

ACTIVITY REPORT

For the third quarter
of 2018



TCHAIKAPHARMA
HIGH QUALITY MEDICINES

TCHAIKAPHARMA HIGH QUALITY MEDICINES INC.

10.10.2018

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 37 14

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 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.
- 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 thousand) new ordinary dematerialized 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 on 05.07.2017.
- 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 thousand) new ordinary dematerialized shares with a nominal value of BGN 1 (one).

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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 2018 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: 2015, 2016 and 2017.

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

Investments for the period	2015	2016	2017
Tchaikapharma High Quality Medicines Inc.			
I. Fixed tangible assets	2 906	1 331	2 762
1. Plant, property and equipment	2 782	1 312	2 760
2. Other fixed assets	124	19	2
II. Fixed intangible assets	532	547	743
1. Industrial property rights	531	495	726
2. Software	1	9	4
3. Patents and licenses		43	43
Total amount of acquisition of fixed tangible and intangible assets	3 438	1 878	3 505

Major investments in progress

The investments in the two factories of Tchaikapharma High Quality Medicines Inc. are the system of serialization and tamper evidence with which we meet the requirements of the European **Directive 2011/62/EU**. From 9.02.2019 every package of a medicinal product can be marketed within the EU with unique coding and tamper evidence. The system will be implemented in cooperation with SoftGroup AD and for installation are planned 5 machines for printing and verification of 2D matrix code (with the unique code of the box) tamper evidence system in each cartoning machine, server: central and local, software for generating individual codes, storing and sending them to the European hub.

A small investment in the plant in Plovdiv is the system for optimizing the energy costs for heating and cooling of the production ventilation system.

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 2018 Tchaikapharma continued to be one of the leading pharmaceutical companies in Bulgaria, which continued to add new products to its diverse portfolio

Documentation has been prepared for filing new product dossiers, which are part of the so-called fixed combinations.

Tchaikapharma High Quality Medicines AD has also entered the market in Kosovo, where it is selling new products which is part of the cephalosporin group of medicines.

In the plants of Tchaikapharma High Quality Medicines AD are manufactured, packaged and analyzed over 157 medicinal products. Production equipment, facilities providing the production environment, the premises and analytical equipment undergo a re-qualification and calibration process every year so that we can ensure that production is in line with European Good Manufacturing Practice requirements. With a permanent training system, we strive to maintain the staff with adequate professional capabilities to fulfill the production tasks.

Tchaikapharma High Quality Medicines Inc., as a high-quality manufacturer of medicinal products, began to produce its own dossiers of medicinal products. The dossier of a medicinal product with INN Irbesartan is underway. The necessary documents such as Protocol, Investigator's Brochure, Patient's Clinical Card, etc., required to obtain authorisation to conduct a second clinical trial to demonstrate the bioequivalence of a fixed combination of irbesartan/hydrochlorothiazide with the CoAprovel reference product are under preparation.

The development and validation of methods for investigation of the concentration of drug substances in human plasma is a major task of the bioanalytical laboratory. An important part of the work of the laboratory is the creation of standard operating procedures to ensure the quality of the work and the reliability of the results. Based on the quality system under construction in the bio-analytical laboratory, it will also be possible to initiate a Good laboratory practice (GLP) compliance procedure.

Employees

As of 30.09.2018 the average number of employees in Tchaikapharma High Quality Medicines Inc. was 134 (133 as of 31.12.2017). In the table below detailed information about the employees in the company is provided.

	30.09.2018	Share
Number of employees as of 30.09.2018	134	100%
Higher education	79	59%
Secondary education	54	40%
Primary education	1	1%
Employees under 30 years	39	29%
Employees 31 - 40 years	53	40%
Employees 41 - 50 years.	31	23%
Employees 51 - 60 years.	8	6%
Employees 60+ years	3	2%
Women	58	43%
Men	76	57%

Significant events since the beginning of the year until 30.09.2018

In the third quarter of 2018 there were no significant events.

Key financial indicators

Indicators	01-09/2018	01-09/2017	change
	BGN '000	BGN '000	%
Sales revenue	27 195	25 960	4.76%
Earnings before interest, taxes and depreciation (EBITDA)	10 627	8 691	22.28%
Net profit	7 246	5 617	29.00%

	01-09/2018	01-12/2017	change
	BGN '000	BGN '000	%
Non-current assets	34 498	35 762	-3.53%
Current assets	71 442	61 220	16.70%
Equity	89 549	82 303	8.80%
Non-current liabilities	1 781	1 981	-10.09%
Current liabilities	14 611	12 698	15.06%

	01-09/2018	01-09/2017
EBITDA/Sales revenue	39%	34%
Net profit/Sales revenue	27%	22%

