

**EASTPHARMA LTD.  
AND ITS SUBSIDIARIES**

Consolidated Financial Statements  
For The Year Ended 31 December 2017,  
and The Independent Auditors' Report

## Independent auditor's report

To the Shareholders of Eastpharma Ltd.

### Report on the audit of the consolidated financial statements

#### Opinion

We have audited the consolidated financial statements of Eastpharma Ltd (the Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Turkey, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

### ***Capitalization, valuation and realizability of Research and Development (“R&D”) expenses***

Eastpharma Ltd.'s capitalized R&D expenses are mainly concentrated in the human pharma segments. This segment is subject to projects which take time to mature, which are key for future value creation by the company. The capitalized R&D expenses are significant to our audit due to their size and judgement involved in the recoverability of those items. For products in development the main risk is achieving successful trial results and obtaining required regulatory approvals. For launched products, the key risk is the ability to successfully commercialize the individual product concerned.

Our audit procedures included amongst others, a review of the Company's policies and procedures for evaluating the presence of impairment, challenging the main expectations and challenging the nature of capitalized expenses for each project. For products in development, a key assumption is the probability of obtaining the necessary clinical and regulatory approvals. Our procedures for products in development included critically assessing the reasonableness of the Group's assumptions through consideration of trial readouts, regulatory announcements and the Group's internal governance and approval process. We also interviewed a range of key Research, Development and Commercial personnel and compared the assumptions with industry practice where available. For launched products we challenged their profitability based on products. We have evaluated whether appropriate disclosure of impairment assessments were made in accordance with IAS 36 Impairment of Assets. We refer to note 11 Intangible fixed assets in the consolidated financial statements.

### ***Impairment assessment of goodwill***

We focused on this area due to (i) the significance of the carrying value of the goodwill amounting to 79,397,914 USD and (ii) the level of subjectivity associated with the forecast assumptions which underpin management's assessment of value-in-use, including the degree of subjectivity of cash flow forecasts, associated growth rates and the appropriateness of the discount rate applied.

Under IFRS, the Company is required to annually test goodwill for impairment.

We examined the Group's forecasted cash flows which underpin management's impairment review. We tested the basis of preparing those forecasts taking into account the accuracy of previous forecasts and the historic evidence supporting underlying assumptions.

Future cash flow assumptions were challenged through comparison of current trading performance, seeking corroborative evidence and enquiry with management in respect of key growth and trading assumptions.

The reasonableness of other key assumptions such as the discount rate and long term growth rate were tested with appropriate input from EY valuation experts and applying an independent assessment on general market indicators to conclude on the appropriateness of these assumptions.

We also tested management's assessment on whether any reasonably possible change in these key assumptions would result in an impairment of goodwill. We further assessed the adequacy of the Group's disclosures concerning goodwill in note 12.



### ***Inventory obsolescence provisions***

Inventory balance as at December 31, 2017 amounting to 65,840,729 USD, as disclosed in note 8, is a material balance for the Group which requires management judgement in determining an appropriate level of inventory provisioning reflecting net realisable value of the inventory on hand at year end.

There are also judgements required in determining inventory obsolescence provision as this is based on forecast inventory usage and assessing if the provision level is adequate.

We attended inventory counts at all components and performed test counts, which are then reconciled to the Company records. Besides, for an assessment of net realisable value of inventory, we also obtained the net realizable value calculations for finished goods and trade goods, agreed stock quantities in those calculations to the accounting records, and tested selling prices by reference to externally available data provided by the Ministry of Health of Turkey. Furthermore, we have also challenged management's judgement of cost to sell.

We compared the inventory obsolescence provision to the Group's policy and challenged management's judgement of the adequacy of this by performing a review of the level of provisions on an aggregate and by unit basis as well as understanding the levels of demand for significant items. We investigated manual adjustments made to the mechanical application of the inventory obsolescence provisioning policy, and assessed whether they were valid and the appropriateness of the final excess and obsolescence provision. We further assessed the adequacy of the Group's disclosures concerning inventory in note 8.

### **Responsibilities of management and those charged with governance for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## **Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Zeynep Okuyan Özdemir.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi  
A member firm of Ernst & Young Global Limited



Zeynep Okuyan Özdemir, SMMM  
Partner

March 9, 2018  
İstanbul, Türkiye

**EASTPHARMA LTD. AND ITS SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

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**EASTPHARMA LTD. AND IT'S SUBSIDIARIES****CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2017**

(Unless otherwise indicated all amounts expressed in US Dollar.)

<b>ASSETS</b>		<b>Current Period Audited 31 December 2017</b>	<b>Prior Period Audited 31 December 2016</b>
<b>CURRENT ASSETS</b>	<b>Notes</b>		
Cash and cash equivalents	5	24,860,134	12,462,273
Trade and other receivables (net)	6	76,938,309	57,767,783
Inventories	8	65,344,678	57,623,093
Other current assets	9	9,322,103	9,716,228
<b>Total Current Assets</b>		<b>176,465,224</b>	<b>137,569,377</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment (net)	10	102,732,067	96,302,594
Intangible assets (net)	11	83,619,217	82,027,442
Goodwill	12	79,397,914	79,461,742
Deferred tax assets	18	1,352,557	1,902,871
Other non-current assets	9	249	51,466
<b>Total Non-Current Assets</b>		<b>267,102,004</b>	<b>259,746,115</b>
<b>TOTAL ASSETS</b>		<b>443,567,228</b>	<b>397,315,492</b>

The accompanying notes form an integral part of these consolidated financial statements.



**EASTPHARMA LTD. AND IT'S SUBSIDIARIES**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

<b>LIABILITIES AND EQUITY</b>		<b>Current Period Audited 31 December 2017</b>	<b>Prior Period Audited 31 December 2016</b>
<b>CURRENT LIABILITIES</b>	<b>Notes</b>		
Short-term borrowings	15	78,772,134	43,431,468
Trade payables	16	18,531,079	14,170,274
Due to related parties	7	4,811	17,796
Provisions	17	1,081,270	849,510
Other payables and accrued expenses	16	15,515,990	14,542,247
Current tax payable	18	1,066,850	836,294
<b>Total Current Liabilities</b>		<b>114,972,134</b>	<b>73,847,589</b>
<b>NON-CURRENT LIABILITIES</b>			
Long-term borrowings	14	50,731,825	64,093,488
Provision for employment termination benefits	19	5,147,483	4,846,340
Deferred income	16	5,859,413	4,796,881
<b>Total Non-Current Liabilities</b>		<b>61,738,721</b>	<b>73,736,709</b>
<b>TOTAL LIABILITIES</b>		<b>176,710,855</b>	<b>147,584,298</b>
<b>EQUITY</b>			
Share capital	21	338,250,000	338,250,000
Premium in excess of par	21	99,774,445	99,774,445
Legal reserves	21	1,215,248	1,215,248
Accumulated losses		(20,557,713)	(44,043,428)
Actuarial loss arising from defined benefit plans		(1,797,259)	(1,897,804)
Foreign currency translation reserve		(231,432,688)	(219,339,023)
<b>Equity attributable to equity holders of the parent</b>		<b>185,452,033</b>	<b>173,959,438</b>
Non-controlling interests		81,404,340	75,771,756
<b>Total Equity</b>		<b>266,856,373</b>	<b>249,731,194</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>443,567,228</b>	<b>397,315,492</b>

The accompanying notes form an integral part of these consolidated financial statements.

**EASTPHARMA LTD. AND IT'S SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

(Unless otherwise indicated all amounts expressed in US Dollar.)

	<u>Notes</u>	<u>Audited</u> <u>1 January –</u> <u>31 December</u> <u>2017</u>	<u>Audited</u> <u>1 January –</u> <u>31 December</u> <u>2016</u>
Revenue	22	220,429,718	224,916,958
Cost of sales	23	(115,677,214)	(122,937,251)
Gross profit		<b>104,752,504</b>	<b>101,979,707</b>
Operating expenses	24	(63,653,468)	(63,173,514)
Investment revenue	25	16,324,691	17,116,174
Finance costs (net)	26	(32,321,707)	(33,702,210)
Other gains and losses	27	5,089,019	2,041,265
Profit before tax		<b>30,191,039</b>	<b>24,261,422</b>
Current tax expense	18	(1,220,540)	(836,294)
Deferred tax expense	18	(1,148,041)	(4,957,641)
Tax expense		<b>(2,368,581)</b>	<b>(5,793,935)</b>
Net profit for the year		<b>27,822,458</b>	<b>18,467,487</b>
<b>Attributable to:</b>			
Equity holders of the parent		23,485,715	15,371,701
Non-controlling interests		4,336,743	3,095,786
		<b>27,822,458</b>	<b>18,467,487</b>
<b>Basic and diluted earnings per share (US Dollar)</b>	31	0.35	0.23

The accompanying notes form an integral part of these consolidated financial statements.

**EASTPHARMA LTD. AND IT'S SUBSIDIARIES****CONSOLIDATED STATEMENT OF  
OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017**

(Unless otherwise indicated all amounts expressed in US Dollar.)

		<u>Audited</u>	<u>Audited</u>
		<b>1 January – 31 December 2017</b>	<b>1 January – 31 December 2016</b>
	<u>Notes</u>		
<b>Net income for the year</b>		<b>27,822,458</b>	<b>18,467,487</b>
<b>Other Comprehensive Income :</b>			
<b>Items not to be reclassified subsequently to profit or loss</b>		<b>(27,529)</b>	<b>(203,801)</b>
Actuarial loss arising from defined benefit plans	19	(34,411)	(254,751)
Tax effect of other comprehensive income not to be reclassified to profit or loss	18	6,882	50,950
<b>Items to be reclassified subsequently to profit or loss</b>		<b>(10,669,750)</b>	<b>(33,860,285)</b>
Foreign currency translation		(10,669,750)	(33,860,285)
<b>Total comprehensive loss for the year</b>		<b>17,125,179</b>	<b>(15,596,599)</b>
<b>Total comprehensive income (loss) attributable to:</b>			
Equity holders of the parent		11,492,595	(22,942,044)
Non-controlling interests		5,632,584	7,345,445
		<b>17,125,179</b>	<b>(15,596,599)</b>

The accompanying notes form an integral part of these consolidated financial statements.

**EASTPHARMA LTD. AND IT'S SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2017**

(Unless otherwise indicated all amounts expressed in US Dollar.)

	Notes	Share capital	Premium in excess of par	Legal reserves	Actuarial gain / (loss) arising from defined benefit plans	Foreign currency translation reserve	Accumulated deficit	Total equity attributable to equity holders of the parent	Non-controlling interests	Total
<b>Balance as of 1 January 2016</b>	21	338,250,000	99,774,445	1,215,248	(2,046,783)	(180,876,299)	(59,415,129)	196,901,482	68,426,311	265,327,793
Actuarial loss arising from defined benefit plans		-	-	-	(203,801)	-	-	(203,801)	-	(203,801)
Currency translation		-	-	-	352,780	(38,462,724)	-	(38,109,944)	4,249,659	(33,860,285)
Net profit for the year		-	-	-	-	-	15,371,701	15,371,701	3,095,786	18,467,487
Total comprehensive income / (loss)		-	-	-	148,979	(38,462,724)	15,371,701	(22,942,044)	7,345,445	(15,596,599)
<b>Balance as of 31 December 2016</b>		<u>338,250,000</u>	<u>99,774,445</u>	<u>1,215,248</u>	<u>(1,897,804)</u>	<u>(219,339,023)</u>	<u>(44,043,428)</u>	<u>173,959,438</u>	<u>75,771,756</u>	<u>249,731,194</u>
<b>Balance as of 1 January 2017</b>	21	338,250,000	99,774,445	1,215,248	(1,897,804)	(219,339,023)	(44,043,428)	173,959,438	75,771,756	249,731,194
Actuarial loss arising from defined benefit plans		-	-	-	(27,529)	-	-	(27,529)	-	(27,529)
Currency translation		-	-	-	128,074	(12,093,665)	-	(11,965,591)	1,295,841	(10,669,750)
Net profit for the year		-	-	-	-	-	23,485,715	23,485,715	4,336,743	27,822,458
Total comprehensive income / (loss)		-	-	-	100,545	(12,093,665)	23,485,715	11,492,595	5,632,584	17,125,179
<b>Balance as of 31 December 2017</b>		<u>338,250,000</u>	<u>99,774,445</u>	<u>1,215,248</u>	<u>(1,797,259)</u>	<u>(231,432,688)</u>	<u>(20,557,713)</u>	<u>185,452,033</u>	<u>81,404,340</u>	<u>266,856,373</u>

The accompanying notes form an integral part of these consolidated financial statements.



