

ACTIVITY REPORT

for fourth quarter

of 2015



TCHAIKAPHARMA HIGH QUALITY MEDICINES INC.

27.01.2016

General information about Tchaikapharma High Quality Medicines Inc.

History and development of Tchaikapharma High Quality Medicines Inc.

Юридическо и търговско наименование

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 last quarter 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. ranks in the top 15 pharmaceutical manufacturers in Bulgaria in sales based on data for the fourth quarter of 2015 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: 2012, 2013 and 2014

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

Investments for the period	2012	2013	2014
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 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

In the last quarter of 2015 Tchaikapharma as one of the leading pharmaceutical companies in Bulgaria developed and diversified its portfolio by obtaining Marketing Authorisations for medicinal products from the following pharmaceutical groups:

- Proton pump inhibitors
 - Esomperazole-Tchaikapharma 40 mg powder for injection/infusion
- Нестероидни противовъзпалителни средства
 - Dexketoprofen-Tchaikapharma 50 mg/2 ml solution for injection or concentrate for solution for infusion
- Antipsychotics
 - Aripipa 15 mg tablets
- Angiotensin II antagonists (and diuretics) for treatment of essential hypertension
 - Olsart 10 mg, 20 mg, 40 mg film coated tablets
 - Coolsart 20 mg/12.5 mg, 20 mg/25 mg, 40 mg/12.5 mg, 40 mg/25 mg film coated tablets
- Opioid anesthetics
 - Remifentanil-Tchaikapharma 1 mg, 5 mg powder for concentrate for solution for injection/infusion

In the fourth quarter of 2015 Tchaikapharma passed the first stage of its third Decentralised Procedure for the medicinal product Tamayra of 5 mg/5 mg and Tamayra of 10 mg/5 mg hard capsules, where the reference country is Bulgaria and the other affected countries are the Czech Republic, Romania, Portugal Slovakia, Greece and Austria.

After completion of the national phase of the Decentralised Procedure for the medicinal product Candesartan/Hydrochlorothiazide, Tchaikapharma received Marketing Authorisation in the territory of Romania in the last quarter of 2015.

In the process of Marketing Authorisation in Bulgaria are 8 more medicinal products that meet modern requirements for drug therapy.

Besides its role as a high quality manufacturer of medicinal products registered in the EU, Tchaikapharma also received two new Marketing Authorisations for medicinal products Bravilol and Amariton 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 this connection and a new laboratory was established that on the basis of validated methods will examine various concentrations of drugs in human plasma to assess the bioequivalence of medicinal products to the original medicines. The activities of the new laboratory will seek to fill a niche not very developed on the Bulgarian market and at the same time is preparing to conduct the first clinical trial of a medicine of the company

Employees

As of 31.12.2015 the average number of employees in Tchaikapharma High Quality Medicines Inc. was 124 (192 as of 31.12.2014 г.). The table below specifies detailed information about the employees in the company.

	31.12.2015	Share
Number of employees as of 31.12.2015 г.	124	100%
Higher education	76	61%
Secondary education	47	38%
Primary education	1	1%
Employees under 30 years	28	23%
Employees 31 - 40 years	55	44%
Employees 41 - 50 years.	24	19%
Employees 51 - 60 years.	12	10%
Employees 60+ years	5	4%
Women	51	41%
Men	73	59%

Significant events since the beginning of the year until 31.12.2015г.

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	1-12/2015 BGN '000	1-12/2014 BGN '000	Change %
Sales revenue	30 015	28 989	3,5%
Earnings before interest, taxes and depreciation (EBITDA)	12 952	11 598	11,7%
Net profit	7 806	6 816	14,5%

	31.12.2015 BGN '000	31.12.2014 BGN '000	
Non-current assets	36 680	35 754	2,6%
Current assets	42 980	36 875	16,6%
Equity	63 477	55 706	13,9%
Non-current liabilities	2 834	2 864	-1,1%
Current liabilities	13 349	14 059	-5,1%

	1-12/2015	1-12/2014
EBITDA/Sales revenue	43%	40%
Net profit/Sales revenue	26%	23%

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

	01-12/2015 <i>BGN '000</i>	01-12/2014 <i>BGN '000</i>
Tablets	24 835	20 538
Ampules	1 506	1 198
Vials	3 605	6 958
Total:	29 946	28 694

