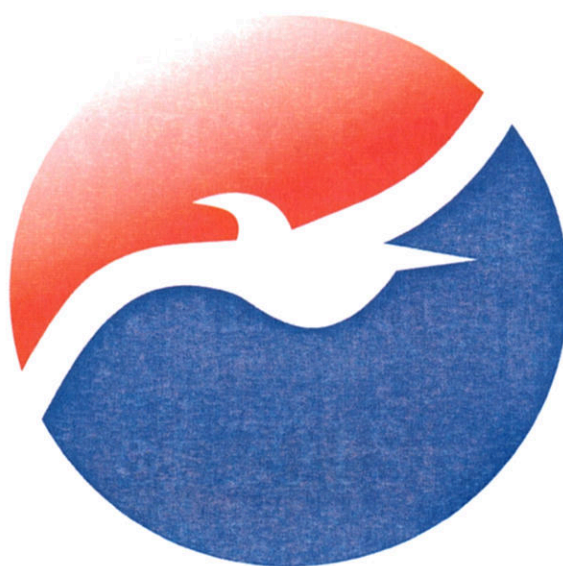


ACTIVITY REPORT

For the first quarter
of 2018



TCHAIKAPHARMA
HIGH QUALITY MEDICINES

TCHAIKAPHARMA HIGH QUALITY MEDICINES INC.

23.04.2018

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 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 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
- 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) 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 11.07.2017
- The current capital of the Company is BGN 64 300 000 distributed in 64 300 000 ordinary dematerialized voting shares with a par 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 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

In the first quarter of 2018 there were no major investments.

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 2018 Tchaikapharma continued to be one of the leading pharmaceutical companies in Bulgaria, which continued to add new products to its diverse portfolio and the following medicinal products are in the process of obtaining Marketing Authorisations:

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.

In the first quarter of 2018, Tchaikapharma High Quality Medicines AD, continues to add new products to its diverse portfolio and to be one of the leading companies in the pharmaceutical market. The documentation for three new products to complement the company's product list is being processed.

In the first quarter of 2018, Tchaikapharma High Quality Medicines AD submitted the necessary documents to obtain authorization to conduct a clinical trial with the Executive Agency for Medicines and the Ethics Committee at the “Tsaritsa Yoanna-ISUL” University Hospital, namely a Protocol, Researcher's Brochure, the Patient's Clinical Card, and the informed consent form. On 12.03.2018. an authorization was obtained from the EAM, followed by a positive opinion from the Ethics Committee. The bioequivalence study of a fixed combination of irbesartan/hydrochlorothiazide with the CoAprovel reference product will be conducted at the “Tsaritsa Yoanna-ISUL” University Hospital and will include 30 healthy volunteers. The development and validation of methods for investigating the concentration of drug substances in human plasma is a major task of the bioanalytical laboratory. Currently, experiments on the validation of the first method for determining the concentration of irbesartan in human plasma continue to meet the requirements of the current EMA and FDA guidelines. Based on the quality system implemented in the bio-analytical laboratory, it will also be possible to initiate a GLP compliance procedure.

Employees

As of 31.03.2018 the average number of employees in Tchaikapharma High Quality Medicines Inc. was 135 (133 as of 31.12.2017). In the table below detailed information about the employees in the company is provided

	31.03.2018	Share
Number of employees as of 31.03.2018	135	100%
Higher education	73	54%
Secondary education	61	45%
Primary education	1	1%
Employees under 30 years	37	27%
Employees 31 - 40 years	52	39%
Employees 41 - 50 years.	32	24%
Employees 51 - 60 years.	9	7%
Employees 60+ years	5	4%
Women	52	39%
Men	83	61%

Significant events since the beginning of the year until 31.03.2018

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

Key financial indicators

Indicators	01-03/2018 BGN '000	01-03/2017 BGN '000	Change %
Sales revenue	9 164	7 644	19.88%
Earnings before interest, taxes and depreciation (EBITDA)	4 207	3 978	5.76%
Net profit	3 023	2 856	5.85%

	01-03/2018 BGN '000	01-12/2017 BGN '000	Change %
Non-current assets	35 296	35 762	-1.30%
Current assets	65 754	61 220	7.41%
Equity	85 326	82 303	3.67%
Non-current liabilities	1 912	1 981	-3.48%
Current liabilities	13 812	12 698	8.77%

	01-03/2018	01-03/2017
EBITDA/Sales revenue	46%	52%
Net profit/Sales revenue	33%	37%

