

ACTIVITY REPORT

For the first quarter
of 2016



TCHAIKAPHARMA HIGH QUALITY MEDICINES INC.

25.04.2016

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.
- Currently the capital of the Company is BGN 49 600 000, divided into 49 600 000 ordinary shares with voting rights, with a nominal 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 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.

Tchaikapharma High Quality Medicines Inc. maintained and asserted its place in the first quarter of 2016 in the top 15 of the manufacturers of medicinal products in Bulgaria published by IMS. The company continues to develop and reinforce its position in modern treatment of cardiovascular diseases. According to IMS data it ranks first in sales growth of lipid-lowering agents and calcium antagonists, and third for drugs that affect the renin-angiotensin system.

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. The new production line for dry filling of vials will be commissioned in 2016. With the new investment the Company will increase its production capacity by 50 vials per minute, representing 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 first quarter of 2016 Tchaikapharma continues to be one of the leading pharmaceutical companies in Bulgaria, which continues to add new products to its diverse portfolio and is in the process of obtaining Marketing Authorisation for the following medicinal products:

- Atorva 40 mg and Atorva 80 mg film-coated tablets - statin that regulates the levels of lipids (fats);
- Ibodria 3 mg/3 ml solution for injection and Ibodria 6 mg/6 ml concentrate for solution for infusion - for the treatment of bone diseases, bisphosphonates;
- Linezolid-Tchaikapharma 2 mg/ml solution for infusion - antibacterial agent

In the first quarter of 2016 the company went through the most serious stage of the international procedure for the medicinal product Tamayra hard capsules started in 2015, namely assessing the quality of documentation and product. Forthcoming is closure of the procedure and Marketing Authorisation for each country separately.

Besides being a high quality manufacturer of medicinal products registered in the EU, Tchaikapharma expects four new Marketing Authorisations for the medicinal products Nordipin, Pisizif SR, Cardifriend and Bisor for the territory of Kosovo.

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. In the beginning of the following quarter submission is expected to the Bulgarian Drug Agency and the Ethics Committee to the SHATC Veliko Tarnovo EAD for assessment of the documents for obtaining permission to conduct a clinical trial. The planned bioequivalence study will be conducted immediately after receiving a favourable opinion from the two assessing institutions. It is envisaged to include 40 healthy volunteers to 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 31.03.2016 the average number of employees in Tchaikapharma High Quality Medicines Inc. was 131 (124 as of 31.12.2015). The table below specifies detailed information about the employees in the company.

	31.03.2016	Share
Number of employees as of 31.12.2015	131	100%
Higher education	79	60%
Secondary education	51	39%
Primary education	1	1%
Employees under 30 years	32	24%
Employees 31 - 40 years	58	44%
Employees 41 - 50 years.	24	18%
Employees 51 - 60 years.	12	9%
Employees 60+ years	5	4%
Women	54	41%
Men	77	59%

Significant events since the beginning of the year until 31.03.2016

In the first quarter of 2016 there were no significant events.

Key financial indicators

Indicators	01-03/2016 BGN '000	01-03/2015 BGN '000	Change %
Sales revenue	8 351	7 439	12.26%
Earnings before interest, taxes and depreciation (EBITDA)	3 812	3 687	3.39%
Net profit	2 552	2 245	13.67%

	01-03/2016 BGN '000	01-12/2015 BGN '000	Change %
Non-current assets	36 996	37 208	-0.57%
Current assets	47 347	43 066	9.94%
Equity	66 524	63 972	3.99%
Non-current liabilities	2 733	2 912	-6.15%
Current liabilities	15 086	13 390	12.67%

	01-03/2016	01-03/2015
EBITDA/Sales revenue	46%	49%
Net profit/Sales revenue	31%	30%

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 many 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	01-03/2016 <i>BGN '000</i>	01-03/2015 <i>BGN '000</i>
Tablets	7 325	6 249
Ampules	471	356
Vials	500	825
Total:	8 296	7 430

Revenue by therapeutic groups	01-03/2016 <i>BGN '000</i>	01-03/2015 <i>BGN '000</i>
Cardiovascular system	6 544	5 033
Musculoskeletal system and connective tissue	40	-
Respiratory system and antibiotics	794	838
Nervous system	50	439
Endocrine system	281	173
Other products	72	117
Digestive system and metabolism	162	298
Oncology	353	532
Total:	8 296	7 430