**EASTPHARMA LTD. AND IT'S SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

(Unless otherwise indicated all amounts expressed in US Dollar.)

	<b>Audited</b>	<b>Audited</b>
	<b>1 January- 31 December</b>	<b>1 January- 31 December</b>
<b>Notes</b>	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net profit for the year	27,822,458	18,467,487
Adjustments to reconcile net profit to net cash provided by/ (used in) operating activities:		
Depreciation of property, plant and equipment	10 6,341,218	6,602,329
Amortization of intangible assets	11 3,095,880	8,303,149
Impairment losses on intangible assets	11 6,880,031	3,047,520
Provision for employment termination benefits	19 1,522,136	1,251,263
Gain on sale and disposal of property, plant and equipment and intangible assets	27 (2,590,562)	(566,733)
Loss on derivative financial instruments	26 129,426	-
Allowance for doubtful receivables, net	6 -	745,134
Allowance for other doubtful receivables	6 -	-
Amortization of discount	25, 26 400,167	(87,928)
Change in amortised cost of bonds issued	248,331	80,382
Provisions	17 755,809	353,641
Bank loans interest expense	26 10,929,288	11,879,322
Bonds issued interest expense	26 4,099,552	4,532,408
Change in allowance for diminution in value of inventories	8 (261,162)	874,387
Unrealized foreign exchange (loss) / gain	26, 27 379,269	(488,784)
Interest income	25 (840,772)	(284,438)
Interest income from deferred settlement term sales	25 (81,305)	(161,708)
Tax expense	18 2,368,581	5,793,935
<b>Changes in working capital:</b>		
Increase in trade and other receivables	(45,164,138)	(18,987,767)
Increase in inventories	(15,184,628)	(8,751,924)
Increase in other current assets	(209,735)	(3,868,994)
Increase in trade payables	23,218,425	20,181,673
Decrease in due to related parties	(12,985)	(2,902)
Increase in other payables and accrued expenses	4,659,495	8,128,234
<b>Cash generated from operations</b>	<b>28,504,779</b>	<b>57,039,686</b>
Income tax paid	(1,773,105)	(714,720)
Provisions utilized	17 (470,221)	(707,014)
Employment termination benefits paid	19 (930,721)	(629,993)
<b>Net cash provided by operating activities</b>	<b>25,330,732</b>	<b>54,987,959</b>

The accompanying notes form an integral part of these consolidated financial statements.

**EASTPHARMA LTD. AND IT'S SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

(Unless otherwise indicated all amounts expressed in US Dollar.)

	<b>Notes</b>	<b>Audited 1 January- 31 December 2017</b>	<b>Audited 1 January- 31 December 2016</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of property, plant and equipment	10	(22,759,811)	(15,137,745)
Purchases of intangible assets	11	(13,797,029)	(16,041,139)
Proceeds on disposal of property, plant and equipment		4,516,777	570,504
<b>Net cash used in investing activities</b>		<b>(32,040,063)</b>	<b>(30,608,380)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Interest received		896,426	435,718
Interest paid		(8,635,800)	(10,563,734)
Proceeds from borrowings		239,058,284	273,184,925
Repayment of borrowings		(209,068,080)	(288,253,738)
Cash used in bonds issued		(4,099,552)	(4,532,408)
<b>Net cash used in financing activities</b>		<b>18,151,278</b>	<b>(29,729,237)</b>
<b>NET CHANGES IN CASH AND CASH EQUIVALENTS</b>		<b>11,441,947</b>	<b>(5,349,658)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>		<b>12,449,026</b>	<b>15,853,592</b>
<b>Effect of exchange rate changes on the balance of cash held in foreign currencies</b>		<b>930,263</b>	<b>1,945,092</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>5</b>	<b>24,821,236</b>	<b>12,449,026</b>

Changes in working capital include currency translation of US Dollar 34,627,638 (1 January – 31 December 2016: US Dollar 35,901,592). The distribution of the currency translation effect for the year is as follows:

	<b>1 January- 31 December 2017</b>	<b>1 January- 31 December 2016</b>
Trade receivables	(45,164,138.0)	(37,035,530)
Inventories	(15,184,628.0)	(19,699,765)
Other receivables and current assets	(209,735.0)	(2,667,130)
Trade payables	23,218,425.0	22,922,345
Other payables and accrued expenses	4,659,495.0	6,662,266
Financial liabilities	(1,947,056.0)	(6,083,778)
	<b>(34,627,637.0)</b>	<b>(35,901,592)</b>

The accompanying notes form an integral part of these consolidated financial statements.

## EASTPHARMA LTD. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 1. ORGANIZATION AND OPERATIONS OF THE GROUP

EastPharma Ltd. (the “Company” or “EastPharma”) is a limited company incorporated in Bermuda. The Company was established on 17 August 2006 and the address of its registered office is Church Street Hamilton, Bermuda. EastPharma is the indirect holding company of Deva Holding A.Ş. (“Deva”), a pharmaceutical company incorporated in Istanbul, Turkey which was acquired on 27 November 2006 and Saba İlaç Sanayi ve Ticaret A.Ş. (“Saba”), a pharmaceutical company incorporated in Istanbul, Turkey which was acquired on 10 May 2007. EastPharma and its subsidiaries are collectively referred to as the “Group”.

The Group operates in the pharmaceutical industry and is one of the branded generic players in the Turkish market. The Group has a wide range of product portfolio and a country-wide organized sales force.

The Group has 186 pharmaceutical molecules in 379 pharmaceutical forms ranging from antimicrobial agents to antineoplastics and antihypertensive.

The Group has four production facilities which operate in compliance with the Good Manufacturing Practice (“GMP”). During February 2008, the Company signed a definitive Asset Purchase Agreement with F. Hoffmann-La Roche Ltd (“Roche”) for the purchase of all rights, liabilities and registrations of eight Roche products registered in Turkey. There is no termination date for the Asset Purchase Agreement. In addition, on 16 May 2008, the Company signed a License and Supply Agreement allowing EastPharma SARL to license an additional eight Roche products on an exclusive basis for Turkey. The necessary regulatory approvals of the Turkish Competition Board were obtained on 16 May 2008 and the agreement became effective on 19 June 2008.

The details of the Company’s direct and indirect subsidiaries as at 31 December 2017 and 31 December 2016 are as follows:

	Ownership %		Place of incorporation	Principal activity
	31 December 2017	31 December 2016		
<b><u>Direct holdings:</u></b>				
EastPharma S.a r.l	100%	100%	Luxembourg	Direct parent company of Deva
EastPharma Canada Limited	100%	100%	Canada	Production and sales of human pharmaceuticals
<b><u>Indirect holdings:</u></b>				
Deva Holding A.Ş.	82.2%	82.2%	Turkey	Production and sales of human pharmaceuticals
Saba İlaç A.Ş.	99.9%	99.9%	Turkey	Production and sales of human pharmaceuticals
EastPharma İlaç A.Ş.	100%	100%	Turkey	Non – operating

The Group has also interest of 21.75% (2016: 21.75 %) in a company incorporated in Singapore, Lypanosys PTE LTD of which principal activities are production and sales of human pharmaceuticals. (Note 13)

## EASTPHARMA LTD. AND IT'S SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 1. ORGANIZATION AND OPERATIONS OF THE GROUP (cont.)

Main subsidiary of EastPharma is Deva Holding A.Ş., it owns 82,2% of the shares of Deva as of 31 December 2017. Non-controlling interest amount is mainly refer to shares quoted in Borsa İstanbul Stock Exchange.

A summary of financial information on material partly-owned subsidiary Deva, in US Dollar terms, is as follows;

<b>Deva Holding</b>	31 December 2017	31 December 2016
	1 January- 31 December 2017	1 January- 31 December 2016
Current assets	164,774,025	127,766,009
Non-current assets	168,444,796	161,666,765
Current liabilities	(110,980,655)	(69,708,366)
Non-current liabilities	(61,661,411)	(73,662,669)
Equity attributable to equity holders of the parent	(160,576,756)	(146,061,739)
Sales	219,625,123	228,970,119
Expenses	(194,225,707)	(208,367,794)
Net profit for the year	25,399,416	20,602,325
<b>Attributable to:</b>		
Equity attributable to equity holders of the parent	25,399,416	20,602,325
Net profit for the year	25,399,416	20,602,325
Net profit for the year	25,399,416	20,602,325
Actuarial loss arising from defined benefit plans	(32,610)	(248,667)
Tax effect other comprehensive income not to be reclassified to profit or loss	6,522	49,734
Foreign currency translation	(56,252)	44,209
Total comprehensive income for the year	25,317,076	20,447,601
<b>Total comprehensive income attributable to:</b>	<b>25,317,076</b>	<b>20,447,601</b>
Equity attributable to equity holders of the parent	25,317,076	20,447,601
	25,317,076	20,447,601



## **EASTPHARMA LTD. AND IT'S SUBSIDIARIES**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### **1. ORGANIZATION AND OPERATIONS OF THE GROUP (cont.)**

##### **Description of operations:**

The Group classifies its operations into three business segments: production and sale of human pharmaceuticals, veterinary products and other. These segments are the basis on which the Group reports its segment information. Further segment information about the Group's operations is presented in Note 29.

The human pharmaceuticals segment derives the majority of its revenues from the sale of branded generic and licensed products. Branded generic products are finished pharmaceutical products that Deva produces and sells under its trademarked name rather than the chemical name of the active pharmaceutical compound. Licensed products are finished pharmaceutical products that the Company produces and sells under licenses from other pharmaceutical companies that hold the rights to the pharmaceutical compound. The business encompasses a wide range of medicines combating diseases in the musculoskeletal, alimentary, metabolism and cardiovascular system and infections. Corporate expenses and assets are included in the human pharmaceuticals segment.

In addition to Group's manufacturing activities, the Group also conducts, at its microbiology laboratories, tests and research on the adaptation of raw materials, selection of micro-organisms, formulation of culture mediums, and executes various test and research fermentations on pilot fermentators.

The veterinary products segment derives its revenue from the sale of products that meet the needs of veterinarians and animal breeders. Revenues of the veterinary products segment are derived from the sale of 74 pharmaceutical molecules in 102 pharmaceutical forms.

The operations in the other segment include cologne.

The Group's operations and production facilities are located in Turkey.

#### **2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")**

The accounting policies adopted in preparation of the consolidated financial statements as at 31 December 2017 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of 1 January 2017. The effects of these standards and interpretations on the Group's financial position and performance have been disclosed in the related paragraphs.

##### 2.1 The new standards, amendments and interpretations which are effective as at 1 January 2017 are as follows:

###### *IAS 7 'Statement of Cash Flows (Amendments)*

The IASB issued amendments to IAS 7 'Statement of Cash Flows'. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The improvements to disclosures require companies to provide information about changes in their financing liabilities. These amendments are to be applied for annual periods beginning on or after 1 January 2017 with earlier application permitted. When the Group first applies those amendments, it is not required to provide comparative information for preceding periods.

###### *IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (Amendments)*

The IASB issued amendments to IAS 12 Income Taxes. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments clarify the requirements on recognition of deferred tax assets for unrealised losses, to address diversity in practice. These amendments are to be retrospectively applied for annual periods beginning on or after 1 January 2017 with earlier application permitted. However, on initial application of the amendment, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. If the Group applies this relief, it shall disclose that fact. The amendment is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

## EASTPHARMA LTD. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont.)

##### 2.1 The new standards, amendments and interpretations which are effective as at 1 January 2017 (cont'd):

###### *Annual Improvements to IFRSs 2014 - 2016 Cycle*

The IASB issued Annual Improvements to IFRS Standards 2014–2016 Cycle, amending the following standards:

- IFRS 12 Disclosure of Interests in Other Entities: This amendment clarifies that an entity is not required to disclose summarised financial information for interests in subsidiaries, associates or joint ventures that is classified, or included in a disposal group that is classified, as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. These amendments are to be applied for annual periods beginning on or after 1 January 2017.

The amendments did not have an impact on the financial position or performance of the Group.

##### 2.2 Standards issued but not yet effective and not early adopted

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the consolidated financial statements are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, when the new standards and interpretations become effective.

