

ACTIVITY REPORT

For the fourth quarter
of 2018



TCHAIKAPHARMA
HIGH QUALITY MEDICINES

TCHAIKAPHARMA HIGH QUALITY MEDICINES INC.

25.01.2019

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 37 14

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
- The current capital of the Company is BGN 56 600 000 distributed in 56 600 000 ordinary dematerialized voting shares with a par value of BGN 1 (one) each.
- 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 thousand) new ordinary dematerialized 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 on 05.07.2017.
- By Decision of the General Meeting of 30.04.2018 the capital was increased from BGN 64 300 000 to BGN 72 200 000 by issuing 7 900 000 (seven million and nine hundred thousand) new ordinary dematerialized shares with a nominal value of BGN 1 (one).

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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 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: 2016, 2017 and 2018.

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

Investments for the period	2016	2017	2018
Tchaikapharma High Quality Medicines Inc.			
I. Fixed tangible assets	1 331	2 762	924
1. Plant, property and equipment	1 312	2 760	924
2. Other fixed assets	19	2	
II. Fixed intangible assets	547	743	274
1. Industrial property rights	495	726	274
2. Software	9	4	
3. Patents and licenses	43	43	
Total amount of acquisition of fixed tangible and intangible assets	1 878	3 505	1 198

Major investments in progress

The investments in the two factories of Tchaikapharma High Quality Medicines Inc. are the system of serialization and tamper evidence with which we meet the requirements of the European **Directive 2011/62/EU**. From 9.02.2019 every package of a medicinal product can be marketed within the EU with unique coding and tamper evidence. The system will be implemented in cooperation with SoftGroup AD and for installation are planned 5 machines for printing and verification of 2D matrix code (with the unique code of the box) tamper evidence system in each cartoning machine, server: central and local, software for generating individual codes, storing and sending them to the European hub.

A small investment in the plant in Plovdiv is the system for optimizing the energy costs for heating and cooling of the production ventilation system.

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 third 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

Documentation has been prepared for filing new product dossiers, which are part of the so-called fixed combinations.

Tchaikapharma High Quality Medicines AD has also entered the market in Kosovo, where it is supplying new products, part of the cephalosporin group.

At the plants of Tchaikapharma High Quality Medicines AD, over 157 medicinal products are produced, packaged and analyzed. The production equipment, the facilities providing the production environment, the premises and the analytical equipment are undergoing a requalification and recalibration process each year so that we can ensure conformity of the production with the European Good Manufacturing Practice requirements. With a permanent training system, we strive to maintain staff with adequate professional capabilities to perform the production tasks.

Tchaikapharma High Quality Medicines AD, as a high-quality pharmaceutical producer, started to produce its own dossier. Modules 2.4, 2.5, 2.6, 2.7, Module 4 and Module 5 are currently under development, which will be part of the INN irbesartan / hydrochlorothiazide drug dossier, owned by Tchaikapharma High Quality Medicines AD.

Currently, experiments are continuing with the validation of the first method for determining the concentration of irbesartan in human plasma to meet the requirements of the current EMA and FDA guidelines. Based on the building up quality system in the bio-analytical laboratory, it will also be possible to initiate a GLP compliance procedure.

Developments have been published in renowned and indexed world-class scientific journals with a high Impact factor, such as the Journal of Cancer Research and Therapeutics, Endocrine, Metabolic & Immune Disorders – Drug Targets, Hospital Pharmacology.

Employees

As of 31.12.2018 the average number of employees in Tchaikapharma High Quality Medicines Inc. was 133 (133 as of 31.12.2017). In the table below detailed information about the employees in the company is provided.

	31.12.2018	Share
Number of employees as of 31.12.2018	133	100%
Higher education	79	59%
Secondary education	53	40%
Primary education	1	1%
Employees under 30 years	38	29%
Employees 31 - 40 years	54	41%
Employees 41 - 50 years.	30	23%
Employees 51 - 60 years.	8	6%
Employees 60+ years	3	2%
Women	59	44%
Men	74	56%

Significant events since the beginning of the year until 31.12.2018

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

Key financial indicators

Indicators	01-12/2018 BGN '000	01-12/2017 BGN '000	change %
Sales revenue	38 464	33 359	15.30%
Earnings before interest, taxes and depreciation (EBITDA)	16 069	13 168	22.03%
Net profit	11 352	8 831	28.55%

	01-12/2018 BGN '000	01-12/2017 BGN '000	change %
Non-current assets	34 891	35 762	-2.44%
Current assets	75 612	61 220	23.51%
Equity	93 636	82 303	13.77%

Non-current liabilities	1 751	1 981	-11.61%
Current liabilities	15 116	12 698	19.04%

	01-12/2018	01-12/2017
EBITDA/Sales revenue	42%	39%
Net profit/Sales revenue	30%	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	01-12/2018 BGN '000	01-12/2017 BGN '000
Tablets	32 758	28 980
Ampules	1 126	1 231
Vials	4 483	3 076
Total:	38 367	33 287

