

ACTIVITY REPORT

For the third quarter
of 2016



TCHAIKAPHARMA HIGH QUALITY MEDICINES INC.

25.10.2016

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 registered in the Commercial Registry by Decision from 14.03.2000 on the company case 1096/2000 of the District Court of Varna 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 District Court of Varna, the name was changed to TCHAIKAPHARMA HIGH QUALITY MEDICINES INC.

The Company is registered 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 District Court of Varna 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 are: 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 are 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

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 third quarter of 2016 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: 2013, 2014 and 2015.

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

Investments for the period	2013	2014	2015
Tchaikapharma High Quality Medicines Inc.			
I. Fixed tangible assets	2 103	199	2 906
1. Plant, property and equipment	2 093	196	2 782
2. Other fixed assets	10	3	124
II. Fixed intangible assets	727	1 031	532
1. Industrial property rights	727	1 031	531
2. Software			1
Total amount of acquisition of fixed tangible and intangible assets	2 830	1 230	3 438

Major investments in progress

The Company invests in new production facilities in the pharmaceutical plant Varna. In the third quarter of 2016 a new production line for dry filling of vials was commissioned. . With the new investment the Company will increase its production capacity by 50 vials per minute, which represents a 100% improvement on the current capacity.

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 third quarter of 2016 Tchaikapharma continued to be one of the leading pharmaceutical companies in Bulgaria and obtained Marketing Authorisation in Slovakia for the medicinal product Tamayra hard capsules and in Portugal and Greece for Candesartan/Hydrochlorothiazide.

Besides being a high quality manufacturer of medicinal products registered in the EU, Tchaikapharma expects eight new Marketing Authorisations for the medicinal products Nordipin, Pizif SR, Cardifriend, Bisor, Rossta, Co-Telsart, Pizona and Diab MR for the territory of Kosovo.

In the third quarter of 2016 the company filed four new product for registration in Kosovo: Aroba, Metformin, Diab and Co-Valstor, which also expect Marketing Authorisations.

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. expanded its range of activities and is heading towards clinical trials as part of the creation of new branded generic drugs and fixed combinations. On 13.09.2016 a permission was granted by the Bulgarian Drug Agency for conducting of the planned bioequivalence. The clinical part is planned to start by the end of October and would include 40 healthy volunteers and should demonstrate the bioequivalence of the generic product manufactured by Tchaikapharma High Quality Medicines inc. to the original product which has Marketing Authorisation in the European Union under the centralised procedure.

In connection with the conduct of clinical trials evaluating bioequivalence of generic products and the corresponding original ones a new laboratory was created, which on the basis of validated methods will examine various concentrations of drugs in human plasma. The activity of the new laboratory is seeking to fill a niche not very well developed on the Bulgarian market. In order to meet the strict requirements concerning the laboratories performing analysis of drugs in blood plasma for clinical trials set by European legislation, the new bioanalytical laboratory is preparing to pass an assessment of compliance with the principles of Good Laboratory Practice before the Auditor-committee of the Bulgarian Accreditation service.

Employees

As of 30.09.2016 the average number of employees in Tchaikapharma High Quality Medicines Inc. was 124 (124 as of 31.12.2015). The table below specifies detailed information about the employees in the company.

	30.09.2016	Share
Number of employees as of 30.09.2016	124	100%
Higher education	72	58%
Secondary education	51	41%
Primary education	1	1%
Employees under 30 years	31	25%
Employees 31 - 40 years	52	42%
Employees 41 - 50 years.	26	21%
Employees 51 - 60 years.	10	8%
Employees 60+ years	5	4%
Women	51	41%
Men	73	59%

Significant events since the beginning of the year until 30.09.2016

In the third quarter of 2016 a capital increase of Tchaikapharma High Quality Medicines Inc. from 49 600 000 to 56 600 000 ordinary registered shares was entered in the Commercial Register.

Key financial indicators

Indicators	01-09/2016 BGN '000	01-09/2015 BGN '000	change %
Sales revenue	24 590	22 328	10.3%
Earnings before interest, taxes and depreciation (EBITDA)	10 359	10 041	3.2%
Net profit	6 781	6 001	12.9%

	01-09/2016 BGN '000	01-12/2015 BGN '000	change %
Non-current assets	35 749	37 208	-3.9%
Current assets	54 922	43 066	27.5%
Equity	70 753	63 972	10.6%
Non-current liabilities	2 214	2 912	-23.9%
Current liabilities	17 704	13 390	32.2%

	01-09/2016	01-09/2015
EBITDA/Sales revenue	42%	45%
Net profit/Sales revenue	27%	27%