###### *IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)*

Amendments issued to IFRS 10 and IAS 28, to address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture, to clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary should be recognised only to the extent of unrelated investors' interests in that former subsidiary. In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted. An entity shall apply those amendments prospectively. The amendment is not applicable for the Group and did not have an impact on the financial position or performance of the Group.

###### *IFRS 15 Revenue from Contracts with Customers*

The IASB issued IFRS 15 Revenue from Contracts with Customers. The new five-step model in the standard provides the recognition and measurement requirements of revenue. The standard applies to revenue from contracts with customers and provides a model for the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., the sale of property, plant and equipment or intangibles). IFRS 15 effective date is 1 January 2018, with early adoption permitted. Entities will transition to the new standard following either a full retrospective approach or a modified retrospective approach. The modified retrospective approach would allow the standard to be applied beginning with the current period, with no restatement of the comparative periods, but additional disclosures are required. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

###### *Clarifications to IFRS 15 'Revenue from Contracts with Customers' (Amendment)*

IASB has published final clarifications to IFRS 15 in April 2016. The amendments address three of the five topics identified (identifying performance obligations, principal versus agent considerations, and licensing) and provide some transition relief for modified contracts and completed contracts. The amendments are effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

## EASTPHARMA LTD. AND IT'S SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont.)

##### 2.2 Standards issued but not yet effective and not early adopted (cont'd)

##### *Annual Improvements to IFRSs 2014 - 2016 Cycle (cont'd)*

##### Clarifications to IFRS 15 'Revenue from Contracts with Customers' (Amendment) (cont'd)

The Group's product segment generally has a single obligation to pay, and in line with the prior period applications, sales made will be recognized only as sales of goods and will be recognized when the product is delivered. Therefore, the amendments are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

##### IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments. The final version of IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, IFRS 9 addresses the so-called 'own credit' issue, whereby banks and others book gains through profit or loss as a result of the value of their own debt falling due to a decrease in credit worthiness when they have elected to measure that debt at fair value. The Standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted by applying all requirements of the standard.

##### *Impairment:*

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on all trade receivables. The Group has determined that, despite the unsecured nature of its loans and receivables, the loss allowance will not have an impact on the financial position or performance of the Group.

##### IFRS 16 Leases

The IASB has published a new standard, IFRS 16 'Leases'. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 'Leases' and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

##### IFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments)

The IASB issued amendments to IFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for:

- a. The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- b. Share-based payment transactions with a net settlement feature for withholding tax obligations; and
- c. A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The amendment is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

In September 2016, the IASB issued amendments to IFRS 4 Insurance Contracts. The amendments introduce two approaches: an overlay approach and a deferral approach. These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The standard is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

## EASTPHARMA LTD. AND IT'S SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont.)

##### 2.2 Standards issued but not yet effective and not early adopted (cont'd.)

##### Annual Improvements to IFRSs 2014 - 2016 Cycle (cont'd.)

##### IAS 40 Investment Property: Transfers of Investment Property (Amendments)

The IASB issued amendments to IAS 40 'Investment Property'. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The amendment is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

##### IFRIC 22 Foreign Currency Transactions and Advance Consideration

The interpretation issued by POA on December 2017 clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

The Interpretation states that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. An entity is not required to apply this Interpretation to income taxes; or insurance contracts (including reinsurance contracts) it issues or reinsurance contracts that it holds.

The interpretation is effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. The interpretation is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

The IASB issued Annual Improvements to IFRS Standards 2014–2016 Cycle, amending the following standards:

**IFRS 1 First-time Adoption of International Financial Reporting Standards:** This amendment deletes the short-term exemptions about some IFRS 7 disclosures, IAS 19 transition provisions and IFRS 10 Investment Entities. These amendments are to be applied for annual periods beginning on or after 1 January 2018.

**IAS 28 Investments in Associates and Joint Ventures:** This amendment clarifies that the election to measure an investment in an associate or a joint venture held by, or indirectly through, a venture capital organisation or other qualifying entity at fair value through profit or loss applying IFRS 9 Financial Instruments is available for each associate or joint venture, at the initial recognition of the associate or joint venture. These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

##### IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation clarifies how to apply the recognition and measurement requirements in "IAS 12 Income Taxes" when there is uncertainty over income tax treatments.

When there is uncertainty over income tax treatments, the interpretation addresses:

- (a) whether an entity considers uncertain tax treatments separately;
- (b) the assumptions an entity makes about the examination of tax treatments by taxation authorities;
- (c) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- (d) how an entity considers changes in facts and circumstances.

An entity shall apply this Interpretation for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies this Interpretation for an earlier period, it shall disclose that fact. On initial application, an entity shall apply the interpretation either retrospectively applying IAS 8, or retrospectively with the cumulative effect of initially applying the Interpretation recognised at the date of initial application. The Group is in the process of assessing the impact of the interpretation on financial position or performance of the Group.



## EASTPHARMA LTD. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont.)

##### 2.2 Standards issued but not yet effective and not early adopted (cont'd.)

##### *Annual Improvements to IFRSs - 2014-2016 Cycle (cont'd.)*

##### IFRS 17 - The new Standard for insurance contracts

The IASB issued IFRS 17, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. IFRS 17 will become effective for annual reporting periods beginning on or after 1 January 2021; early application is permitted. The standard is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

##### Amendments to IAS 28 Investments in Associates and Joint Ventures (Amendments)

In October 2017, the IASB issued amendments to *IAS 28 Investments in Associates and Joint Ventures*. The amendments clarify that a company applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture.

IFRS 9 *Financial Instruments* excludes interests in associates and joint ventures accounted for in accordance with IAS 28 *Investments in Associates and Joint Ventures*. In this amendment the IASB clarified that the exclusion in IFRS 9 applies only to interests a company accounts for using the equity method. A company applies IFRS 9 to other interests in associates and joint ventures, including long-term interests to which the equity method is not applied and that, in substance, form part of the net investment in those associates and joint ventures. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group

##### Prepayment Features with Negative Compensation (Amendments to IFRS 9)

In October 2017, the IASB issued minor amendments to IFRS 9 *Financial Instruments* to enable companies to measure some prepayable financial assets at amortised cost. Applying IFRS 9, a company would measure a financial asset with so-called negative compensation at fair value through profit or loss. Applying the amendments, if a specific condition is met, entities will be able to measure at amortised cost some prepayable financial assets with so-called negative compensation. The amendments are effective from annual periods beginning on or after 1 January 2019, with early application permitted. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

##### *Annual Improvements – 2015–2017 Cycle*

In December 2017, the IASB announced Annual Improvements to IFRS Standards 2015–2017 Cycle, containing the following amendments to IFRSs:

- IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements* — The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- IAS 12 *Income Taxes* — The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.
- IAS 23 *Borrowing Costs* — The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

## EASTPHARMA LTD. AND IT'S SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont.)

##### 2.2 Standards issued but not yet effective and not early adopted (cont'd.)

##### *Annual Improvements – 2015–2017 Cycle (cont'd.)*

##### *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*

On 7 February 2018, the IASB published Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement” to harmonise accounting practices and to provide more relevant information for decision-making. The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement occurs. An entity shall apply these amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact. The Group is in the process of assessing the impact of the interpretation on financial position or performance of Group.

#### 3. SIGNIFICANT ACCOUNTING POLICIES

##### Statement of compliance

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain assets. The principal accounting policies are set out below.

##### Functional and reporting currency

The functional and reporting currency of the Company is the US Dollar, which reflects the economic substance of its operations. The Company uses the US Dollar in measuring items in its financial statements and as the reporting currency of the Group. All currencies other than US Dollar are treated as foreign currencies.

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency); Deva is in Turkish Lira (TRY), Saba is in TRY and EP SARL is in USD functional currency. For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in US Dollar, which is the functional currency of the Company.

In preparing the financial statements of the individual entities, transactions in currencies other than each entity’s functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

The translation for foreign currency transactions that are not in the functional currency of the Company are recorded in profit and loss.

The translation of Group’s foreign operations financial statements from their functional currency to the Group’s functional currency is performed as follows:

- Assets and liabilities are translated at closing exchange rate at the date of each consolidated balance sheet presented;
- All income and expenses are translated at the average exchange rates for the period presented;
- Resulting exchange differences are included in equity and presented separately as “Foreign currency translation reserve”.

##### *Approval of the financial statements*

The accompanying financial statements have been approved by the Board of Directors and are authorized for issue on 09 March 2018. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issuance.

##### *Going Concern*

The Group prepared consolidated financial statements in accordance with the going concern assumption.

## EASTPHARMA LTD. AND IT'S SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 3. SIGNIFICANT ACCOUNTING POLICIES (cont.)

##### Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- Has power over the investee
- is exposed, or has rights, to variable returns from its involvement with the investee, and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

##### Business combinations

The acquisition of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and;
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

## EASTPHARMA LTD. AND IT'S SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 3. SIGNIFICANT ACCOUNTING POLICIES (cont.)

##### Business combinations (cont.)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

##### Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, an investment in associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.



## EASTPHARMA LTD. AND IT'S SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 3. SIGNIFICANT ACCOUNTING POLICIES (cont.)

##### Investments in associates (cont.)

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

Where a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

##### Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognized at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units "CGU" expected to benefit from the synergies of the combination. CGUs to which goodwill has been allocated are tested for impairment, annually or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

##### Revenue recognition

###### *Sale of goods*

Revenue is generated from the sale of pharmaceutical goods to third party warehouse distributors. Revenue is measured at the fair value of the consideration received or receivable for goods provided in the normal course of business, net of related taxes, and incentives.

The Group grants price concessions to its distributors, including sales and volume discounts and price refunds. Certain discounts are granted at the point of sale or based upon volumes purchased in a period. Subsequent to a decrease in the reference price of any of its products, the Group may decide to refund its distributors a portion of the amounts paid for their prior purchases of such product. All price concessions are recorded as a reduction in revenue. At the end of each period, a provision is recorded for the best estimate of these price concessions, based on facts available at the time and the Group's historical experience.

Standard prices for pharmaceutical products in Turkey are established by the Ministry of Health. Gross product sales are subject to sales discounts, volume discounts and free of charge goods incentives.

Sales discounts are granted at the point of sale based on a fixed percentage and are recorded as a reduction of revenue in the period of the sale. Sales discount percentages vary depending on the product sold. Volume discounts are granted in the period of sale based on a fixed percentage and the total sales made in the period. Volume discount percentages vary depending on the distributor. The estimate for volume discounts is based on actual invoiced sales within each period at a fixed discount rate and is recorded as a reduction of revenue in the period of the sale.

## EASTPHARMA LTD. AND IT'S SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 3. SIGNIFICANT ACCOUNTING POLICIES (cont.)

##### Revenue recognition (cont.)

##### Sale of goods (cont.)

The Group also provides distributors with sales incentives in the form of free products (free of charge goods). The free of charge goods incentive allows distributors to provide its customers with free products at no cost to the distributor as the Group will provide an equivalent amount of product to the distributor. Distributors have the option to be reimbursed for the cost of the free products through a reduction in amounts owed (sales credit) rather than free goods. At the end of each period, distributors provide the Group with a total amount of goods provided to customers for free. The estimate for sales credit is estimated based on the actual number of products given for free during the period and is recorded as a reduction of revenue.

Revenue from sale of goods is recognized when all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods which occurs upon delivery of the goods to the customer;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

##### Interest revenue

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

##### Cost of sales - free of charge goods

Free of charge goods provided to distributors are estimated based on the actual number of free products given by the distributors to its customers during the period and the cost of the free of charge goods are included as part of cost of sales.

##### Inventories

Inventories are stated at the lower of cost and net realizable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories held by the method most appropriate to the particular class of inventory, with being valued on a standard costing basis. At the end of the each reporting period, the standard costs are updated based on the actual costs. Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to make a sale.

## EASTPHARMA LTD. AND IT'S SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 3. SIGNIFICANT ACCOUNTING POLICIES (cont.)

##### Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are carried at cost less accumulated depreciation and any accumulated impairment loss.

Furniture and equipment are carried at cost less accumulated depreciation and any accumulated impairment loss. Depreciation is charged so as to write off the cost of assets, other than land and construction in progress, over their estimated useful lives, using the straight line method. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

The depreciation periods for property, plant and equipment are as follows:

	<u>Useful life</u>
Buildings	25-50
Machinery and equipment	4-30
Vehicles	5
Furniture and fixtures	5
Leasehold improvements	2-3

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

##### Intangible assets

###### *Intangible assets acquired separately*

Intangibles are carried at cost less accumulated amortization and any permanent impairment loss. Amortization is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

###### *Internally-generated intangible assets – research and development expenditure*

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably expenditure attributable to intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and impairment losses, on the same basis as intangible assets acquired separately.

