUALITY MEDICINES INC.

28.01.2020

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 3724

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 08.06.2017 the capital was increased from BGN 56 600 000 to BGN 64 300 000, by issuing 7 700 000 (seven million and seven hundred) 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 11.07.2017.
- By Decision of the General Meeting of 30.04.2018 the capital was increased from BGN 64 300 000 to BGN 72 200 000, by issuing 7 900 000 (seven million and nine hundred) 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 29.05.2018.
- By Decision of the General Meeting of 08.04.2019 the capital was increased from BGN 72 200 000 to BGN 82 200 000, by issuing 10 000 000 (ten 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 10.05.2019.
- The current capital of the Company is BGN 82 200 000 distributed in 82 200 000 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.

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: 2016, 2017 and 2018.

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

Investments for the period	2017	2018	2019
Tchaikapharma High Quality Medicines Inc.			
I. Fixed tangible assets	2 762	924	2 715
1. Plant, property and equipment	2 760	924	2 617
2. Other fixed assets	2		98
II. Fixed intangible assets	743	274	661
1. Industrial property rights	726	274	637
2. Software	4		10
3. Patents and licenses	43		14
Total amount of acquisition of fixed tangible and intangible assets	3 505	1 198	3 376

Major investments in progress

In the fourth quarter of 2019 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

Tchaikapharma High Quality Medicines Inc. continuously maintains its production facilities in accordance with the contemporary European requirements for Good Manufacturing Practice in the production of medicines. At present, more than 150 medicinal products are produced in the company's factories. The premises and the equipment of the factories are executed in full compliance with the European requirements for the production of medicines and for the plant in Varna – also for sterile medicinal products.

In connection with the planned expansion of production capacities at the factory of the Black Sea Fleet Plovdiv we received and put into operation additional container systems. The new KILIAN tablet machine was purchased in December. The machine was positioned in the clean room and connected to the necessary media. The machine will be put into service early next year after successfully passing IQ, OQ tests.

Two new products have received Marketing Authorization for Bulgaria - Plaxex Combi 75mg/75mg hard capsules and Ceftriaxone-Tchaikapharma 2g powder for solution for injection/infusion.

Modules 2.4, 2.5, 2.6, 2.7, module 4 and module 5 of the Cefuroxime medicinal product dossier have been prepared and will be owned by Tchaikapharma High Quality Medicines AD. Clinical summary data for the following products have been prepared: Aroba and Pretimedtal.

There are two meta-analyzes underway for the administration of chlortalidone in patients with hypertension. A meta-analysis of the use of chlorthalidone in patients with hypertension has been published - Comparative efficacy and safety of chlorthalidone and hydrochlorothiazide - a meta-analysis in the Journal of Human Hypertension with Impact Factor 2.33.

An audit is scheduled to confirm compliance with the principles of Good Laboratory Practice by the laboratory. Preparations are underway to validate two more analytical methods to be included in the laboratory portfolio.

Employees

As of 31.12.2019 the average number of employees in Tchaikapharma High Quality Medicines Inc. was 146 (133 as of 31.12.2018). In the table below detailed information about the employees in the company is provided

	31.12.2019	Share
Number of employees as of 31.12.2019	146	100%
Higher education	88	60%
Secondary education	57	39%
Primary education	1	1%
Employees under 30 years	42	29%
Employees 31 - 40 years	57	39%
Employees 41 - 50 years.	37	25%
Employees 51 - 60 years.	7	5%
Employees 60+ years	3	2%
Women	63	43%
Men	83	57%

Significant events since the beginning of the year until 31.12.2019

In the fourth quarter of 2019 there were no significant events.

Key financial indicators

Indicators	01-12/2019	01-12/2018	Change
	BGN '000	BGN '000	%
Sales revenue	34 788	38 013	-8.48%
Earnings before interest, taxes and depreciation (EBITDA)	6 588	15 566	-57.68%
Net profit	2 845	11 199	-74.59%
	01-12/2019	01-12/2018	Change
	BGN '000	BGN '000	%
Non-current assets	34 674	33 594	3.21%
Current assets	81 987	77 445	5.86%
Equity	96 845	94 000	3.03%
Non-current liabilities	3 244	1 563	107.55%
Current liabilities	16 572	15 476	7.08%
	01-12/2019	01-12/2018	
EBITDA/Sales revenue	19%	41%	
Net profit/Sales revenue	8%	29%	

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	01-12/2019	01-12/2018
	BGN '000	BGN '000
Tablets	31 262	32 307
Ampules	307	1 126
Vials	3 168	4 483
Total:	34 737	37 916