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	01-03/2018 BGN '000	01-03/2017 BGN '000
Tablets	7 809	6 547
Ampules	189	421
Vials	1 153	649
Total:	9 151	7 617

Revenue by therapeutic groups	01-03/2018 BGN '000	01-03/2017 BGN '000
Cardiovascular system	6 680	6 238
Musculoskeletal system and connective tissue	30	41
Respiratory system and antibiotics	1 085	660
Nervous system	394	323
Endocrine system	357	255

Other products	196	100
Digestive system and metabolism	300	-
Oncology	109	-
Total:	9 151	7 617

Changes in the inventories of products and work in progress	-124	-374
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Other operating income	01-03/2018	01-03/2017
	BGN '000	BGN '000
Income from rent	12	11
Other income	1	15
Total:	13	26

Financial income	01-03/2018	01-03/2017
	BGN '000	BGN '000
Income from interest		
Income from exchange rate differences	4	7
Other financial income	1	-
Total:	5	7

Core activity expenses

Operating expenses	01-03/2018	01-03/2017
	BGN '000	BGN '000
Book value of sold products	534	164
Materials	2 677	2 179
External services	908	872
Salaries	733	649
Social security costs	137	133
Depreciation costs	879	729
Other	82	26
Total:	5 950	4 752

Cost of materials	01-03/2018	01-03/2017
	BGN '000	BGN '000
Basic material	2 453	1 982
Electricity	75	79
Fuels and lubricants	13	13
Spare parts and laboratory materials	41	42

Water	4	4
Other materials	91	59
Total:	2 677	2 179

Costs of external services	01-03/2018	01-03/2017
	BGN '000	BGN '000
Rents	59	51
Security	53	53
Insurance	7	7
Telephone and postage expenses	7	6
Equipment maintenance and subscription	51	28
Fees	4	10
Transport costs	4	15
Other costs for external services	724	702
Total:	908	872

Financial expenses	01-03/2018	01-03/2017
	BGN '000	BGN '000
Interest expenses	59	76
Expenses from exchange rate differences	7	13
Other financial expenses	8	11
Total:	74	100

Assets

	01-03/2018	01-12/2017
	BGN '000	BGN '000
Non-current assets		
Property, plant and equipment	26 268	26 803
Intangible assets	3 067	2 998
Investments with minority interest	1	1
Trade receivables	5 960	5 960
Total non-current assets	35 296	35 762

Current assets		
Inventories	4 849	5 190
Trade and other receivables	60 866	55 998
Treasury shares redeemed	11	8
Cash and cash equivalents	28	24
Total current assets	65 754	61 220

Total Assets	101 050	96 982
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	01-03/2018	01-12/2017
	BGN '000	BGN '000
Property, plant and equipment		
Land and buildings	11 567	11 676
Machinery and equipment	12 678	13 076
Other	172	191
In the process of acquisition	1 851	1 860
	26 268	26 803

	01-03/2018	01-12/2017
	BGN '000	BGN '000
Inventories		
Materials	3 925	4 384
Production	597	542
Goods	223	229
Work in progress	104	35
Total:	4 849	5 190

Equity and liabilities

	01-03/2018	01-12/2017
	BGN '000	BGN '000
Registered capital	64 300	64 300
Statutory reserve	9 172	9 172
Undistributed profit	11 854	8 831
Total Equity	85 326	82 303

Liabilities

	01-03/2018	01-12/2017
	BGN '000	BGN '000
Non-current liabilities		
Long-term loans	521	590
Deferred tax liabilities	1 308	1 308
Liabilities to employees on retirement	83	83
Total non-current liabilities	1 912	1 981

Current liabilities		
Trade and other liabilities	3 007	2 134
Short term loans	9 778	9 784
Current part of long-term loans	434	434
Current corporate income tax		78
Other tax liabilities	593	211
Total current liabilities	13 812	12 698
Total liabilities	15 724	14 679
Total equity and liabilities	101 050	96 982

Financial indicators

01-03/2018 01-12/2017

Debt ratio	0.18	0.18
Financial autonomy ratio	5.43	5.61

Information on the shares of Tchaikapharma High Quality Medicines Inc.

The total amount of shares issued as of 31.03.2018 was 64 300 000 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.

	1-03/2018	1-03/2017
Total number of issued shares	64 300 000	56 600 000
Number of shares in circulation at end of period	64 300 000	56 600 000
Price per share at the end of the period in BGN	8.30	7.35
Market capitalization at the end of the period in BGN	533 690 000	416 010 000

Biser Georgiev

/Executive Director/