## EASTPHARMA LTD. AND IT'S SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 3. SIGNIFICANT ACCOUNTING POLICIES (cont.)

##### Intangible assets (cont.)

##### *Intangible assets acquired in a business combination*

Intangible assets acquired in a business combination are identified and recognized separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date. Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets acquired separately.

##### Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. Reversal of an impairment loss is recognized immediately in profit or loss.

##### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recorded in the consolidated statement of income and comprehensive income in the period in which they are incurred. Assets that necessarily take a substantial period of time to get ready for intended use or sale of the Group are license development costs. Transformation of these costs to be ready for sale state may take more than one financial year. Borrowing costs incurred for development costs are added to cost of the related asset until it is ready for sale. During the year ended 31 December 2017 US Dollar 705,983 (31 December 2016: US Dollar 861,208) amount was capitalized on qualifying assets. The weighted average capitalization rate on funds borrowed generally is 7.4% per annum (2016: 6.6% per annum).

## EASTPHARMA LTD. AND IT'S SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 3. SIGNIFICANT ACCOUNTING POLICIES (cont.)

##### Government grants and incentives

Grants from the government are recognized at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to capitalized development costs are deferred and recognized in the consolidated statement of income and comprehensive income over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to property, plant and equipment are included in non-current liabilities as deferred income and are credited to consolidated statement of income and comprehensive income on a straight-line basis over the expected lives of the related assets.

The Group receives assistance from Scientific and Technological Research Council of Turkey ("TUBITAK"). TUBITAK runs a program to organize and regulate the Republic of Turkey's support to encourage research and technology development activities of the industries in Turkey. Within the framework of this program, a certain portion of the development expenditures of the industrial companies are reimbursed.

##### Taxation and deferred income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax. Bermuda levies no tax on profits, dividends or income, nor is there any withholding tax or capital gains tax. Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes for Turkish subsidiaries, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

##### *Current tax*

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

##### *Deferred tax*

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Prepaid corporation taxes and corporation tax liabilities are offset as they relate to income taxes levied by the same taxation authority. Deferred tax asset and liabilities for each separate subsidiary are not offset on a consolidated basis. However, deferred tax assets and liabilities are offset in the individual financial statements of the subsidiary as they are due to the same tax authority.

##### Provision for employment termination benefits

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. Such payments are considered as being part of defined retirement benefit plan as per International Accounting Standard No. 19 (revised) "Employee Benefits" ("IAS 19"). The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation.

## EASTPHARMA LTD. AND IT'S SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 3. SIGNIFICANT ACCOUNTING POLICIES (cont.)

##### Leasing - the Group as lessee

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

##### Earnings per share

Earnings per common share for 31 December 2017 and 2016 have been determined using the weighted average number of the Company's shares, respectively. There are no potentially dilutive securities.

##### Financial instruments

Financial assets and financial liabilities are recognized on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

##### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments which have an original maturity of three months or less from date of acquisition and that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. The carrying amount of these assets approximates their fair value.

##### Trade receivables, amounts due from related parties and other receivables

Trade receivables, amounts due from related parties and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognized in profit or loss when there is objective evidence that the asset is impaired. The allowance recognized is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. The carrying amount of trade receivables, due from related parties and other receivables approximates their fair value.

##### Bank borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognized over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

##### Trade payables, amounts due to related parties and other payables

Trade payables, amounts due to related parties and other payables are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest rate method. The carrying amount of trade and other payables approximates their fair value.

##### Bonds issued

Bonds issued are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.



## EASTPHARMA LTD. AND IT'S SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 3. SIGNIFICANT ACCOUNTING POLICIES (cont.)

##### Financial instruments (cont.)

###### *Derivative financial instruments*

The Group's activities expose it primarily to the financial risks of changes in foreign exchange rates. Derivative financial instruments are initially measured at fair value on the contract date, and they are re-measured to fair value at subsequent reporting dates. The Group has not designated the derivative financial instruments as hedges and, the changes in the fair value of non-hedging derivatives are charged to profit or loss in the related year (Note 26).

The fair value of derivative instruments is classified as a non-current asset or a non-current liability if the remaining maturity of the derivative instruments is more than 12 months and as a current asset or a current liability if the remaining maturity of the hedge relationship is less than 12 months.

###### *Financial liabilities at FVTPL*

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in Note 33.

###### Sale of treasury shares

The sale of shares of Deva by subsidiaries decreased the interest of the Company in Deva. Changes in the percentage of interests (increases and decreases) of a controlled entity that does not result in a change in control do not fall within the definition of business combination. In the accompanying consolidated financial statements the sale of shares by subsidiaries is accounted for as an equity transaction at book value under IAS 27 (2003) Separate Financial Statements.

###### Provisions and contingent liabilities

A provision is recognized when the Group has a present obligation (legal or constructive) as a result of a past event and (i) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and (ii) a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Contingent liabilities are assessed continually to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously identified as a contingent liability, a provision is made in the consolidated financial statements of the period in which the change in probability occurs (except in the circumstances where no reliable estimate can be made).

A restructuring provision is recognized when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan and announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the Group.

###### Events after the reporting period

The Group adjusts the amounts recognised in its financial statements to reflect the adjusting events after the balance sheet date. If non-adjusting events after the balance sheet date have material influence on the economic decisions of users of the financial statements, they are disclosed in the notes to the consolidated financial statements.

## EASTPHARMA LTD. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

##### Critical judgments, estimates and assumptions in applying the Group's accounting policies

In the process of applying the Group's accounting policies, which are described in Note 3, the Group Management has made the following judgments that have the most significant effect on the amounts recognized in the consolidated financial statements (apart from those involving estimations, which are dealt with below).

##### Recoverability of internally-generated intangible assets

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized only if the technical feasibility and the intention to complete the intangible asset, the ability to use or sell the intangible asset are demonstrated, how the intangible asset will generate probable future economic benefits is determined, adequate technical, financial and other resources to complete the development and to use or sell the intangible asset is available and the expenditure attributable to the intangible asset during its development can be reliably measured. Other development expenditures that do not meet these criteria are recognized as expense when incurred.

During the year ended 31 December 2017, the Group Management reconsidered the recoverability of its internally-generated intangible assets. Management reviews the projects regularly for any impairment. Determining whether assets are impaired requires an estimation of the value in use of the internally-generated intangible assets. The value in use calculation requires the Group Management to estimate the future cash flows expected to arise from the sale of the products developed and a suitable discount rate in order to calculate present value. The first step for the estimation of the future cash flows is the assessment of the licensing process, the application to the Ministry of Health and marketability of the product. The second step of the impairment testing involves the review and comparison of the projected cash flows with the actual financial data and assessment of the market activity.

The carrying amount of the internally-generated intangible assets at 31 December 2017 was US Dollar 45,934,071 (31 December 2016: US Dollar 45,470,436). During the year ended 31 December 2017, the Group Management has recognized an impairment loss of US Dollar 6,880,031 and written-off the impaired amount from product lines, license and supply agreements (31 December 2016: US Dollar 3,047,520).

##### Intangible asset acquired in business combination

The valuations of the Group's product lines, license and supply agreement and customer relationships were performed by an independent valuation firm to determine the fair value of product lines and customer relationships (which is regarded as their cost). Valuations were conducted to serve as a basis for allocation of the purchase price to the various classes of assets acquired in accordance with IFRS 3 *Business Combinations* and IAS 38 *Intangible Assets*. For IFRS 3 and IAS 38 purposes, the fair value defined is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties. In determining the fair value of the intangible assets, the three traditional approaches to valuation were considered: the cost approach, the market approach and the income approach. The cost approach was utilized in the valuation of the Group's customer relationships as well as in valuing the total assembled workforce, which is not considered a separately identifiable intangible asset for financial reporting purposes. The income approach was utilized in arriving at the value of the acquired product rights, license and supply agreement.

##### Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value. The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are the discount rates, growth rates and expected changes to selling prices and direct costs during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

As of 31 December 2017, the recoverable amount of the CGUs is determined based on the value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 13.5% per annum. Cash flows beyond that five-year period have been extrapolated by using a steady 20% per annum growth rate consisting of 12% inflation and real growth rate of 7.14%.

## EASTPHARMA LTD. AND IT'S SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (cont.)

##### Critical judgments, estimates and assumptions in applying the Group's accounting policies (cont.)

##### Impairment of goodwill (cont.)

In allocating the impairment loss the Company considered the higher of the fair value less costs to sell of the cash-generating unit or its value in use. The fair value less costs to sell is determined by using market approach which included guideline company method, guideline transaction method and publicly traded stock of the cash-generating unit. Fair value less cost to sell also incorporated the value in use calculated from the cash flow projections approved by the Group Management. Weighting factors were utilized to conclude on the fair value of the cash-generating unit.

At 31 December 2017, the Group tested goodwill for impairment. As at 31 December 2017 and 2016, no impairment loss is recognized in the accompanying consolidated financial statements.

##### Deferred taxes

Deferred tax assets and liabilities are recorded using substantially enacted tax rates for the effect of temporary differences between book and tax bases of assets and liabilities. Currently, there are deferred tax assets resulting from operating loss carry-forwards and deductible temporary differences, all of which could reduce taxable income in the future. Based on available evidence, both positive and negative, it is determined whether it is probable that all or a portion of the deferred tax assets will be realized. The main factors which are considered include future earnings potential; cumulative losses in recent years; history of loss carry-forwards and other tax assets expiring; the carry-forward period associated with the deferred tax assets; future reversals of existing taxable temporary differences; tax-planning strategies that would, if necessary, be implemented, and the nature of the income that can be used to realize the deferred tax asset. If based on the weight of all available evidence, it is the Group's belief that taxable profit will not be available sufficient to utilize some portion of these deferred tax assets, then some portion of or all of the deferred tax assets are not recognized.

##### Net realizable value

Inventories are stated at the lower of cost and net realizable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories held by the method most appropriate to the particular class of inventory, with being valued on standard costing basis. At the end of the each reporting period, the standard costs are updated based on the actual costs. Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to make a sale.

When the net realizable value of inventory is less than its cost, the inventory is written down to the net realizable value and the expense is included in the consolidated statement of income and comprehensive income in the period the write-down or loss occurred. According to the calculations based on the management's assumptions, a part of the inventories are written down to their net realizable value since the net realizable value of these inventories is less than their cost.

##### Useful life of intangibles

Product lines include trademarks, bio-license certificates, and internally-generated intangible assets. Internally-generated intangible assets represent the costs associated with obtaining approval from the Ministry of Health for the Group's products. Product lines have an average useful life of 10-15 years. License and Supply agreements have an average useful life of 8 years, and customer relationships have an average useful life of 20 years. Other intangible assets include mainly software rights and have an average useful life of 3 years.

## **EASTPHARMA LTD. AND IT'S SUBSIDIARIES**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### **4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (cont.)**

Critical judgments, estimates and assumptions in applying the Group's accounting policies (cont.)

##### Provision for litigations

In determining of provision for litigations, the Group considers the probability of legal cases to be resulted against the Group and in case it is resulted against the Group considers its consequences based on the assessments of legal advisor. The Group management makes its best estimates using the available data are provided in Note 16.

##### Provision for doubtful receivables

Provision for doubtful receivables is an estimated amount that management believes to reflect possible future losses on existing receivables that have collection risk due to current economic conditions. During the impairment test for the receivables, the debtors, are assessed with their prior year performances, their credit risk in the current market, their performance after the balance sheet date up to the issuing date of the financial statements; and also the renegotiation conditions with these debtors are considered. The provision for doubtful receivables is mentioned in the Note 7.

## EASTPHARMA LTD. AND IT'S SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 5. CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
Petty cash	18,626	17,822
Demand deposits	4,804,372	6,383,281
Time deposits	19,998,238	6,047,923
Cash and cash equivalents in cash flow statement	24,821,236	12,449,026
Interest income accruals	38,898	13,247
	<u>24,860,134</u>	<u>12,462,273</u>

As of 31 December 2017, the Group's time deposits were Euro, US Dollar and Turkish Lira time deposit, and the average interest rate for Euro time deposit is 2.33%, US Dollar time deposit is 4.06%, and Turkish Lira time deposit is 12.09%. (as of 31 December 2016, the Group's time deposits were Euro and US Dollar time deposit, and the average interest rate for Euro time deposit is 2.45%, and US Dollar time deposit is 3.22%, respectively). The Group has made investments in short term time deposits and purchased agreements which have an average maturity of one month.