Revenue by therapeutic groups	01-12/2018	01-12/2017
	BGN '000	BGN '000
Cardiovascular system	28 930	26 414
Musculoskeletal system and connective tissue	100	72
Respiratory system and antibiotics	3 704	3 098
Nervous system	1 783	986
Endocrine system	1 342	1 118
Other products	1 290	858
Digestive system and metabolism	979	528
Oncology	239	213
Total:	38 367	33 287

Changes in the inventories of products and work in progress

(118)

432

Other operating income

	01-12/2018	01-12/2017
	BGN '000	BGN '000
Income from rent	46	47
Other income	68	82
Total:	114	129

Financial income

	01-12/2018	01-12/2017
	BGN '000	BGN '000
Income from interest	3	-
Income from exchange rate differences	14	88
Other financial income	-	-
Total:	17	88

Core activity expenses

Operating expenses

	01-12/2018	01-12/2017
	BGN '000	BGN '000
Book value of sold products	2 326	1 719
Materials	9 380	9 703
External services	4 225	4 023
Salaries	3 302	2 950
Social security costs	588	594
Depreciation costs	3 272	3 084
Other	2 406	1 692
Total:	25 499	23 765

Cost of materials	01-12/2018	01-12/2017
	BGN '000	BGN '000
Basic material	8 280	8 760
Electricity	441	397
Fuels and lubricants	67	63
Spare parts and laboratory materials	138	158
Water	19	19
Other materials	435	306
Total:	9 380	9 703

Costs of external services	01-12/2018	01-12/2017
	BGN '000	BGN '000
Rents	228	220
Security	212	212
Insurance	25	29
Telephone and postage expenses	33	32
Equipment maintenance and subscription	150	76
Fees	109	82
Transport costs	35	43
Other costs for external services	3 433	3 329
Total:	4 225	4 023

Financial expenses	01-12/2018	01-12/2017
	BGN '000	BGN '000
Interest expenses	325	275
Expenses on operations with financial instruments	1	
Expenses from exchange rate differences	54	48
Other financial expenses	58	58
Total:	438	381

Assets

	01-12/2018	01-12/2017
	BGN '000	BGN '000
Non-current assets		
Property, plant and equipment	25 181	26 803
Intangible assets	2 871	2 998
Investments with minority interest	1	1
Trade receivables	6 853	5 960
Total non-current assets	34 891	35 762

	01-12/2018	01-12/2017
	BGN '000	BGN '000
Current assets		
Inventories	5 491	5 190

Trade and other receivables	69 775	55 998
Treasury shares redeemed	4	8
Cash and cash equivalents	92	
Total current assets	250	24
Total Assets	75 612	61 220

	01-12/2018 <i>BGN '000</i>	01-12/2017 <i>BGN '000</i>
Property, plant and equipment		
Land and buildings	11 241	11 676
Machinery and equipment	11 774	13 076
Other	109	191
In the process of acquisition	2 042	1 860
	25 166	26 803

	01-12/2018 <i>BGN '000</i>	01-12/2017 <i>BGN '000</i>
Inventories		
Materials	5 065	4 384
Production	219	542
Goods	40	229
Work in progress	167	35
Total:	5 491	5 190

Equity and liabilities

	01-12/2018 <i>BGN '000</i>	01-12/2017 <i>BGN '000</i>
Registered capital	72 200	64 300
Statutory reserve	10 084	9 172
Undistributed profit	11 352	8 831
Total Equity	93 696	82 303

Liabilities

	01-12/2018 <i>BGN '000</i>	01-12/2017 <i>BGN '000</i>
Non-current liabilities		
Long-term loans	324	590
Deferred tax liabilities	1 308	1 308
Liabilities to employees on retirement	119	83
Total non-current liabilities	1 751	1 981

Current liabilities

Trade and other liabilities	4 195	2 134
Short term loans	9 777	9 784
Current part of long-term loans	265	491
Current corporate income tax		78
Other tax liabilities	879	211
Total current liabilities	15 116	12 698

Total liabilities	16 867	14 679
Total equity and liabilities	110 503	96 982

Financial indicators

01-12/2018 01-12/2017

Debt ratio	0.18	0.18
Financial autonomy ratio	5.55	5.61

Information on the shares of Tchaikapharma High Quality Medicines Inc.

The total amount of shares issued as of 31.12.2018 was 72 200 000 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.

	1-12/2018	1-12/2017
Total number of issued shares	72 200 000	64 300 000
Number of shares in circulation at end of period	72 200 000	64 300 000
Price per share at the end of the period in BGN	9.00	7.89
Market capitalization at the end of the period in BGN	649 800 000	507 327 000

Biser Georgiev

/Executive Director/