

ACTIVITY REPORT

for second quarter

of 2015



TCHAIKAPHARMA HIGH QUALITY MEDICINES INC.

30.07.2015

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 the fastest growing Bulgarian company specialized in manufacturing high quality and affordable generic and original medicines. The manufacturing facilities of the company are built in accordance with European requirements for the manufacture of medicinal products for human use and have a certificate of Good Manufacturing Practice. The main policy of the company is focused on providing quality, effective and safe medicinal products on the market. The portfolio of the company includes more than 150 medicinal products as its renovation is carried out in accordance with modern trends in the global drug therapy, and medicinal products for treatment of cardiovascular diseases, diabetes, diseases of the central nervous system, cancer and others are the priority.

Tchaikapharma High Quality Medicines Inc. ranks in the top 20 pharmaceutical manufacturers in Bulgaria in sales based on data for the first half of 2015, published by IMS, and is the Bulgarian company with the best indicators and is third among the generic companies in the top 20. The company continues to develop its position in the field of modern therapy of cardiovascular diseases, and for the first half of 2015, according to IMS data, is first in sales growth in Bulgaria of medicinal products that affect the renin-angiotensin system.

Investments

Major investments for each of the following financial years: 2012, 2013 and 2014

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

Investments for the period	2012	2013	2014
Tchaikapharma High Quality Medicines Inc.			
I. Fixed tangible assets	9 426	2 103	199
1. Plant, property and equipment	9 217	2 093	196
2. Other fixed assets	209	10	3
II. Fixed intangible assets	686	727	1 031
1. Industrial property rights	646	727	1 031
2. Software	40		
Total amount of acquisition of fixed tangible and intangible assets	10 112	2 830	1 230

Major investments in progress

The Company will invest in new production facilities in the pharmaceutical plant Varna. The new production line for dry filling of vials will be commissioned in late 2015. 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

The company continues to develop its traditionally strong portfolio and in the first half of 2015 Marketing Authorisations in Bulgaria for new medicinal products for treatment of diabetes and cardiovascular disease were obtained as follows:

- Pizona 15 mg, 30 mg, 45 mg tablets
- Amarhyton 50 mg, 100 mg, 150 mg, 200 mg prolonged release capsules
- Co-Telsart 40 mg/12.5 mg, 80 mg/12.5 mg, 80 mg/25mg tablets
- Cordacare Plus 10 mg/12.5 mg, 20 mg/12.5 mg tablets

In the process of Marketing Authorisation in Bulgaria are more than 15 medicinal products that meet modern requirements for drug therapy.

The long-term policy for the development of Tchaikapharma includes development of the European market; the main orientation is to the markets of the member states of the EU. In pursuance of this policy of the company in the first half of 2015 the first international Marketing Authorisation procedure for medicinal use Rossta tablets was completed, and Tchaikapharma obtained Marketing Authorisation for the product in Bulgaria, Czech Republic, Poland, Romania and Greece. In the process of completion is the second international Marketing Authorisation procedure for the medicinal product Cardesart-Co. The launch of the next international procedures of the company is forthcoming and the number of countries will be increased.

Apart from registration of medicinal products in the EU, the company began its expansion in other Balkan countries as well as in Ukraine.

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. Tchaikapharma continues to expand its manufacturing activities; in the process of building is a new production capacity for medicinal products for parenteral administration, which is to be put into operation in late 2015. The premises and equipment of the plant are in full compliance with the European requirements for manufacturing of sterile medicinal products.

The strategy for the future development of Tchaikapharma includes pharmaceutical development of medicinal products drugs and fixed combinations. In connection with this new activity and the constantly increasing demands for quality, safety and efficacy of medicinal products Tchaikapharma build a new modern laboratory, which will test the newly developed medicines of the Company. The first clinical bioequivalence study of a medicinal product of the company will follow soon.

Employees

As of 30.06.2015, the average number of employees in Tchaikapharma High Quality Medicines Inc. is 131 (192 for 2014). The table below specifies detailed information about the employees in the company.

Number of employees as of 30.06.2015	30.06.2015	Percentage
	131	100%
Higher education	77	59%
Secondary education	53	40%
Primary education	1	1%
Employees under 30 years	32	24%
Employees 31 - 40 years	55	42%
Employees 41 - 50 years	25	19%
Employees 51 - 60 years	14	11%
Employees 60+ years	5	4%
Women	52	40%
Men	79	60%

Значителни събития за периода от началото на годината до 30.06.2015г.

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. The distributed dividend from the profit was BGN 34 815.86.