As at 31 December 2017, the Group does not have any cash deposits pledged against the bank loans used (31 December 2016: Nil).

#### 6. TRADE AND OTHER RECEIVABLES

The Group's principal financial assets are trade, notes and other receivables. The Group's credit risk is primarily attributable to its trade receivables. As of 31 December 2017, two customers each represented 24% and 29% of the total trade and other receivables balance, respectively (31 December 2016: 20% and 29%, respectively).

	31 December 2017	31 December 2016
Trade receivables	24,486,869	20,124,946
Less: Allowance for doubtful receivables	(1,606,012)	(1,802,111)
Notes receivable	54,027,608	39,374,837
Other receivables	42,810	615,386
Less: Allowance for other doubtful receivables	(12,966)	(545,275)
	<u>76,938,309</u>	<u>57,767,783</u>

Notes receivable represents customer postdated cheques with maturities of less than one year and are non-interest bearing.

As at 31 December 2017 and 31 December 2016, the Group provided provision for uncollectable part of its past due trade and other receivables. The rest of the receivables amount is neither past due nor impaired. For the year ended 31 December 2017, the average credit period on sales is 100 days (31 December 2016: 109 days).

Movement of allowance for doubtful receivables in value for the year ended 31 December 2017 and 2016 is as follows:

	For the year ended 31 December 2017	For the year ended 31 December 2016
Balance at 1 January	1,802,111	2,211,904
Provision charge	-	858,596
Reversal of provision	-	(113,462)
Collections	(75,365)	(770,522)
Translation effect	(120,734)	(384,405)
Balance at 31 December	<u>1,606,012</u>	<u>1,802,111</u>

Impaired receivables have an aging of more than two years as at 31 December 2017 and 2016. In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The distribution of the Group's human pharmaceutical products is made by the two largest wholesalers in the Turkish market with whom the Group has not had past default experience. There is no concentration risk in other segments of the Group due to the number of smaller customers.

## EASTPHARMA LTD. AND IT'S SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 6. TRADE AND OTHER RECEIVABLES (cont.)

	For the year ended 31 December 2017	For the year ended 31 December 2016
<u>Provision for other doubtful receivables(-)</u>		
Balance at 1 January	545,275	659,972
Charge for the year	-	-
Provisions no longer required	(508,744)	-
Translation effect	(23,565)	(114,697)
Balance at 31 December	<u>12,966</u>	<u>545,275</u>

Collateral received in relation to trade receivables were as follows:

	2017	2016
Letters of guarantees	7,418,049	6,271,826

#### 7. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. The related party receivables and payables resulting from operating activities are settled in the normal course of business. Details of transactions with other related parties are disclosed below.

	31 December 2017	31 December 2016
<u>Due to related parties</u>		
Benefits payable to the Board of Directors and individual shareholders	4,811	17,796
	<u>4,811</u>	<u>17,796</u>

Total amount of compensation benefits provided to directors and upper level managers, include the salaries, premiums and retirement pay for the year ended 31 December 2017 and 2016 are stated below:

	For the year ended 31 December 2017	For the year ended 31 December 2016
<u>Compensation of key management personnel</u>		
Short-term benefits	9,185,613	8,641,452
Employment termination benefits	88,241	79,263
Total compensation	<u>9,273,854</u>	<u>8,720,715</u>

## EASTPHARMA LTD. AND IT'S SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 8. INVENTORIES

	31 December 2017	31 December 2016
Raw materials	32,856,958	29,640,249
Work-in-progress	7,552,397	4,027,595
Finished goods	23,248,998	25,095,735
Goods in transit	4,435,247	2,230,531
Other goods	165,424	-
Allowance for diminution in value of inventories	(2,884,013)	(3,371,017)
	<u>65,344,678</u>	<u>57,623,093</u>

Allowance for diminution in value of inventories has been recognized as expense in cost of goods sold and the distribution of allowance by inventory item is as follows:

	For the year ended 31 December 2017	For the year ended 31 December 2016
Opening balance	3,371,017	3,021,784
Charge for the year	1,887,733	4,531,380
Provisions utilized	(2,148,895)	(3,656,993)
Translation effect	(225,842)	(525,154)
Closing balance	<u>2,884,013</u>	<u>3,371,017</u>

#### 9. OTHER CURRENT AND NON-CURRENT ASSETS

	31 December 2017	31 December 2016
<u>Other current assets</u>		
Value added tax (VAT) receivable	5,189,490	6,665,994
Business advances given	118,829	204,066
Income accruals (*)	1,644,691	1,074,566
Prepaid expenses	1,477,378	1,013,856
Prepaid taxes	783,122	662,494
Other assets	108,593	95,252
	<u>9,322,103</u>	<u>9,716,228</u>

(\*) The Group receives government grants for certain development costs and property, plant and equipment used in research and development activities. The balance consists of the income accrual for the grants receivable from TÜBİTAK (Scientific and Technological Research Council of Turkey).

	31 December 2017	31 December 2016
<u>Other non - current assets</u>		
Prepaid expenses	249	51,466
	<u>249</u>	<u>51,466</u>

## EASTPHARMA LTD. AND IT'S SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 10. PROPERTY, PLANT AND EQUIPMENT

	Land	Land Improvements	Buildings	Machinery and Equipment	Machinery Acquired Through Finance Leases	Vehicles	Vehicles Acquired Through Finance Leases	Furniture and Fixtures	Leasehold Improvements	Construction in Progress and Advances Given	Total
<u>Acquisition cost</u>											
At 1 January 2017	8,645,266	161,825	43,413,606	80,276,029	1,006,110	1,438,071	(6,165)	6,057,520	79,205	8,439,566	149,511,033
Currency translation	(591,996)	(10,841)	(2,908,512)	(5,378,126)	(67,405)	(96,344)	413	(405,826)	(5,306)	(565,412)	(10,029,355)
Additions	-	-	-	-	-	102,863	-	527,197	-	22,129,751	22,759,811
Transfers	-	410,933	5,414,709	15,998,266	-	-	-	-	-	(21,823,908)	-
Disposals	-	-	-	(4,106,495)	-	(1,195,759)	-	(15,256)	-	-	(5,317,510)
At 31 December 2017	8,053,270	561,917	45,919,803	86,789,674	938,705	248,831	(5,752)	6,163,635	73,899	8,179,997	156,923,979
<u>Accumulated depreciation</u>											
At 1 January 2017	-	(76,738)	(7,177,208)	(40,266,698)	(668,364)	(1,063,913)	6,165	(3,897,801)	(63,882)	-	(53,208,439)
Currency translation	-	5,554	515,884	2,899,416	44,777	77,889	(413)	276,751	4,326	-	3,824,184
Depreciation capitalized in intangible assets (Note 11) (*)	-	-	-	(511,831)	-	-	-	-	-	-	(511,831)
Depreciation charge for the year	-	(12,219)	(1,042,804)	(5,951,091)	(21,539)	(195,745)	-	(462,349)	(1,374)	-	(7,687,121)
Disposals	-	-	-	2,242,107	-	1,136,128	-	13,060	-	-	3,391,295
At 31 December 2017	-	(83,403)	(7,704,128)	(41,588,097)	(645,126)	(45,641)	5,752	(4,070,339)	(60,930)	-	(54,191,912)
Carrying amount at 31 December 2017	8,053,270	478,514	38,215,675	45,201,577	293,579	203,190	-	2,093,296	12,969	8,179,997	102,732,067
Carrying amount at 1 January 2017	8,645,266	85,087	36,236,398	40,009,331	337,746	374,158	-	2,159,719	15,323	8,439,566	96,302,594

(\*) US Dollar 511,831 partial depreciation charge of machinery and equipment is directly attributable to development costs related to product licenses and rights. The balance is capitalized in cost value of intangible assets in respect of IFRS 16 and IFRS 38 (Note 11) as the projects are in progress as at 31 December 2017.

As of 31 December 2017, insured property, plant and equipment amounts to TRY 823,407,000 (Equivalent of US Dollar 218,300,326) (31 December 2016: TRY 773,678,000; Equivalent of US Dollar 219,844,851).

The Group's headquarter building and factory and other buildings located in Kocaeli Kartepe and Tekirdağ Çerkezköy and land in Çerkezköy are pledged against the borrowings used at an amount of TRY 55,000,000, TRY 20,000,000, TRY 35,000,000, TRY 34,000,000, TRY 8,400,000 and TRY 16,200,000 (Note 20).



## EASTPHARMA LTD. AND IT'S SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 10. PROPERTY, PLANT AND EQUIPMENT (cont.)

	Land	Land Improvements	Buildings	Machinery and Equipment	Machinery Acquired Through Finance Leases	Vehicles	Vehicles Acquired Through Finance Leases	Furniture and Fixtures	Leasehold Improvements	Construction in Progress and Advances Given	Total
<u>Acquisition cost</u>											
At 1 January 2016	10,502,558	191,387	49,594,592	85,135,012	1,217,740	1,752,655	(7,462)	6,581,786	95,865	7,676,686	162,740,819
Currency translation	(1,856,487)	(33,261)	(8,619,019)	(14,795,571)	(211,630)	(304,593)	1,297	(1,143,845)	(16,660)	(1,334,127)	(28,313,896)
Additions	-	3,699	-	-	-	42,839	-	619,579	-	14,471,628	15,137,745
Transfers	-	-	2,438,033	9,936,588	-	-	-	-	-	(12,374,621)	-
Disposals	(805)	-	-	-	-	(52,830)	-	-	-	-	(53,635)
At 31 December 2016	8,645,266	161,825	43,413,606	80,276,029	1,006,110	1,438,071	(6,165)	6,057,520	79,205	8,439,566	149,511,033
<u>Accumulated depreciation</u>											
At 1 January 2016	-	(80,477)	(7,453,040)	(41,590,485)	(764,516)	(996,178)	7,462	(4,154,986)	(72,327)	-	(55,104,547)
Currency translation	-	15,687	1,462,642	8,088,624	132,865	221,395	(1,297)	799,283	13,254	-	10,732,453
Depreciation capitalized in intangible assets (Note 11) (*)	-	-	-	(757,360)	-	-	-	-	-	-	(757,360)
Depreciation charge for the year	-	(11,948)	(1,186,810)	(6,007,477)	(36,713)	(338,994)	-	(542,098)	(4,809)	-	(8,128,849)
Disposals	-	-	-	-	-	49,864	-	-	-	-	49,864
At 31 December 2016	-	(76,738)	(7,177,208)	(40,266,698)	(668,364)	(1,063,913)	6,165	(3,897,801)	(63,882)	-	(53,208,439)
Carrying amount at 31 December 2016	8,645,266	85,087	36,236,398	40,009,331	337,746	374,158	-	2,159,719	15,323	8,439,566	96,302,594
Carrying amount at 1 January 2016	10,502,558	110,910	42,141,552	43,544,527	453,224	756,477	-	2,426,800	23,538	7,676,686	107,636,272

(\*) US Dollar 757,360, partial depreciation charge of machinery and equipment is directly attributable to development costs related to product licenses and rights. The balance is capitalized in cost value of intangible assets in respect of IFRS 16 and IFRS 38 (Note 11) as the projects are in progress as at 31 December 2016.

As of 31 December 2016, insured property, plant and equipment amounts to TRY 773,678,000 (Equivalent of US Dollar 219,844,851) (31 December 2015: TRY 715,585,000; Equivalent of US Dollar 246,108,474). The Group's headquarter building and factory and other buildings located in Kocaeli Kartepe, and Tekirdağ Çerkezköy and land in Çerkezköy are pledged against the borrowings used at an amount of TRY 55,000,000, TRY 20,000,000, TRY 35,000,000, TRY 34,000,000, TRY 8,400,000 and TRY 16,200,000 (Note 20).

## EASTPHARMA LTD. AND IT'S SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 10. PROPERTY, PLANT AND EQUIPMENT (cont.)