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	01-09/2018 <i>BGN '000</i>	01-09/2017 <i>BGN '000</i>
Tablets	23 419	21 663
Ampules	777	1 327
Vials	2 933	2 876
Total:	27 130	25 866

Revenue by therapeutic groups	01-09/2018	01-09/2017
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	<i>BGN '000</i>	<i>BGN '000</i>
Cardiovascular system	20 218	20 413
Musculoskeletal system and connective tissue	62	72
Respiratory system and antibiotics	2 809	2 543
Nervous system	1 060	788
Endocrine system	900	860
Other products	1 119	449
Digestive system and metabolism	740	528
Oncology	222	213
Total:	27 130	25 866

Changes in the inventories of products and work in progress

(185) 246

Other operating income

01-09/2018 **01-09/2017**
BGN '000 *BGN '000*

Income from rent

32 32

Other income

33 62

Total:

65 94

Financial income

01-09/2017 **01-09/2016**
BGN '000 *BGN '000*

Income from interest

3 -

Income from exchange rate differences

10 84

Other financial income

- -

Total:

13 84

Core activity expenses

Operating expenses

01-09/2018 **01-09/2017**
BGN '000 *BGN '000*

Book value of sold products

1 826 1 465

Materials

7 063 6 957

External services

4 550 5 841

Salaries

2 314 2 059

Social security costs

414 420

Depreciation costs

2 467 2 294

Other

160 795

Total:

18 794 **19 831**

Cost of materials

01-09/2018 **01-09/2017**
BGN '000 *BGN '000*

Basic material

6 563 6 298

Electricity	317	297
Fuels and lubricants	45	46
Spare parts and laboratory materials	89	131
Water	14	13
Other materials	35	172
Total:	7 063	6 957

Costs of external services	01-09/2018	01-09/2017
	BGN '000	BGN '000
Rents	174	157
Security	159	159
Insurance	17	24
Telephone and postage expenses	24	22
Equipment maintenance and subscription	93	45
Fees	85	79
Transport costs	23	37
Other costs for external services	3 975	5 318
Total:	4 550	5 841

Financial expenses	01-09/2018	01-09/2017
	BGN '000	BGN '000
Interest expenses	176	206
Expenses on operations with financial instruments	1	
Expenses from exchange rate differences	41	31
Other financial expenses	27	31
Total:	245	268

Assets

	01-09/2018	01-12/2017
	BGN '000	BGN '000
Non-current assets		
Property, plant and equipment	25 564	26 803
Intangible assets	2 973	2 998
Investments with minority interest	1	1
Trade receivables	5 960	5 960
Total non-current assets	34 498	35 762

	01-09/2018	01-12/2017
	BGN '000	BGN '000
Current assets		
Inventories	4 184	5 190
Trade and other receivables	67 192	55 998
Treasury shares redeemed	3	8
Cash and cash equivalents	64	24

Total current assets	71 443	61 220
Total Assets	105 941	96 982
	01-09/2018	01-12/2017
	BGN '000	BGN '000
Property, plant and equipment		
Land and buildings	11 349	11 676
Machinery and equipment	11 954	13 076
Other	139	191
In the process of acquisition	2 122	1 860
	25 564	26 803
Inventories	01-09/2018	01-12/2017
	BGN '000	BGN '000
Materials	3 796	4 384
Production	323	542
Goods	3	229
Work in progress	62	35
Total:	4 184	5 190
Equity and liabilities		
	01-09/2018	01-12/2017
	BGN '000	BGN '000
Registered capital	72 200	64 300
Statutory reserve	10 103	9 172
Undistributed profit	7 246	8 831
Total Equity	89 549	82 303
	01-09/2018	01-12/2017
Liabilities		
	BGN '000	BGN '000
Non-current liabilities		
Long-term loans	390	590
Deferred tax liabilities	1 308	1 308
Liabilities to employees on retirement	83	83
Total non-current liabilities	1 781	1 981
Current liabilities		
Trade and other liabilities	4 135	2 134
Short term loans	9 778	9 784
Current part of long-term loans	320	491
Current corporate income tax		78
Other tax liabilities	378	211
Total current liabilities	14 611	12 698
Total liabilities	16 392	14 679
Total equity and liabilities	105 941	96 982

Financial indicators

01-09/2018 01-12/2017

Debt ratio	0.18	0.18
Financial autonomy ratio	5.46	5.61

Information on the shares of Tchaikapharma High Quality Medicines Inc.

The total amount of shares issued as of 30.09.2018 was 72 200 000 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.

	1-09/2018	1-09/2017
Total number of issued shares	72 200 000	64 300 000
Number of shares in circulation at end of period	72 200 000	64 300 000
Price per share at the end of the period in BGN	8.25	7.66
Market capitalization at the end of the period in BGN	595 650 000	492 538 000

Biser Georgiev

/Executive Director/

