

ACTIVITY REPORT

For the fourth quarter
of 2016



TCHAIKAPHARMA HIGH QUALITY MEDICINES INC.

25.01.2017

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:

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 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.
- 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

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 third 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.

Investments

Major investments for each of the following financial years: 2014, 2015 and 2016.

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

Investments for the period	2014	2015	2016
Tchaikapharma High Quality Medicines Inc.			
I. Fixed tangible assets	199	2 906	1 331
1. Plant, property and equipment	196	2 782	1 312
2. Other fixed assets	3	124	19
II. Fixed intangible assets	1 031	532	547
1. Industrial property rights	1 031	531	495
2. Software		1	9
3. Patents and licenses			43
Total amount of acquisition of fixed tangible and intangible assets	1 230	3 438	1 878

Major investments in progress

The Company invests in new production facilities in the pharmaceutical plant in Varna. With the new investment the Company will increase its production capacity by 50 vials per minute, which represents 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 fourth quarter of 2016 Tchaikapharma continued to be one of the leading pharmaceutical companies in Bulgaria and obtained Marketing Authorisation in the Czech Republic for the medicinal product Tamayra hard capsules.

At the beginning of the next quarter three new medicinal products are expected to be submitted that will enhance the company's portfolio in Bulgaria.

Besides being a high quality manufacturer of medicinal products registered in the EU, Tchaikapharma also received new Marketing Authorisations for medicinal products in the territory of Kosovo: Nordipin, Pizizif SR, Cardifrend, Bisor. The Company is expecting Marketing Authorisation in the same territory for another eight products: Rossta, Co-Telsart, Pizona, Diab MR, Aroba, Metformin, Diab and Co-Valstor.

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. On 29.10.2016 started the clinical part of the first bioequivalence trial to the original product of a generic product manufactured by Tchaikapharma High Quality Medicines Inc. that was granted Marketing Authorisation in the European Union under the centralized procedure. The study included 40 healthy volunteers, and the last blood samples were collected on 27.11.2016. This date is deemed to be the end of the clinical part of the study. Samples were sent for analysis and results are expected in the month of January 2017.

Employees

As of 31.12.2016 the average number of employees in Tchaikapharma High Quality Medicines Inc. was 126 (124 as of 31.12.2015). In the table below detailed information about the employees in the company is provided.

	31.12.2016	Share
Number of employees as of 31.12.2016	126	100%
Higher education	71	56%
Secondary education	54	43%
Primary education	1	1%
Employees under 30 years	32	25%
Employees 31 - 40 years	52	42%
Employees 41 - 50 years.	27	21%
Employees 51 - 60 years.	10	8%
Employees 60+ years	5	4%
Women	50	40%
Men	76	60%

Significant events since the beginning of the year until 31.12.2016

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

Key financial indicators

Indicators	01-12/2016	01-12/2015	Change
	<i>BGN '000</i>	<i>BGN '000</i>	%
Sales revenue	33 087	30 029	10.2%
Earnings before interest, taxes and depreciation (EBITDA)	13 389	12 841	4.3%
Net profit	8 611	7 780	10.7%

	01-12/2016	01-12/2015	Change
	<i>BGN '000</i>	<i>BGN '000</i>	%
Non-current assets	35 558	37 208	-4.4%
Current assets	55 532	43 066	28.9%
Equity	73 072	63 972	14.2%
Non-current liabilities	2 292	2 912	-21.3%
Current liabilities	15 726	13 390	17.4%

	01-12/2016	01-12/2015
EBITDA/Sales revenue	40%	43%
Net profit/Sales revenue	26%	26%

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	01-12/2016	01-12/2015
	<i>BGN '000</i>	<i>BGN '000</i>
Tablets	29 263	24 835
Ampules	1 114	1 506
Vials	2 602	3 605
Total:	32 979	29 946

Revenue by therapeutic groups	01-12/2016	01-12/2015
	<i>BGN '000</i>	<i>BGN '000</i>
Cardiovascular system	26 358	22 478
Musculoskeletal system and connective tissue	249	185
Respiratory system and antibiotics	2 863	3 539
Nervous system	1 103	1 430
Endocrine system	912	736
Other products	795	537
Digestive system and metabolism	302	385
Oncology	396	656
Total:	32 979	29 946