Allocation of depreciation on property, plant and equipment and amortization of intangible assets (Note 11) is as follows:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Cost of goods sold	4,599,756	6,505,950
Operating expenses	4,837,342	8,399,528
Capitalized on inventory	<u>1,345,903</u>	<u>1,526,520</u>
	<u><u>10,783,001</u></u>	<u><u>16,431,998</u></u>

#### 11. INTANGIBLE ASSETS

<u>Acquisition cost</u>	<u>Product lines license and supply agreement</u>	<u>Customer relationships</u>	<u>Other intangible assets</u>	<u>Total</u>
At 1 January 2017	120,990,023	19,043,653	6,366,720	146,400,396
Currency translation	(7,105,011)	(394,120)	(96,448)	(7,595,579)
Additions (*)	14,503,012	-	-	14,503,012
Capitalized depreciation from property, plant and equipment (Note 10)	-	-	511,831	511,831
Disposals	<u>(7,511,673)</u>	<u>-</u>	<u>-</u>	<u>(7,511,673)</u>
At 31 December 2017	<u>120,876,351</u>	<u>18,649,533</u>	<u>6,782,103</u>	<u>146,307,987</u>
<u>Accumulated amortization and impairment</u>				
At 1 January 2017	(58,254,583)	(4,969,523)	(1,148,848)	(64,372,954)
Currency translation	3,766,330	289,862	92,230	4,148,422
Charge for the year	(2,982,322)	(113,558)	-	(3,095,880)
Disposals	<u>631,642</u>	<u>-</u>	<u>-</u>	<u>631,642</u>
At 31 December 2017	<u>(56,838,933)</u>	<u>(4,793,219)</u>	<u>(1,056,618)</u>	<u>(62,688,770)</u>
Carrying amount at 31 December 2017	<u><u>64,037,418</u></u>	<u><u>13,856,314</u></u>	<u><u>5,725,485</u></u>	<u><u>83,619,217</u></u>
Carrying amount at 1 January 2017	<u><u>62,735,440</u></u>	<u><u>14,074,130</u></u>	<u><u>5,217,872</u></u>	<u><u>82,027,442</u></u>

As of 31 December 2017, capitalized financial expense amounts to US Dollar 705,903 (31 December 2016: US Dollar 861,208).

## EASTPHARMA LTD. AND IT'S SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 11. INTANGIBLE ASSETS (cont.)

	Product lines license and supply agreement	Customer relationships	Other intangible assets	Total
<u>Acquisition cost</u>				
At 1 January 2016	126,369,163	20,281,071	5,912,177	152,562,411
Currency translation	(19,233,967)	(1,237,418)	(302,817)	(20,774,202)
Additions (*)	16,902,347	-	-	16,902,347
Capitalized depreciation from property, plant and equipment (Note 10)	-	-	757,360	757,360
Disposals	(3,047,520)	-	-	(3,047,520)
At 31 December 2016	<u>120,990,023</u>	<u>19,043,653</u>	<u>6,366,720</u>	<u>146,400,396</u>
<u>Accumulated amortization and impairment</u>				
At 1 January 2016	(57,120,463)	(5,354,501)	(1,438,421)	(63,913,385)
Currency translation	6,676,528	877,479	289,573	7,843,580
Charge for the year	(7,810,648)	(492,501)	-	(8,303,149)
Disposals	-	-	-	-
At 31 December 2016	<u>(58,254,583)</u>	<u>(4,969,523)</u>	<u>(1,148,848)</u>	<u>(64,372,954)</u>
Carrying amount at 31 December 2016	<u>62,735,440</u>	<u>14,074,130</u>	<u>5,217,872</u>	<u>82,027,442</u>
Carrying amount at 1 January 2016	<u>69,248,700</u>	<u>14,926,570</u>	<u>4,473,756</u>	<u>88,649,026</u>

As of 31 December 2016, capitalized financial expense amounts to US Dollar 861,208 (31 December 2015: US Dollar 802,628).

(\*) Additions mainly consist of own-developed and technology-transfer products.

Product lines include trademarks, biolicense certificates, and internally-generated intangible assets. Internally-generated intangible assets represent the costs associated with obtaining approval from the Ministry of Health for the Group's products. Product lines have an average useful life of 10-15 years. At the beginning of the current year, the management reviewed the useful lives of certain product lines. Based on the sales forecasts, the estimated useful lives of some of the products have been extended to 15 years. Previously all product lines had an average useful life of 10 years. License and Supply agreements have an average useful life of 8 years.

The license and supply agreement represents the value of the rights acquired through the License and Supply Agreement signed between EastPharma SARL and Roche. Rights acquired through license and supply agreement are assumed to have an economic life of 8 years.

Other intangible assets include mainly software rights and have an average useful life of three years.

The Group's customer relationships are comprised of the relationship with a large number of doctors and pharmacies in the medical industry. The amount recorded is based on the Group Management's best estimate of the fair value of the intangibles. Fair value is based on the total cost the Group would incur to replace such relationships. The Group's customer relationships are assumed to have an economic life of 20 years.

Total carrying amounts of product lines, license and supply agreement and customer relationships are allocated to human pharma segment.

## EASTPHARMA LTD. AND IT'S SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 12. GOODWILL

##### Cost

Balance at 1 January 2016	82,226,478
Net foreign currency translation	(200,396)
Balance at 31 December 2016	<u>82,026,082</u>

Balance at 1 January 2017	82,026,082
Net foreign currency translation	(63,828)
Balance at 31 December 2017	<u>81,962,254</u>

##### Accumulated impairment losses

Balance at 1 January 2017	(2,564,340)
Net foreign currency translation	-
Balance at 31 December 2017	<u>(2,564,340)</u>

Carrying amount as at 31 December 2017	<u><u>79,397,914</u></u>
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Carrying amount as at 31 December 2016	<u><u>79,461,742</u></u>
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As at 31 December 2017, the Group assessed the recoverable amount of goodwill for Deva and Saba. The recoverable amount of the CGUs is determined based on the value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 13.5% per annum. Cash flows beyond that five-year period have been extrapolated by using a steady 20% per annum growth rate consisting of 12% inflation and real growth rate of 7.14%. This calculation was based on Deva Holding local currency (TRY) and economical conditions of Turkey. The management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of goodwill to exceed its recoverable amount. Total carrying amount of goodwill is allocated to human pharma business segment.

As at 31 December 2017 and 2016, no impairment loss has been recognized in the accompanying consolidated financial statements.

#### 13. INVESTMENT IN ASSOCIATES

<u>Investments in associates</u>	<u>%</u>	<u>31 December</u> <u>2017</u>	<u>%</u>	<u>31 December</u> <u>2016</u>
Lypanosys Pte Limited	21.75%	-	21.75%	-
		<u>-</u>		<u>-</u>

In 2010 the Company entered into a shareholding agreement with a third party for the establishment of a new company in Singapore, Lypanosys Pte Limited ("Lypanosys"), for the research, development and marketing of products derived from the long chain fatty acid ester, known as LYP010, as antitheraupetic treatment for certain inflammatory and other ailments.

The Group increased its voting power to 21.75% during 2011 by acquiring the shares of another shareholder at an amount of US Dollars 236,434. The amount was paid in cash. Prior to this acquisition, the Group held less than 20 per cent of the voting power in Lypanosys, but was exercising significant influence by virtue of its contractual right to appoint one director to the board of Lypanosys Company. The Board of Directors of Lypanosys consists of 4 members and each has equal voting right. As such, there have been no changes in the controlling power of the Company as a result of this acquisition.

The financial year end date of Lypanosys is 31 March. This was the reporting date established when Lypanosys was incorporated, and a change of reporting date is not planned. For consolidation purposes Lypanosys' twelve month financial statements to 31 December are used.

The operations of Lypanosys are limited. Total assets and liabilities amount to US Dollars 211,771 and US Dollars 333,716 as of 31 December 2017, respectively. For the year ended 31 December 2017 there were no revenues and net loss was US Dollars 121,945.

## EASTPHARMA LTD. AND IT'S SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 14. BORROWINGS

	31 December 2017	31 December 2016
Short term bank loans	22,737,063	24,975,295
Current portion of long term loans	28,796,458	17,856,609
Current portion of bonds issued (*)	27,238,613	599,564
Total short term borrowings	<u>78,772,134</u>	<u>43,431,468</u>
Long term portion of bank loans	50,731,825	35,755,714
Bonds issued (*)	-	28,337,774
Total long term borrowings	<u>50,731,825</u>	<u>64,093,488</u>
Total borrowings	<u><u>129,503,959</u></u>	<u><u>107,524,956</u></u>

(\*)The Group issued corporate bonds amounting to TRY 100,000,000 with two years maturity, quarterly floating interest rate and coupon payments. The bonds were sold on 9 June 2016 only to qualified investors. Annual simple yield of the bond is calculated by adding 325 basis points over the annual compound yield of "reference government bond". As of issuance date, annual simple and compound bond yield were 12.14% and 12.71%, respectively.

The effective interest rate is 14.64% in TRY as at 31 December 2017 and discounted estimated future cash payments through the expected life of the financial liability is calculated as TRY 101,905,002 (Equivalent of US Dollar 27,016,889).

The Group has a number of borrowings with interest rates that are based on market interest rates at date of the borrowings. The Group is exposed to interest rate fluctuations on domestic and international markets. The Group attempts to mitigate this risk by maintaining an appropriate mix between fixed and floating rate borrowings whose portions are 76% and 24% respectively.

The repayments of the borrowings are as follows:

	31 December 2017	31 December 2016
On demand or within one year	78,772,134	43,431,468
In the second year	17,738,931	39,223,497
In the third year	15,238,510	11,394,032
In the fourth year	12,510,932	8,268,322
In the fifth year	<u>5,243,452</u>	<u>5,207,637</u>
	<u><u>129,503,959</u></u>	<u><u>107,524,956</u></u>

The fair value of the Group's short term borrowings, other than bond issued, approximate their carrying amounts due to the short-term nature of the instruments. The fair value of the bond issued approximate its carrying amount as the interest rates of the instruments are variable and are based on market rates.

## EASTPHARMA LTD. AND IT'S SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 14. BORROWINGS (cont.)

##### Short-term loans

Short-term bank loans consist of the following:

Currency Type	Weighted Average Interest Rate	Principal	31 December 2017	Currency Type	Weighted Average Interest Rate	Principal	31 December 2016
TRY	14.3%	73,385,385	19,455,814	TRY	10.3%	78,520,555	22,312,047
EUR	0.8%	2,500,000	2,992,855	EUR	0.8%	2,500,000	2,635,471
Accrued interest			288,394	Accrued interest			27,777
			<u>22,737,063</u>				<u>24,975,295</u>

Short term borrowings consist of revolving lines of credits with several banks and carry fixed rate interests. As at 31 December 2017 and 31 December 2016, the total available lines of credits were US Dollar 332,257,816 (TRY 1,253,243,255) and 298,091,652 (TRY 1,049,044,140), respectively. The principal and interest is paid on the maturity. The agreements have no expiration date unless there is a breach of contract which would include nonpayment of interest and principal within the maturity.