Revenue by therapeutic groups

	01-12/2015 BGN '000	01-12/2014 BGN '000
Cardiovascular system	22 478	18 234
Musculoskeletal system and connective tissue	185	175
Respiratory system and antibiotics	3 539	6 762
Nervous system	1 430	1 010
Endocrine system	736	295
Other products	537	947
Digestive system and metabolism	385	847
Oncology	656	424
Total:	29 946	28 694
Changes in the inventories of products and work in progress	(200)	445
Other operating revenue		
	01-12/2015 BGN '000	01-12/2014 BGN '000
Income from rent	42	43
Other income	27	252
Total:	69	295

Financial revenue

	01-12/2015 BGN '000	01-12/2014 BGN '000
Income from interest	10	9
Income from exchange rate differences	11	1
Other financial income	-	1
Total:	21	11

ВЪВЕДЕНИЕ ВИСОКОКАЧЕСТВЕНИТЕ ЛЕКАРСТВА Operating expenses

Operating expenses

	01-12/2015 BGN '000	01-12/2014 BGN '000
Book value of sold products	1 986	1 407
Materials	7 879	6 907
External services	2 888	3 270
Salaries	2 995	4 416
Social security costs	552	687
Depreciation costs	3 692	3 442
Other	526	1 096
Total:	20 518	21 225

Cost of materials

	01-12/2015	01-12/2014
	BGN '000	BGN '000
Basic material	7 221	6 333
Electricity	238	229
Fuels and lubricants	86	98
Spare parts and laboratory materials	181	94
Water	6	7
Other materials	147	146
Total:	7 879	6 907

Costs of external services

	01-12/2015	01-12/2014
	BGN '000	BGN '000
Rents	187	160
Security	82	96
Insurance	58	68
Telephone and postage expenses	61	49
Equipment maintenance and subscription	38	46
Fees	52	31
Transport costs	32	36
Other costs for external services	2 378	2 784
Total:	2 888	3 270

Financial expenses

	01-12/2015	01-12/2014
	BGN '000	BGN '000
Interest expenses	585	519
Expenses from exchange rate differences	16	9
Other financial expenses	42	55
Total:	643	583

Assets

	31.12.2015	31.12.2014
	BGN '000	BGN '000
Non-current assets		
Property, plant and equipment	26 518	26 971
Intangible assets	3 962	3 840
Investments with minority interest	1	1
Non-current loans granted		17
Trade receivables	6 199	4 925
Total non-current assets	36 680	35 754

	31.12.2015 <i>BGN '000</i>	31.12.2014 <i>BGN '000</i>
Current assets		
Inventories	4 711	4 365
Trade and other receivables	38 109	32 248
Financial assets with maturity	116	204
Cash and cash equivalents	44	58
Total current assets	42 980	36 875
Total Assets	79 660	72 629

	31.12.2015 <i>BGN '000</i>	31.12.2014 <i>BGN '000</i>
Property, plant and equipment		
Land and buildings	10 919	11 385
Machinery and equipment	15 108	14 915
Other	220	180
In the process of acquisition	271	491
Total:	26 518	26 971

	31.12.2015 <i>BGN '000</i>	31.12.2014 <i>BGN '000</i>
Inventories		
Materials	4 211	3 674
Production	152	117
Goods	95	87
Work in progress	253	487
Total:	4 711	4 365

Equity and liabilities

	31.12.2015 <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	7 806	6 816
Total Equity	63 477	55 706

Liabilities

	31.12.2015 <i>BGN '000</i>	31.12.2014 <i>BGN '000</i>
Non-current liabilities		
Long-term loans	1 653	1 683
Deferred tax liabilities	1 181	1 181
Total non-current liabilities	2 834	2 864

	31.12.2015	31.12.2014
	<i>BGN '000</i>	<i>BGN '000</i>
Current liabilities		
Trade and other liabilities	2 505	3 027
Short term loans	8 420	9 388
Current part of long-term loans	1 790	1 241
Current corporate income tax	125	146
Other tax liabilities	509	257
Total current liabilities	13 349	14 059
Total liabilities	16 183	16 923
Total equity and liabilities	79 660	72 629

Financial indicators

	31.12.2015	31.12.2014
Debt ratio	0.26	0.30
Financial autonomy ratio	3.92	3.29

Information on the shares of Tchaikapharma High Quality Medicines Inc.

The total amount of shares issued as of 31.12.2015 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.

	1-12/2015	1-12/2014
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	5.45	-
Market capitalization at the end of the period in BGN	270 320 000	-

Biser Georgiev

/Executive Director/