Changes in the inventories of products and work in progress	-108	-200
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Other operating income	01-12/2016	01-12/2015
	<i>BGN '000</i>	<i>BGN '000</i>
Income from rent	43	42
Other income	65	41
Total:	108	83

Financial income	01-12/2016	01-12/2015
	<i>BGN '000</i>	<i>BGN '000</i>
Income from interest	139	10
Income from exchange rate differences	38	11
Other financial income	-	-
Total:	177	21

Core activity expenses

Operating expenses	01-12/2016	01-12/2015
	<i>BGN '000</i>	<i>BGN '000</i>
Book value of sold products	3 379	1 986
Materials	8 273	7 878
External services	4 015	2 891
Salaries	2 723	3 088
Social security costs	520	561
Depreciation costs	3 532	3 652
Other	553	239
Total:	22 995	20 592

Cost of materials	01-12/2016	01-12/2015
	<i>BGN '000</i>	<i>BGN '000</i>
Basic material	7 513	7 220
Electricity	322	238
Fuels and lubricants	40	86
Spare parts and laboratory materials	187	181
Water	13	6
Other materials	198	147
Total:	8 273	7 878

Costs of external services	01-12/2016 <i>BGN '000</i>	01-12/2015 <i>BGN '000</i>
Rents	180	187
Security	115	82
Insurance	55	58
Telephone and postage expenses	40	61
Equipment maintenance and subscription	55	38
Fees	82	59
Transport costs	48	32
Other costs for external services	3 440	2 374
Total:	4 015	2 891

Financial expenses	01-12/2016 <i>BGN '000</i>	01-12/2015 <i>BGN '000</i>
Interest expenses	425	586
Expenses from exchange rate differences	82	17
Other financial expenses	83	42
Total:	590	645

Assets

	01-12/2016 <i>BGN '000</i>	01-12/2015 <i>BGN '000</i>
Non-current assets		
Property, plant and equipment	25 888	27 145
Intangible assets	3 644	3 962
Investments with minority interest	1	1
Trade receivables	6 025	6 100
Total non-current assets	35 558	37 208
Current assets		
Inventories	5 082	4 711
Trade and other receivables	50 376	38 199
Financial assets with maturity	24	116
Cash and cash equivalents	50	40
Total current assets	55 532	43 066
Total Assets	91 090	80 274

	01-12/2016	01-12/2015
	BGN '000	BGN '000
Property, plant and equipment		
Land and buildings	11 568	11 505
Machinery and equipment	14 232	15 116
Other	17	254
In the process of acquisition	71	270
	25 888	27 145

	01-12/2016	01-12/2015
	BGN '000	BGN '000
Inventories		
Materials	4 629	4 211
Production	138	152
Goods	192	95
Work in progress	123	253
Total:	5 082	4 711

Equity and liabilities

	01-12/2016	01-12/2015
	BGN '000	BGN '000
Registered capital	56 600	49 600
Statutory reserve	7 861	6 592
Undistributed profit	8 611	7 780
Total Equity	73 072	63 972

Liabilities

	01-12/2016	01-12/2015
	BGN '000	BGN '000
Non-current liabilities		
Long-term loans	1 015	1 653
Deferred tax liabilities	1 210	1 210
Liabilities to employees on retirement	67	49
Total non-current liabilities	2 292	2 912

Current liabilities

Trade and other liabilities	2 910	2 551
Short term loans	11 344	8 420
Current part of long-term loans	869	1 790
Current corporate income tax	60	121
Other tax liabilities	543	508
Total current liabilities	15 726	13 390
Total liabilities	18 018	16 302
Total equity and liabilities	91 090	80 274

Financial indicators

01-12/2016 01-12/2015

Debt ratio	0.25	0.25
Financial autonomy ratio	4.05	3.92

Information on the shares of Tchaikapharma High Quality Medicines Inc.

The total amount of shares issued as of 31.12.2016 is 56 600 000 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.

	1-12/2016	1-12/2015
Total number of issued shares	56 600 000	49 600 000
Number of shares in circulation at end of period	56 600 000	49 600 000
Price per share at the end of the period in BGN	6.97	5.45
Market capitalization at the end of the period in BGN	394 502 000	270 320 000

ВИСОКОКАЧЕСТВЕНИТЕ ЛЕКАРСТВА

Biser Georgiev

/Executive Director/