Changes in the inventories of products and work in progress	-294	-324
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Other operating income	01-03/2016 <i>BGN '000</i>	01-03/2015 <i>BGN '000</i>
Income from rent	9	9
Other income	46	-
Total:	55	9

Financial income	01-03/2016	01-03/2015
	<i>BGN '000</i>	<i>BGN '000</i>
Income from interest	1	2
Income from exchange rate differences	35	-
Other financial income	-	2
Total:	36	4

Operating expenses

Operating expenses	01-03/2016	01-03/2015
	<i>BGN '000</i>	<i>BGN '000</i>
Book value of sold products	1 307	408
Materials	2 079	1 704
External services	602	737
Salaries	620	1 005
Social security costs	122	178
Depreciation costs	867	1 027
Other	111	36
Total:	5 708	5 095

Cost of materials	01-03/2016	01-03/2015
	<i>BGN '000</i>	<i>BGN '000</i>
Basic material	1 931	1 569
Electricity	63	54
Fuels and lubricants	11	16
Spare parts and laboratory materials	40	22
Water	2	1
Other materials	32	42
Total:	2 079	1 704

Costs of external services	01-03/2016	01-03/2015
	<i>BGN '000</i>	<i>BGN '000</i>
Rents	33	32
Security	21	21
Insurance	19	15
Telephone and postage expenses	13	23
Equipment maintenance and subscription	7	5
Fees	5	5
Transport costs	10	9
Other costs for external services	494	627
Total:	602	737

Financial expenses	01-03/2016	01-03/2015
	<i>BGN '000</i>	<i>BGN '000</i>
Interest expenses	109	165
Expenses from exchange rate differences	12	2
Other financial expenses	16	10
Total:	137	177

Assets

	01-03/2016	01-12/2015
	<i>BGN '000</i>	<i>BGN '000</i>
Non-current assets		
Property, plant and equipment	26 817	27 145
Intangible assets	4 078	3 962
Investments with minority interest	1	1
Trade receivables	6 100	6 100
Total non-current assets	36 996	37 208
Current assets		
Inventories	5 525	4 711
Trade and other receivables	41 661	38 199
Financial assets with maturity	93	116
Cash and cash equivalents	68	40
Total current assets	47 347	43 066
Total Assets	84 343	80 274

	01-03/2016	01-12/2015
	<i>BGN '000</i>	<i>BGN '000</i>
Property, plant and equipment		
Land and buildings	11 397	11 505
Machinery and equipment	14 857	15 116
Other	237	254
In the process of acquisition	326	270
Total:	26 817	27 145

Inventories	01-03/2016	01-12/2015
	<i>BGN '000</i>	<i>BGN '000</i>
Materials	4 671	4 211
Production	451	152
Goods	189	95
Work in progress	214	253
Total:	5 525	4 711

Equity and liabilities

	01-03/2016 BGN '000	01-12/2015 BGN '000
Registered capital	49 600	49 600
Statutory reserve	6 592	6 592
Undistributed profit	10 332	7 780
Total Equity	66 524	63 972

Liabilities

	01-03/2016 BGN '000	01-12/2015 BGN '000
Non-current liabilities		
Long-term loans	1 474	1 653
Deferred tax liabilities	1 210	1 210
Liabilities to employees on retirement	49	49
Общо нетекущи пасиви	2 733	2 912
Current liabilities		
Trade and other liabilities	4 756	2 551
Short term loans	8 156	8 420
Current part of long-term loans	1 597	1 790
Current corporate income tax	59	121
Other tax liabilities	518	508
Total current liabilities	15 086	13 390
Total liabilities	17 819	16 302
Total equity and liabilities	84 343	80 274

Financial indicators

	01-03/2016	01-12/2015
Debt ratio	0.27	0.25
Financial autonomy ratio	3.73	3.92

Information on the shares of Tchaikapharma High Quality Medicines Inc.

The total amount of shares issued as of 31.03.2016 is 49 600 000 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.

	1-03/2016	1-03/2015
Total number of issued shares	49 600 000	-
Number of shares in circulation at end of period	49 600 000	-
Price per share at the end of the period in BGN	5.78	-
Market capitalization at the end of the period in BGN	286 688 000	-



Biser Georgiev

/Executive Director/

ЧАЙКАФАРМА
ВИСОКОКАЧЕСТВЕНИТЕ ЛЕКАРСТВА