##### Long-term loans

Current portion of long-term bank loans consist of the following:

Currency Type	Weighted Average Interest Rate	Principal	31 December 2017	Currency Type	Weighted Average Interest Rate	Principal	31 December 2016
TRY	12.1%	94,664,222	25,097,225	TRY	10.8%	55,278,150	15,707,590
EUR	2.5%	825,429	988,156	EUR	-	-	-
Accrued interest			2,711,077	Accrued interest			2,149,019
			<u>28,796,458</u>				<u>17,856,609</u>

Long-term bank loans consist of the following:

Currency Type	Weighted Average Interest Rate	Principal	31 December 2017	Currency Type	Weighted Average Interest Rate	Principal	31 December 2016
TRY	14.6%	178,903,555	47,430,620	TRY	13.4%	112,538,938	31,978,557
EUR	2.5%	2,757,571	3,301,205	EUR	2.5%	3,583,000	3,777,157
			<u>50,731,825</u>				<u>35,755,714</u>

## EASTPHARMA LTD. AND IT'S SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 14. BORROWINGS (cont.)

The details of the Group's long term borrowings are as follows:

- a) A loan of TRY 3,240,000 (Equivalent of US Dollar 858,984) (2016: TRY 6,480,000) was drawn down on 1 August 2013, Repayments of interest and principal commenced on 3 February 2014 and will continue till 1 August 2018 on semiannual basis, The loan carries interest of 9.8%, This loan is also secured by the Group's two lands located at Çerkezköy at an amount of TRY 16,200,000 (Note 17),
- b) A loan of TRY 2,000,000 (Equivalent of US Dollar 530,237) (2016: TRY 4,000,000) was drawn down on 4 December 2013. Repayments of interest and principal commenced on 4 June 2014 and will continue till 4 December 2018 on semiannual basis. The loan carries interest of 11.5%, This loan is also secured by the Group's factory buildings located at Kartepe and other buildings' mortgages at an amount of TRY 20,000,000 (Note 17).
- c) A loan of TRY 4,000,000 (Equivalent of US Dollar 1,060,474) (2016: TRY 8,000,000) was drawn down on 10 December 2013. Repayments of interest and principal will be commenced on 10 June 2014 and will continue till 10 December 2018 on semiannual basis. The loan carries interest of 11.5%. This loan is also secured by the Group's factory buildings located at Çerkezköy and other buildings' mortgages at an amount of TRY 35,000,000 (Note 17).
- d) A loan of TRY 22,000,000 (Equivalent of US Dollar 5,832,604) (2016: 33,000,000) was drawn down on 23 December 2014, Repayments of interest and principal commenced on 23 June 2015 and will continue till 23 December 2019 semi-annually. The loan carries interest of 11.15%. This loan is also secured by the Group's headquarter building located at Halkalı at an amount of TRY 55,000,000 (Note 17).
- e) A loan of TRY 50,555,556 (Equivalent of US Dollar 13,403,207) (2016: 65,000,000) was drawn down on 14 January 2016. Repayments of interest and principal commenced on 16 January 2017 and will continue till 14 January 2021. The loan carries interest of 14.60%. Repayments of interest and principal will be on semiannual basis, This loan is also secured by the Group's factory buildings located at Çerkezköy and other buildings' mortgages at an amount of TRY 35,000,000 (Note 17).
- f) A loan of TRY 11,550,000 (Equivalent of US Dollar 3,062,117) (2016: 14,850,000) was drawn down on 05 February 2016. Repayments of interest and principal commenced on 05 August 2016 and will continue till 05 February 2021. The loan carries interest of 14.83%. Repayments of interest and principal will be on semiannual basis. This loan is also secured by the Group's two lands located at Çerkezköy at an amount of TRY 8,400,000 (Note 17).
- g) A loan of Euro 2,195,000 (Equivalent of US Dollar 2,627,727) (2016: 2,195,000) was drawn down on 25 May 2016. Repayments of interest and principal will be commenced on 25 May 2018 and will continue till 25 May 2021. The loan carries interest of EURIBOR+%2.45. Repayments of interest and principal will be on semiannual basis.
- h) A loan of TRY 30,222,222 (Equivalent of US Dollar 8,012,466) (2016: 34,000,000) was drawn down on 23 September 2016. Repayments of interest and principal commenced on 22 September 2017 and will continue till 23 September 2021. The loan carries interest of 13.30%. Repayments of interest and principal will be on semiannual basis. This loan is also secured by the Group's factory buildings located at Çerkezköy and other buildings' mortgages at an amount of TRY 34,000,000 (Note 17).
- i) A loan of Euro 1,388,000 (Equivalent of US Dollar 1,661,633) (2016:1,388,000) was drawn down on 16 December 2016. Repayments of interest and principal will be commenced on 17 December 2018 and will continue till 16 December 2021. The loan carries interest of EURIBOR+%2.45. Repayments of interest and principal will be on semiannual basis.
- j) A loan of TRY 40,000,000 (Equivalent of US Dollar 10,604,735) (2016: None) was drawn down on 16 January 2017. Repayments of interest and principal will be commenced on 16 January 2018 and will continue till 17 January 2022. The loan carries interest of 13.95%, Repayments of interest and principal will be on semiannual basis.

## EASTPHARMA LTD. AND IT'S SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 14. BORROWINGS (cont.)

- k) A loan of TRY 30,000,000 (Equivalent of US Dollar 7,953,551) (2016: None,) was drawn down on 27 April 2017. Repayments of interest and principal will be commenced on 27 April 2018 and will continue till 27 April 2022. The loan carries monthly interest of 1.15%, Repayments of interest and principal will be on semiannual basis.
- l) A loan of TRY 20,000,000 (Equivalent of US Dollar 5,302,368) (2016: None) was drawn down on 9 October 2017. Repayments of interest and principal will be commenced on 9 January 2018 and will continue till 9 October 2019. The loan carries interest of 14.20%. Repayments of interest and principal will be on quarterly basis.
- m) A loan of TRY 60,000,000 (Equivalent of US Dollar 15,907,103) (2016: None) was drawn down on 28 December 2017. Repayments of interest and principal commenced on 28 June 2018 and will continue till 28 December 2022. The loan carries interest of 16.73%. Repayments of interest and principal will be on semiannual basis. As of 3 January 2017, this loan is also secured by the Group's land located at Çerkezköy at an amount of TRY 12,900,000
- n) The Group has spot loans amounting to TRY 65,300,000 (Equivalent of US Dollar 17,312,230) (2016: TRY 78,520,555), with an average interest of 14.31% and have loans with no interest amounting to TRY 7,902,028 (Equivalent of US Dollar 2,094,973) (2016: None).
- o) The Group has spot loans amounting to Euro 2,500,000 (Equivalent of US Dollar 2,993,067) (2016: 2,500,000), with an average interest of 0.75%.
- p) The Group has spot loans amounting to TRY 182,557 (Equivalent of US Dollar 48,399) (2016: None), with no interest.

The Group uses its notes receivables as collaterals for its revolving loans, As at 31 December 2017, the amount of the notes receivables given as collateral is USD 14,210,345 (31 December 2016: USD 15,575,000).



## EASTPHARMA LTD. AND IT'S SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 15. TRADE PAYABLES

	31 December 2017	31 December 2016
Short-term trade payables	18,529,409	14,168,605
Notes payable	<u>1,670</u>	<u>1,669</u>
	<u>18,531,079</u>	<u>14,170,274</u>

Notes payable represents postdated cheques with maturities of less than one year and are provided to the various suppliers of the Group. The average credit period for the trade payables is 52 days (31 December 2016: 46 days).

#### 16. OTHER PAYABLES AND ACCRUED EXPENSES

	31 December 2017	31 December 2016
Accrued sales discounts and free samples (*)	1,488,258	1,098,481
Accrued vacation pay	1,533,006	1,859,402
Payroll taxes and dues payable	1,066,419	1,710,633
Deferred income (**)	1,034,639	990,531
Social security premiums payable	1,787,861	1,557,200
Accrued sales premiums and bonuses	727,343	588,942
Advances received	1,343,253	383,896
Accrued payroll	95,875	123,751
Other accruals and liabilities	<u>6,439,336</u>	<u>6,229,411</u>
	<u>15,515,990</u>	<u>14,542,247</u>

(\*) US Dollar 387,897 of the amount relates to accrued reimbursement charges given to pharmacies and warehouses due to the price differences (2016: US Dollar 246,107).

	31 December 2017	31 December 2016
Long-term deferred income (**)	<u>5,859,413</u>	<u>4,796,881</u>
	<u>5,859,413</u>	<u>4,796,881</u>

(\*\*) In 2010, the Group began receiving government grants for certain development costs incurred and property, plant and equipment used in research and development activities from TUBITAK (Scientific and Technological Research Council of Turkey). Government grants relating to capitalized development costs are deferred and recognized in the consolidated statement of income and comprehensive income over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to property, plant and equipment are included in other payables as deferred income and are credited to the consolidated statement of income and comprehensive income on a straight-line basis over the expected lives of the related assets.

## EASTPHARMA LTD. AND IT'S SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 17. PROVISIONS

	31 December 2017	31 December 2016
Provision for legal claims	1,033,770	802,010
Provision for seniority incentive and other benefits	47,500	47,500
	<u>1,081,270</u>	<u>849,510</u>

	Provision for seniority incentive and other benefits	Provision for legal claims	Total
At 1 January 2016	57,500	1,386,308	1,443,808
Charge for the year	-	734,442	734,442
Utilization of provision	(10,000)	(697,014)	(707,014)
Provision released	-	(380,801)	(380,801)
Translation effect	-	(240,925)	(240,925)
At 31 December 2016	<u>47,500</u>	<u>802,010</u>	<u>849,510</u>
At 1 January 2017	47,500	802,010	849,510
Charge for the year	-	870,789	870,789
Utilization of provision	-	(470,221)	(470,221)
Provision released	-	(114,980)	(114,980)
Translation effect	-	(53,828)	(53,828)
At 31 December 2017	<u>47,500</u>	<u>1,033,770</u>	<u>1,081,270</u>

The provision for seniority incentive and other benefits as at 31 December 2017 included US Dollar 47,500 relating to special termination benefits granted to certain employees of Deva immediately prior to the acquisition of EastPharma. The Group is obligated to pay these individuals incremental termination benefits and all other legal termination benefits, when the employee leaves the Group.

Total provisions for legal claims represent court cases opened and currently pending against the Group. The current period charge for the legal claims include the provisions for the court cases with discharged personnel and fines received from the tax authority as a result of general inspections in pharmaceutical sector in Turkey.

**EASTPHARMA LTD. AND IT'S SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

(Unless otherwise indicated all amounts expressed in US Dollar.)

**18. TAXATION ON INCOME**

	31 December 2017	31 December 2016
<u>Current Tax Payable:</u>		
Current corporate and income tax	1,066,850	836,294
	<u>1,066,850</u>	<u>836,294</u>
	For the year ended 31 December 2017	For the year ended 31 December 2016
<u>Taxation:</u>		
Current tax expense	1,220,540	836,294
Deferred tax expense	1,148,041	4,957,641
	<u>2,368,581</u>	<u>5,793,935</u>

Total charge for the period can be reconciled to the accounting profit as follows:

	For the year ended 31 December 2017	For the year ended 31 December 2016
Profit before tax	30,191,039	24,261,422
Corporate income tax rate	<u>0%</u>	<u>0%</u>
Expected taxation	-	-
<u>tax effects of:</u>		
- r&d incentives deductions	(3,931,042)	(1,284,733)
- effect of different tax rate of subsidiaries operating in other jurisdiction	6,972,872	7,552,165
- used discounted tax rate effect, other than effective tax rate	(356,721)	-
- other	<u>(316,528)</u>	<u>(473,497)</u>
Income tax expense		
per consolidated statement of income	<u>2,368,581</u>	<u>5,793,935</u>

## EASTPHARMA LTD. AND IT'S SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 18. TAXATION ON INCOME (cont.)

##### *Corporate Tax*

The Company is based in Bermuda and Bermuda levies no tax on profits, dividends or income, nor is there any withholding tax or capital gains tax.

##### *Current and deferred income tax in Turkey*

The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity. In such case, the tax is also recognised in shareholders' equity.

The current income tax charge is calculated in accordance with the tax laws enacted or substantively enacted at the balance sheet date in the countries where the subsidiaries and associates of the Group operate. Under the Turkish Tax Code, companies having head office or place of business in Turkey are subject to corporate tax.

Under the Turkish taxation system, tax losses can be carried forward to be offset against future taxable income for five years. Tax losses cannot retrospectively offset against the profits of previous years.

Furthermore, provisional corporate taxes are paid at 20% (will be applied as 22% for 2018, 2019 and 2020 tax periods) over profits declared for interim periods in order to be deducted from the final corporate tax.

As of December 31, 2017 and 2016, income tax provisions have been accrued in accordance with the prevailing tax legislation. 75% of the income derived by the Company from the sale of participation shares, preferential rights, founders' shares and redeemed shares and 50% of the income derived by the Company from the sale of immovable property which are carried in assets for at least for two years is exempt from corporate tax with the condition that the relevant income should be added to the share capital or kept under a special reserve account under equity for 5 years in accordance with the Corporate Tax Law.

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values in the consolidated financial statements. Currently enacted tax rates are used to determine deferred income tax at the balance sheet date.

Since the applicable tax rate has been changed to 22% for the 3 years beginning from 1 January 2018, 22% tax rate is used in the deferred tax calculation of 31 December 2017 for the temporary differences expected to be realized/closed within 3 years (for the years 2018, 2019 and 2020). However, since the corporate tax rate after 2020 is 20%, 20% tax rate is used for the temporary differences expected to be realized/closed after 2020.

Deferred tax liabilities are recognized for all taxable temporary differences, where deferred tax assets resulting from deductible temporary differences are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilized. Provided that deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority and it is legally eligible, they may be offset against one another.

