

## REPORT

### FOR THE IMPLEMENTATION OF THE REMUNERATION POLICY FOR THE MEMBERS OF THE BOARD OF DIRECTORS OF TCHAIKAPHARMA HIGH MEDICINES INC. IN 2016

The Report was prepared pursuant to Art. 12, para. 1 of Ordinance No. 48 of the Financial Supervision Commission from the 20<sup>th</sup> of March, 2013 and Art. 6.1. of the Remuneration policy for the Board of Directors of Tchaikapharma High Quality Medicines Inc. drafted by the Board of Directors, which will be submitted to the General Meeting of Shareholders in 2017.

In this Report the Company discloses the way in which it applies the policy of remuneration of the Board of Directors and the Executive Director, paying particular attention to preventing incentives for excessive risk taking, conflict of interest or other conduct leading to adverse effects..

#### **1. Information on the process of decision making when determining the remuneration policy, including if applicable, information on the mandate and composition of the remuneration committee, the names of external consultants whose services have been used in the determination of the policy of remuneration.**

The Remuneration policy was adopted in accordance with Ordinance No. 8 from the 20<sup>th</sup> of March, 2013 and the provisions of the Public Offering of Securities Act on the remuneration of the members of the management and supervisory bodies of a public company.

The remunerations of the Board of Directors are formed based on the results of the Company and are consistent with the business strategy, objectives, values and long-term interests of the Company and non-discrimination, conflict of interest and unequal treatment of persons in determining remuneration.

There is no remuneration committee established in the company. Hired consultants were not used in the preparation of the policy of remuneration of members of the Board of Directors.

In 2016 Tchaikapharma High Quality Medicines Inc. applied remuneration policy for the Members of the Board of Directors in accordance with the legal requirements and the recommendations of the National Corporate Governance Code.

#### **2. Information on the relative weight of variable and fixed remuneration of the members of management and supervisory bodies.**

According to the Remuneration Policy, the Members of the Board of Directors and the Executive Director are entitled to remunerations, the type, amount and period for which they

are payable should be determined by the General Meeting and should be paid on the terms and conditions of the management contracts concluded between them and the Company.

During the reporting financial year, two members of the Board of Directors of Tchaikapharma High Quality Medicines Inc. received only fixed monthly remuneration, the specific amount of which was determined by the General Meeting of Shareholders. The third member of the Board of Directors has received also additional incentive besides the monthly fees.

**3. Information on performance criteria based on which options were granted on shares, shares of the company or other type of variable remuneration and explanation how the criteria of art. 14, para. 2 and 3 of Ordinance 48 contribute to the long-term interests of the company.**

The current Remuneration Policy for the Members of the Board of Directors does not provide granting remuneration to the Members of the Board of Directors in the form of shares, stock options or other rights to acquire shares. It does not provide for compensations based on changes in the share price of the Company.

**4. Explanation of methods used to assess whether the performance criteria are met.**

The remuneration of the Members of the Board of Directors is consistent with the achieved economic results during the reporting period. The concluded on behalf of the Company management contracts with the Members of the Board of Directors and management contract with the Executive Director have to contain a clause allowing the Company to reclaim variable remuneration paid, which is set at up to one percent of the net profit of the Company. Amounts granted on the basis of data which subsequently proved to be false should be refunded. The decision on refunding is taken by the General Meeting of Shareholders.

**5. Principal payments and justification of the annual scheme for the payment of bonuses and/or any other non-cash additional allowances**

Two of the members of the Board of Directors were not paid additional remuneration in 2016. Additional consideration was paid to the Executive Director for his contribution in the achievement of better results for the current year.

**6. Description of the main characteristics of the supplementary voluntary pension insurance and information about paid and/or contributions due by the Company for the benefit of the Director for the financial year, where applicable**

Concerning the Members of the Board of Directors of Tchaikapharma High Quality Medicines Inc. the Company has no commitments related to supplementary voluntary pension insurance of the Members of the Board of Directors and the Company has no obligations for payment of contributions for the benefit of the Director for the financial year.

**7. Information on the periods of deferral of the payment of variable remunerations**

According to the Statute of the Company, there is no reason to defer the payment of variable remuneration.

## **8. Information on the policy of compensations upon termination of the contracts**

In case of early termination of a management contract with a Member of the Board of Directors or the Executive Director, the total amount of compensation payable in connection with the early termination as well as payments related to the period of notice or provided for in the clause prohibiting competitive activity are regulated in the Management and control contract concluded with the company.

## **9. Information for the period in which the shares can not be transferred and stock options can not be exercised in variable compensations based on shares**

The current Remuneration policy for the Members of the Board of Directors does not provide for this type of compensations.

## **10. Information related to the policy of maintaining a certain number of shares until the end of the mandate of the members of management and supervisory bodies after the period noted in item 10**

The current Remuneration policy for the Members of the Board of Directors does not provide such possibility.

