

ACTIVITY REPORT

for third quarter

of 2015



TCHAIKAPHARMA HIGH QUALITY MEDICINES INC.

23.10.2015

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 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 15 pharmaceutical manufacturers in Bulgaria in sales based on data for the third quarter of 2015 published by IMS. The company continued to develop its position in the field of modern therapy of cardiovascular diseases and in the third quarter of 2015, according to IMS data, was 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 third quarter of 2015 Marketing Authorisations in Bulgaria for new medicinal products for treatment of diabetes and cardiovascular disease were obtained as follows:

Aroba 100 mg tablets – for the territory of Bulgaria;

Pretimectal 35 mg modified release tablets – for the territory of Bulgaria;

Cardesart-Co 8 mg/12.5 mg, 16 mg/12.5 mg tablets – for the territory of Bulgaria;

Cardesart-Co 8 mg/12.5 mg, 16 mg/12.5 mg tablets – for the territory of Slovakia;

Cardesart-Co 8 mg/12.5 mg, 16 mg/12.5 mg tablets – for the territory of Czech Republic;

Vorifungal 200 mg powder for solution for infusion – for the territory of Bulgaria;

Rosuvastatina-Tchaikapharma 10 mg, 20 mg, 40 mg film-coated tablets – for the territory of Romania.

The long-term policy for the development of Tchaikapharma includes a broader participation on the European market and the main orientation is to the markets of the member states of the EU. На 1 септември 2015 г. е поставено началото на трета за компанията Децентрализирана процедура за лекарствения продукт Тамайра 5 mg/5 mg и Тамайра 10 mg/5 mg твърди капсули, който спада към групата на ACE инхибиторите. Това е и първата международна процедура, в която референтна страна е България. Засегнатите държави по нея са Чехия, Румъния, Португалия, Словакия, Гърция и Австрия.

During the past quarter the company received two more Marketing Authorisations in connection with the completion of an international procedure for Candesartan/Hydrochlorothiazide and Rosuvastatin. In the process of Marketing Authorisation in Bulgaria are more than 11 medicinal products that meet modern requirements for drug therapy.

Apart from registration of medicinal products in the EU, the company continued its expansion in other Balkan countries and in September two medicinal products were registered 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 30.09.2015, the average number of employees in Tchaikapharma High Quality Medicines Inc. was 128 (192 for 2014). The table below specifies detailed information about the employees in the company.

	30.9.2015	Percentage
Number of employees as of 30.09.2015	128	100%
Higher education	74	59%
Secondary education	53	40%
Primary education	1	1%
Employees under 30 years	30	23%
Employees 31 - 40 years	55	43%
Employees 41 - 50 years.	24	19%
Employees 51 - 60 years.	14	11%
Employees 60+ years	5	4%
Women	50	40%
Men	78	60%

Significant events since the beginning of the year until 30.09.2015

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	1-9/2015 BGN '000	1-9/2014 BGN '000	change %
Sales revenue	22 328	18 715	19,3%
Earnings before interest, taxes and depreciation (EBITDA)	10 041	8 604	16,7%
Net profit	6 001	5 767	4,1%

	30.9.2015 BGN '000	31.12.2014 BGN '000	
Non-current assets	35 823	35 754	0,2%
Current assets	42 725	36 875	15,9%
Equity	61 612	55 706	10,6%
Non-current liabilities	3 316	2 864	15,8%
Current liabilities	13 560	14 059	-3,5%

	1-9/2015	1-9/2014
EBITDA/ Sales revenue	45%	46%
Net profit / Sales revenue	27%	31%

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

	01-09/2015 BGN '000	01-09/2014 BGN '000
Tablets	18 487	13 226
Ampules	1 489	1 113
Vials	2 321	3 931
Total:	22 298	18 270

Revenue by therapeutic groups

	01-09/2015 BGN '000	01-09/2014 BGN '000
Cardiovascular system	15 923	11 684
Musculoskeletal system and connective tissue	218	62
Respiratory system and antibiotics	2 990	4 462
Nervous system	1 287	596
Endocrine system	650	165
Other products	237	577
Digestive system and metabolism	358	302
Oncology	635	422
Total:	22 298	18 270