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	01-09/2016	01-09/2015
	<i>BGN '000</i>	<i>BGN '000</i>
Tablets	21 772	18 487
Ampules	998	1 489
Vials	1 739	2 321
Total:	24 509	22 298

Revenue by therapeutic groups	01-09/2016	01-09/2015
	<i>BGN '000</i>	<i>BGN '000</i>
Cardiovascular system	19 836	15 923
Musculoskeletal system and connective tissue	213	218
Respiratory system and antibiotics	1 732	2 990
Nervous system	812	1 287
Endocrine system	609	650
Other products	778	237
Digestive system and metabolism	221	358
Oncology	306	635
Total:	24 509	22 298

Changes in the inventories of products and work in progress	302	296
--	------------	------------

Other operating income	01-09/2016	01-09/2015
	<i>BGN '000</i>	<i>BGN '000</i>
Income from rent	39	29
Other income	42	1
Total:	81	30

Financial income	01-09/2016	01-09/2015
	<i>BGN '000</i>	<i>BGN '000</i>
Income from interest	138	6
Income from exchange rate differences	38	2
Other financial income	-	-
Total:	176	8

Core activity expenses

Operating expenses	01-09/2016	01-09/2015
	<i>BGN '000</i>	<i>BGN '000</i>
Book value of sold products	3 120	1 097
Materials	5 854	5 991
External services	2 769	2 436
Salaries	1 912	2 355
Social security costs	370	430
Depreciation costs	2 655	2 922
Other	452	239
Total:	17 132	15 470

Cost of materials	01-09/2016	01-09/2015
	<i>BGN '000</i>	<i>BGN '000</i>
Basic material	5 403	5 456
Electricity	235	179
Fuels and lubricants	25	65
Spare parts and laboratory materials	168	155
Water	8	5
Other materials	15	131
Total:	5 854	5 991

Costs of external services	01-09/2016 <i>BGN '000</i>	01-09/2015 <i>BGN '000</i>
Rents	129	141
Security	62	62
Insurance	47	44
Telephone and postage expenses	28	50
Equipment maintenance and subscription	9	32
Fees	41	45
Transport costs	31	27
Other costs for external services	2 422	2 035
Total:	2 769	2 436

Financial expenses	01-09/2016 <i>BGN '000</i>	01-09/2015 <i>BGN '000</i>
Interest expenses	307	457
Expenses from exchange rate differences	45	6
Other financial expenses	49	31
Total:	401	494

Assets

	01-09/2016 <i>BGN '000</i>	01-12/2015 <i>BGN '000</i>
Non-current assets		
Property, plant and equipment	25 974	27 145
Intangible assets	3 664	3 962
Investments with minority interest	1	1
Trade receivables	6 110	6 100
Total non-current assets	35 749	37 208
Current assets		
Inventories	5 177	4 711
Trade and other receivables	49 631	38 199
Financial assets with maturity	47	116
Cash and cash equivalents	67	40
Total current assets	54 922	43 066
Total Assets	90 671	80 274

	01-09/2016	01-12/2015
	BGN '000	BGN '000
Property, plant and equipment		
Land and buildings	11 180	11 505
Machinery and equipment	14 419	15 116
Other	279	254
In the process of acquisition	96	270
	25 974	27 145

	01-09/2016	01-12/2015
	BGN '000	BGN '000
Inventories		
Materials	4 411	4 211
Production	436	152
Goods	97	95
Work in progress	233	253
Total:	5 177	4 711

Equity and liabilities

	01-09/2016	01-12/2015
	BGN '000	BGN '000
Registered capital	56 600	49 600
Statutory reserve	7 372	6 592
Undistributed profit	6 781	7 780
Total Equity	70 753	63 972

Liabilities

	01-09/2016	01-12/2015
	BGN '000	BGN '000
Non-current liabilities		
Long-term loans	955	1 653
Deferred tax liabilities	1 210	1 210
Liabilities to employees on retirement	49	49
Total non-current liabilities	2 214	2 912

Current liabilities

Trade and other liabilities	5 922	2 551
Short term loans	10 170	8 420
Current part of long-term loans	1 167	1 790
Current corporate income tax	79	121
Other tax liabilities	366	508
Total current liabilities	17 704	13 390
Total liabilities	19 918	16 302
Total equity and liabilities	90 671	80 274

Financial indicators

	01-09/2016	01-12/2015
Debt ratio	0.28	0.25
Financial autonomy ratio	3.55	3.92

Information on the shares of Tchaikapharma High Quality Medicines Inc.

The total amount of shares issued as of 30.09.2016 is 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.

	1-09/2016	1-09/2015
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	6.42	5.09
Market capitalization at the end of the period in BGN	363 372 000	252 464 000

Biser Georgiev

/Executive Director/