## **11. Information on the contracts of the members of management and supervisory bodies, including the duration of each contract, the notice period on termination and details on compensations and/or other payments due in the event of early termination**

The contracts of the Members of the Board of Directors provide notice period, compensations or other payments due in the event of early termination. The Contract with the Executive Director is signed for five years with effect from 2012. The Contracts of the other two members of the Board of Directors are also for five years term with effect from 2014. The new members should be elected before the expiration of the mandate of the Board of Directors.

## **12. Full remuneration and other incentives to the members of management and supervisory bodies for the financial year**

Total accrued remuneration of the Members of the Board of Directors for the current financial year amounted to BGN 88 245. Accrued remuneration of the Executive Director for the current financial year amounted to BGN 53 277.

## **13. Information on the remuneration of each person who was a member of the management or supervisory body in a public company for a certain period during the financial year:**

### **a) The full remuneration of the person paid and/or accrued for the financial year.**

In 2016 the Members of the Board of Directors have not received non-monetary benefits. The Company has no deferred or contingent liabilities arising during the year, even if the remuneration is due at a later stage. As of the 31.12.2016 Tchaikapharma High Quality

Medicines Inc. did not owe amounts for payment of pensions or retirement benefits. For the reporting period the Members of the Board of Directors received permanent monthly remuneration as follows:

Krasimir Videlov – BGN 1 000 (one thousand leva);

Ivan Boychev – BGN 1 914 / one thousand nine hundred and fourteen leva/;

Executive Director BGN 2 000 / two thousand leva/ as determined by the General Meeting of Shareholders.

**b) remuneration and other material benefits and perquisites earned by the person from companies of the same group**

**c) the remuneration received by persons in the form of profit sharing and/or bonuses and the reasons for providing them**

In 2016, no member of the Board of Directors of Tchaikapharma High Quality Medicines Inc. has received remuneration from the Company in the form of profit sharing and/or other bonuses.

**d) all additional payments for services provided by the persons outside their normal functions when such payments are eligible under the contracts signed**

The contracts with the Members of the Board of Directors of Tchaikapharma High Medicines Inc. do not provide additional payments for services provided by persons outside their usual functions.

**e) paid and/or accrued compensation for the termination of his/her duties during the last financial year**

In 2016, there was no termination of contract of any Member of the Board of Directors of Tchaikapharma High Quality Medicines Inc..

**) overall assessment of all non-monetary benefits equated to remunerations other than those specified in “a” – “e”**

In 2016 no member of the Board of Directors of Tchaikapharma High Quality Medicines Inc. has received non-monetary benefits equated to remunerations other than those specified in “a” – “e”.

**g) information on all loans, payment of welfare costs and guarantees by the company or its subsidiaries or other companies that are subject to consolidation in its annual financial report, including data on the remaining outstanding and interest.**

In 2016, no member of the Board of Directors of Tchaikapharma High Quality Medicines Inc. has received loans, payment of welfare costs and guarantees by the company or its subsidiaries or other companies that are subject to consolidation in its annual financial report.

No social costs of the Executive Director and members of the Board of Directors were accrued..

**14. Information concerning the shares and/or stock options and/or other incentive schemes based on shares:**

**a) the number of stock options or shares granted by the company during the financial year and the conditions under which were proposed, respectively provided;**

**b) the number of stock options exercised during the financial year and for each of them, number of shares and the price of the exercised option or the value of the interest of the incentive scheme based on equity at the end of the financial year;**

**c) the number of unexercised stock options at the end of the financial year, including data on their price and date of exercise and the essential conditions for the exercise of rights;**

**d) any changes in the terms and conditions of existing share options adopted during the financial year.**

In the current Remuneration policy for the Members of the Board of Directors of Tchaikapharma High Quality Medicines inc. stock options, shares of the Company or other incentive schemes based on shares of the members of the corporate management are not provided and such were neither paid nor provided.

**Programme for the implementation of the remuneration policy for the next financial year.**

In this Policy the guiding principles of the Commission Recommendation 2009/386/EC complementing Recommendations 2004/913/EC and Recommendation 2005/162/EC regarding the regime for the remuneration of directors of listed companies whose securities are admitted to trading on regulated market established by Ordinance 48 from the 20<sup>th</sup> of March, 2013 of the Financial Supervision Commission were adopted.

The Board of Directors believes that the principles enshrined currently in the Remuneration policy are effective in view of the financial results achieved during the reporting period.

As of the date of preparation of this report the Board of Directors has not proposed changes in the adopted and approved by the General Meeting of Shareholders Remuneration Policy.

The Board of Directors is responsible for the timely publication of the approved by the General Meeting of Shareholders Remuneration policy and the subsequent amendments to it in a clear and accessible way.

The Company prepares an Annual Report on the remuneration of the Board of Directors, which is a separate document to the Financial Statements. The report contains the information referred to in Article 13 of Ordinance 48 of the FSC and after its adoption by the General

Meeting of Shareholders shall be published on the website of the Company – [www.tchaikapharma.com](http://www.tchaikapharma.com).

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Executive Director Biser Georgiev