Changes in the inventories of products and work in progress

	296	959
--	-----	-----

Other operating revenue

	01-09/2015 BGN '000	01-09/2014 BGN '000
Income from rent	29	33
Other income	1	412
Total:	30	445

Financial revenue

	01-09/2015	01-09/2014
	<i>BGN '000</i>	<i>BGN '000</i>
Income from interest	6	6
Income from exchange rate differences	2	-
Other financial income	-	2
Total:	8	8

Operating expenses

Operating expenses

	01-09/2015	01-09/2014
	<i>BGN '000</i>	<i>BGN '000</i>
Book value of sold products	1 097	836
Materials	5 991	5 089
External services	2 436	732
Salaries	2 355	3 229
Social security costs	430	498
Depreciation costs	2 922	2 443
Other	239	658
Total:	15 470	13 485

Cost of materials

	01-09/2015	01-09/2014
	<i>BGN '000</i>	<i>BGN '000</i>
Basic material	5 456	4 648
Electricity	179	174
Fuels and lubricants	65	70
Spare parts and laboratory materials	155	69
Water	5	6
Other materials	131	122
Total:	5 991	5 089

Costs of external services

	01-09/2015	01-09/2014
	BGN '000	BGN '000
Rents	141	116
Security	62	75
Insurance	44	53
Telephone and postage expenses	50	32
Equipment maintenance and subscription	32	38
Fees	45	23
Transport costs	27	29
Other costs for external services	2 035	366
Total:	2 436	732

Financial expenses

	01-09/2015	01-09/2014
	BGN '000	BGN '000
Interest expenses	457	400
Expenses from exchange rate differences	6	7
Other financial expenses	31	23
Total:	494	430

Assets

	30.9.2015	31.12.2014
	BGN '000	BGN '000
Non-current assets		
Property, plant and equipment	26 833	26 971
Intangible assets	3 882	3 840
Investments with minority interest	1	1
Non-current loans granted	17	17
Trade receivables	5 090	4 925
Total non-current assets	36 823	35 754

Current assets

	30.9.2015	31.12.2014
	BGN '000	BGN '000
Inventories		
Trade and other receivables	5 853	4 365
Financial assets with maturity	36 699	32 248
Cash and cash equivalents	138	204
Total current assets	35	58
Total Assets	42 725	36 875
Current assets	78 548	72 629

	30.9.2015 <i>BGN '000</i>	31.12.2014 <i>BGN '000</i>
Property, plant and equipment		
Land and buildings	11 035	11 385
Machinery and equipment	15 064	14 915
Other	199	180
In the process of acquisition	535	491
Total:	26 833	26 971

	30.9.2015 <i>BGN '000</i>	31.12.2014 <i>BGN '000</i>
Inventories		
Materials	4 634	3 674
Production	607	117
Goods	307	87
Work in progress	305	487
Total:	5 853	4 365

Equity and liabilities

	30.9.2015 <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	6 001	6 816
Total Equity	61 672	55 706

Liabilities

	30.9.2015 <i>BGN '000</i>	31.12.2014 <i>BGN '000</i>
Non-current liabilities		
Long-term loans	2 135	1 683
Deferred tax liabilities	1 181	1 181
Total non-current liabilities	3 316	2 864

	30.9.2015 <i>BGN '000</i>	31.12.2014 <i>BGN '000</i>
Current liabilities		
Trade and other liabilities	2 707	3 027
Short term loans	8 684	9 388
Current part of long-term loans	1 747	1 241
Current corporate income tax	112	146
Other tax liabilities	310	257
Total current liabilities	13 560	14 059
Total liabilities	16 876	16 923
Total equity and liabilities	78 548	72 629

Financial indicators

	30.9.2015	31.12.2014
Debt ratio	0.27	0.30
Financial autonomy ratio	3.65	3.29

Information on the shares of Tchaikapharma High Quality Medicines Inc.

The total amount of shares issued as of 30.09.2015 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.

	1-9/2015	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	5.09	-
Market capitalization at the end of the period in BGN	252 464 000	-

ВИСОКОКАЧЕСТВЕНИТЕ ЛЕКАРСТВА

Biser Georgiev

/Executive Director/