Key financial indicators

Indicators	1-6/2015 BGN '000	1-6/2014 BGN '000	change %
Sales revenue	15 095	12 174	24%
Earnings before interest, taxes and depreciation (EBITDA)	6 627	5 645	17,4%
Net profit	3 943	3 625	8,8%

	30.6.2015	31.12.2014	
	BGN '000	BGN '000	
Non-current assets	36 355	35 754	1,7%
Current assets	40 466	36 875	9,7%
Equity	59 614	55 706	7%
Non-current liabilities	3 595	2 864	25,5%
Current liabilities	13 612	14 059	-3,1%

	Indicators	1-6/2015	1-6/2014
EBITDA/ Sales revenue		44%	46%
Net profit / Sales revenue		26%	30%
Borrowed capital/Equity		0,29	0,30

Review 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

	01-06/2015 BGN '000	01-06/2014 BGN '000
Tablets	12 361	8 232
Ampules	1 073	376
Vials	1 640	3 130
Total:	15 074	11 738

Revenue by therapeutic groups

	01-06/2015 BGN '000	01-06/2014 BGN '000
Cardiovascular system	10 361	6 660
Musculoskeletal system and connective tissue	1 849	153
Respiratory system and antibiotics	791	3 158
Nervous system	752	382
Endocrine system	471	380
Other products	389	633
Digestive system and metabolism	247	182
Oncology	214	190

Total:	15 074	11 738
Changes in the inventories of products and work in progress	339	601

Other operating revenue

	01-06/2015 BGN '000	01-06/2014 BGN '000
Income from rent	20	23
Other income	1	164
Total:	21	187

Financial revenue

	01-06/2015 BGN '000	01-06/2014 BGN '000
Income from interest	4	3
Income from exchange rate differences	2	-
Other financial income	-	1
Total:	6	4

Operating expenses

Operating expenses

	01-06/2015 BGN '000	01-06/2014 BGN '000
Book value of sold products	760	659
Materials	4 047	3 403
External services	1 727	506
Salaries	1 780	2 000
Social security costs	311	318
Depreciation costs	1 938	1 759
Other	160	226
Total:	10 723	8 871

Cost of materials

	01-06/2015 BGN '000	01-06/2014 BGN '000
Basic material	3 747	3 118
Electricity	111	112
Fuels and lubricants	45	39
Spare parts and laboratory materials	62	41
Water	3	4
Other materials	79	89
Total:	4 047	3 403

Costs of external services

	01-06/2015 BGN '000	01-06/2014 BGN '000
Rents	81	74
Security	41	55
Insurance	31	33
Telephone and postage expenses	32	22
Equipment maintenance and subscription	25	30
Fees	19	18
Transport costs	19	20
Other costs for external services	1 479	254
Total:	1 727	506

Financial expenses

	01-06/2015 <i>BGN '000</i>	01-06/2014 <i>BGN '000</i>
Interest expenses	312	264
Expenses from exchange rate differences	4	5
Other financial expenses	20	14
Total:	336	283

Assets

	1.6.2015 <i>BGN '000</i>	31.12.2014 <i>BGN '000</i>
Non-current assets		
Property, plant and equipment	27 387	26 971
Intangible assets	3 860	3 840
Investments with minority interest	1	1
Non-current loans granted	17	17
Trade receivables	5 090	4 925
Total non-current assets	36 355	35 754

Current assets

Inventories	5 379	4 365
Trade and other receivables	34 880	32 248
Financial assets with maturity	160	204
Cash and cash equivalents	47	58
Total current assets	40 466	36 875
Total Assets	76 821	72 629

	1.6.2015 <i>BGN '000</i>	31.12.2014 <i>BGN '000</i>
Property, plant and equipment		
Land and buildings	11 152	11 385
Machinery and equipment	15 670	14 915
Other	210	180
In the process of acquisition	355	491
Total:	27 387	26 971

Inventories

	1.6.2015 <i>BGN '000</i>	31.12.2014 <i>BGN '000</i>
Materials	4 367	3 674
Production	561	117
Goods	64	87
Work in progress	387	487
Total:	5 379	4 365

Equity and liabilities

	1.6.2015 <i>BGN '000</i>	31.12.2014 <i>BGN '000</i>
Registered capital	49 600	43 500
Statutory reserve	6 071	5 390
Undistributed profit	3 943	6 816
Total Equity	59 614	55 706

Liabilities

	1.6.2015 <i>BGN '000</i>	31.12.2014 <i>BGN '000</i>
Non-current liabilities		
Long-term loans	2 414	1 683
Deferred tax liabilities	1 181	1 181
Total non-current liabilities	3 595	2 864
Current liabilities		
Trade and other liabilities	2 494	3 027
Short term loans	8 948	9 388
Current part of long-term loans	1 976	1 241
Current corporate income tax	68	146
Other tax liabilities	126	257
Total current liabilities	13 612	14 059
Total liabilities	17 207	16 923
Total equity and liabilities	76 821	72 629

Financial indicators

	1.6.2015	1.6.2014
Debt ratio	0.29	0.30
Financial autonomy ratio	3.46	3.29

Information on the shares of Tchaikapharma High Quality Medicines Inc.

The total amount of shares issued as of 30.06.2015 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.

	1-6/2015	1-6/2014
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	4.75	-
Market capitalization at the end of the period in BGN	235 600 000	-



ЧАЙКАФАРМА
Biser Geotgiev
/Executive Director/
ВИСОКОКАЧЕСТВЕНИТЕ ЛЕКАРСТВА