Revenue by therapeutic groups	01-12/2019	01-12/2018
	BGN '000	BGN '000
Cardiovascular system	26 412	28 479
Musculoskeletal system and connective tissue	93	100
Respiratory system and antibiotics	2 839	3 704
Nervous system	1 589	1 783
Endocrine system	2 776	1 342

Other products	634	1 290
Digestive system and metabolism	198	979
Oncology	196	239
Total:	34 737	37 916

Changes in the inventories of products and work in progress	1 799	(118)
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Other operating income	01-12/2019	01-12/2018
	<i>BGN '000</i>	<i>BGN '000</i>
Income from rent	38	51
Other income	13	18
Total:	51	69
Financial income	01-12/2019	01-12/2018
	<i>BGN '000</i>	<i>BGN '000</i>
Income from interest		451
Income from exchange rate differences	1	3
Other financial income	35	14
Total:	36	468

Core activity expenses

Operating expenses	01-12/2019	01-12/2018
	<i>BGN '000</i>	<i>BGN '000</i>
Book value of sold products	748	2 326
Materials	12 020	9 380
External services	12 269	4 225
Salaries	3 687	3 287
Social security costs	654	588
Depreciation costs	3 315	3 287
Other	797	2 435
Total:	33 490	25 514

Cost of materials	01-12/2019	01-12/2018
	<i>BGN '000</i>	<i>BGN '000</i>
Basic material	10 841	8 281
Electricity	501	440
Fuels and lubricants	59	67
Spare parts and laboratory materials	95	138
Water	20	19
Other materials	504	435
Total:	12 020	9 380

Costs of external services	01-12/2019	01-12/2018
	BGN '000	BGN '000
Rents	222	228
Security	355	212
Insurance	23	25
Telephone and postage expenses	29	32
Equipment maintenance and subscription	117	165
Fees	162	108
Transport costs	57	36
Other costs for external services	11 304	3 419
Total:	12 269	4 225

Financial expenses	01-12/2019	01-12/2018
	BGN '000	BGN '000
Interest expenses	214	325
Expenses from exchange rate differences	-	39
Investments with minority interest	82	54
Other financial expenses	59	58
Total:	355	476

Assets

	01-12/2019	01-12/2018
	BGN '000	BGN '000
Non-current assets		
Property, plant and equipment	26 985	25 754
Intangible assets	2 720	2 871
Investments with minority interest	1	1
Trade receivables	4 968	4 968
Total non-current assets	34 674	33 594
Current assets		
Inventories	7 959	5 491
Trade and other receivables	73 985	71 608
Treasury shares redeemed	-	92
Current corporate income tax	1	4
Cash and cash equivalents	42	250
Total current assets	81 987	77 445
Total Assets	116 661	111 039

01-12/2019 01-12/2018

Property, plant and equipment	BGN '000	BGN '000
Land and buildings	11 390	11 830
Machinery and equipment	11 971	11 759
Other	61	123
In the process of acquisition	3 460	2 042
	26 985	25 754

Inventories	01-12/2019	01-12/2018
	BGN '000	BGN '000
Materials	5 606	5 065
Production	954	219
Goods	250	40
Work in progress	1 149	167
Total:	7 959	5 491

Equity and liabilities

	01-12/2019	01-12/2018
	BGN '000	BGN '000
Registered capital	82 200	72 200
Statutory reserve	11 800	10 601
Undistributed profit	2 845	11 199
Total Equity	96 845	94 000

Liabilities

	01-12/2019	01-12/2018
	BGN '000	BGN '000
Non-current liabilities		
Long-term loans	1 861	180
Deferred tax liabilities	1 264	1 264
Liabilities to employees on retirement	119	119
Total non-current liabilities	3 244	1 563

Current liabilities

Trade and other liabilities	6 228	4 186
Short term loans	9 787	9 785
Current part of long-term loans	367	409
Current corporate income tax		217
Other tax liabilities	190	879
Total current liabilities	16 572	15 476
Total liabilities	19 816	17 039
Total equity and liabilities	116 661	111 039

Financial indicators

01-12/2019 01-12/2018

Debt ratio	0.20	0.18
Financial autonomy ratio	4.89	5.52

Information on the shares of Tchaikapharma High Quality Medicines Inc.

The total amount of shares issued as of 31.12.2019 was 82 200 000 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.

	1-12/2019	1-12/2018
Total number of issued shares	82 200 000	72 200 000
Number of shares in circulation at end of period	82 200 000	72 200 000
Price per share at the end of the period in BGN	10.90	9.00
Market capitalization at the end of the period in BGN	895 980 000	649 800 000

Biser Georgiev

/Executive Director/