##### *Tax assets and liabilities*

##### *Corporation tax*

The Group is subject to taxation in accordance with the tax regulation and the legislation effective in Turkey.

In Turkey, the corporate tax rate is 20%. However, in accordance with the addition of temporary 10th article to the Corporate Tax Law, 22% corporate tax rate will be applied to the profits of the entities related to their to 2018, 2019 and 2020 tax periods (for the entities with special accounting period, tax periods commenced in the related year) rather than 20%. This rate is applicable to the tax base derived upon exemptions and deductions stated in the tax legislation and by addition of disallowable expenses to the commercial revenues of the companies with respect to the tax legislation. Corporate tax is required to be filed by the twenty-fifth day of the fourth month following the balance sheet date and taxes must be paid by the end of the fourth month.

## **EASTPHARMA LTD. AND IT'S SUBSIDIARIES**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### **18. TAXATION ON INCOME (cont.)**

##### *Tax assets and liabilities (cont.)*

The tax legislation provides for a temporary tax of 20% (will be applied as 22% for 2018, 2019 and 2020 tax periods) to be calculated based on earnings generated for each quarter. Temporary tax is declared by the 14th day of the second month following each quarter and corresponding tax is payable by the 17th day of the same month. The amounts thus calculated and paid are offset against the final corporate tax liability for the year. If there is excess temporary tax paid even if it is already offset, this amount may be refunded or offset. Corporate tax losses can be carried forward for a maximum period of 5 years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years.

15% withholding applies to dividends distributed by resident real persons, those who are not liable to income and corporation tax, non-resident real persons, non-resident corporations (excluding those that acquire dividend through a permanent establishment or permanent representative in Turkey) and non-resident corporations exempted from income and corporation tax.

Dividend distribution by resident corporations to resident corporations is not subject to a withholding tax. Furthermore, in the event the profit is not distributed or included in capital, no withholding tax shall be applicable.

Turkish tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, tax liabilities, as reflected in these consolidated financial statements, have been calculated on a separate-entity basis. As of December 31, 2017 and 2016, current income tax payables have been offset against the prepaid taxes in entity basis but such offset amounts have been classified in gross basis in the consolidated financial statements.

## EASTPHARMA LTD. AND IT'S SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 18. TAXATION ON INCOME (cont.)

The breakdown of balances in subsidiaries with net deferred tax asset position is as follows:

	31 December 2017	31 December 2016
Basis difference on property, plant and equipment and intangible assets	(3,374,382)	(3,655,780)
Carry forward tax losses	-	1,121,304
Basis difference on inventory	894,730	853,889
Provision for employment termination benefits	1,132,446	969,268
Accrued vacation	337,261	371,880
Provision for legal cases	231,469	163,660
Amortization of discount on notes receivable and payables	259,468	199,027
Expense accruals due to price regulation	85,337	49,221
Other	1,786,228	1,830,402
Net deferred tax asset	<u>1,352,557</u>	<u>1,902,871</u>
	<u>For the year ended 31 December 2017</u>	<u>For the year ended 31 December 2016</u>
<u>Movement of deferred tax assets:</u>		
Opening balance	1,902,871	6,668,364
Charge for the year	(1,148,041)	(4,957,641)
Tax income recognized in other comprehensive income	6,882	50,950
Translation effect	590,845	141,198
Closing balance	<u>1,352,557</u>	<u>1,902,871</u>

As at 31 December 2017, the Group has no unused tax losses available for offset against future profits (31 December 2016: US Dollar 5,606,518). The Group does not have any unrecognized deferred tax assets in 2017 (2016: Nil). The total amount of these assets is recognized as management estimates that these losses are recoverable based on the Group's recent forecasts and budget.

The maturity analysis of carry forward tax losses is as follows:

	31 December 2017	31 December 2016
2020	-	2,690,135
2021	-	2,916,383
	<u>-</u>	<u>5,606,518</u>

## EASTPHARMA LTD. AND IT'S SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 19. PROVISION FOR EMPLOYMENT TERMINATION BENEFITS

For the subsidiaries in Turkey, Under the Turkish Labor Law, Deva and its subsidiaries are required to pay employment termination benefits to each employee who has qualified for such payment. Also, employees are required to be paid their retirement pay provisions who retired by gaining right to receive retirement pay provisions in accordance with the provisions set out in law no: 2422 issued at 6 March 1981, law no: 4447 issued at 25 August 1999 and the amended Article 60 of the existing Social Insurance Law No: 506. Some transitional provisions related to the pre-retirement service term were excluded from the law since the related law was amended as of 23 May 2002.

The amount payable consists of one month's salary limited to a maximum of US Dollar 1,326 and 1,221 (TRY equivalent of 5,002 and 4,297, respectively) for each period of service as at 31 December 2017 and 31 December 2016, respectively. The liability is not funded, as there is no funding requirement.

The provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of employees. IAS 19 requires actuarial valuation methods to be developed to estimate the entity's obligation. Accordingly, the following actuarial assumptions were used in the calculation of the total liability.

The provision as of 31 December 2017 has been calculated assuming annual inflation rates of 8% and a discount rate of 11%, resulting in real discount rates of approximately 2,78% (31 December 2016: 2.78%). The anticipated rate of retirement was 88.15% (2016: 88.12%). It is planned that, retirement rights will be paid to employees at the end of the concession periods. Accordingly, present value of the future probable obligation has been calculated based on the concession periods. As the maximum liability is revised semi-annually, the maximum amount of TRY 5,002 effective from 1 January 2018 is taken into consideration in the calculation of provision from employment termination benefits.

The employee benefits expense is included as a component of cost of sales and operating expenses.

	For the year ended 31 December 2017	For the year ended 31 December 2016
Opening balance	4,846,340	4,805,457
Service cost	1,380,000	1,126,404
Interest cost	142,136	124,859
Benefits paid	(930,721)	(629,993)
Actuarial loss	34,411	254,751
Translation effect	(324,683)	(835,138)
Closing balance	<u>5,147,483</u>	<u>4,846,340</u>

## EASTPHARMA LTD. AND IT'S SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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#### 20. COMMITMENTS AND CONTINGENCIES

The Group provides guarantees on its borrowings and payables to third parties through collateralizing the Group's trade receivables and property, plant and equipment. The details of the Group's commitments under mortgages, letters of guarantee, promissory notes, and collaterals given are as follows:

		31 December 2017
	Amount	US Dollars
Letters of guarantee given	TRY	12,850,807
	EUR	6,284,750
	US Dollar	127,167
Promissory notes and collaterals given	TRY	-
	US Dollar	-
Loan secured by building	TRY	168,600,000
Pledges	TRY	-
		<u>55,756,848</u>

  

		31 December 2016
	Amount	US Dollars
Letters of guarantee given	TRY	27,653,352
	EUR	6,344,750
	US Dollar	196,885
Promissory notes and collaterals given	TRY	-
	US Dollar	-
Loan secured by building	TRY	168,600,000
Pledges	TRY	25,549
		<u>62,659,174</u>



## **EASTPHARMA LTD. AND IT'S SUBSIDIARIES**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

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#### **21. SHARE CAPITAL AND LEGAL RESERVE**

##### **Share capital**

The authorized share capital of the Company is US Dollar 2,500,000,000 divided into 500,000,000 ordinary shares with a nominal value of 5 US Dollar per share. As at 31 December 2017 and 31 December 2016, 67,650,000 ordinary shares of the 500,000,000 authorized shares have been issued and are outstanding.

##### **Premium in excess of par**

Premium in excess of par represents the difference between the nominal value of five US Dollar per share and the proceeds received by the Company. The premium in excess of par was US Dollar 99,774,445 as at 31 December 2017 (31 December 2016: US Dollar 99,774,445).

##### **Legal reserves**

The legal reserves consist of first and second legal reserves, appropriated in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of historical statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the historical paid-in share capital. The second legal reserve is appropriated after the first legal reserve and dividends, at the rate of 10% per annum of all cash dividend distributions.

##### **Shareholder Agreement**

Upon formation of the Company, an agreement was entered into by the shareholders. This agreement included an exit option for Global Equities Management ("GEM") whereby in exchange for US Dollar 1, the Company granted GEM an option to purchase additional shares up to 5% of the Company's "total issued share capital" for a price of US Dollar 5 per share. The total issued capital is based on the total issued capital of the Company immediately before the exercise of the option. The Company extended the option granted to GEM Global Equities Management SA ("GEM") in the shareholders' agreement dated 22 November 2006 entered into between, amongst others and the Company (the "Shareholders' Agreement") and amended with a deed of amendment dated 14 December 2011 which will be valid from 30 June 2013 to 30 June 2015.

The option will expire on the earlier of (i) 30 June 2015 and (ii) the transfer by the Company's shareholders of more than 50% of their shares to parties other than affiliates.

The option can be exercised at the earlier of (a) twenty business days after the first date of trading in a recognized investment exchange in which the average bid trading price reaches or exceeds US Dollar 8 per share; or (b) immediately prior to completion of a sale to a party that is not an affiliate or shareholder of the Company of either (i) all of the Company's shares; or (ii) the substantial sale of the Company's assets and liabilities that would imply that value of the Company's shares is US Dollar 8 or more per share.

If the option is exercised based on the public trading of securities, GEM has the option to receive a cash payment equal to the difference between (i) US Dollar 5 per share and (ii) the average bid trading price of the shares in the 20 business days after the exercise date of the option multiplied by the number of the shares equivalent to 5% of the total issued share capital of the Company.

Prior to the public trading of the securities, the cost of this option was deferred and recorded as deferred share issuance cost in the balance sheet. As of 31 December 2017 the call option has been expired and the Company management has decided not to extend the call option thereafter (31 December 2016: Nil).

## EASTPHARMA LTD. AND IT'S SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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#### 22. REVENUE

	1 January - 31 December 2017	1 January - 31 December 2016
Human pharma revenue	204,609,313	209,212,022
Veterinary products revenue	13,142,445	12,781,328
Other revenue	2,677,960	2,923,608
	<u>220,429,718</u>	<u>224,916,958</u>

Sales amounts are presented net of sales returns and discounts.

#### 23. COST OF SALES

	1 January - 31 December 2017	1 January - 31 December 2016
Raw materials used	(73,924,910)	(82,446,885)
Direct labor cost	(6,190,041)	(6,837,559)
Production overheads	(32,640,572)	(24,599,028)
Depreciation and amortisation expenses	(4,599,756)	(6,505,950)
Change in work in process	3,524,802	(1,447,439)
Change in finished goods	(1,846,737)	(1,100,390)
	<u>(115,677,214)</u>	<u>(122,937,251)</u>

#### 24. OPERATING EXPENSES

	1 January - 31 December 2017	1 January - 31 December 2016
Research and development expenses (*)	(8,305,875)	(4,064,456)
Sales and marketing expenses	(30,586,187)	(32,101,695)
General administration expenses	(24,761,406)	(27,007,363)
	<u>(63,653,468)</u>	<u>(63,173,514)</u>

(\*) As of 31 December 2017, the Group realized research and development expense amounting to US Dollars 1,694,271 for tangible assets and US Dollars 13,724,395 for intangible assets with the total amount of US Dollars 15,418,666 (31 December 2016: US Dollars 15,636,569). As at the balance sheet date US Dollars 12,316,725 of the amount is from government grants and incentives (31 December 2016: US Dollars 10,176,693). Of this total amount US Dollars 14,832,711 was capitalized on intangible development costs, and US Dollars 585,955 portion of the total US Dollars 8,285,189 cancelled projects and other expenses is utilized in 2017.

**EASTPHARMA LTD. AND IT'S SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

(Unless otherwise indicated all amounts expressed in US Dollar.)

**24. OPERATING EXPENSES (cont.)**

	1 January - 31 December 2017	1 January - 31 December 2016
Employee benefits expense	(32,343,741)	(31,182,248)
Depreciation and amortization expense	(4,837,342)	(8,399,528)
Transportation expense	(2,778,486)	(2,592,424)
Rent expense	(2,801,976)	(2,944,812)
Consultancy expense	(1,926,185)	(1,295,755)
Promotional and advertising expense	(6,687,397)	(7,085,441)
Other operating expenses	(17,701,746)	(14,773,583)
	<u>(69,076,873)</u>	<u>(68,273,791)</u>
Capitalized personnel expenses	5,423,405	5,100,277
	<u>(63,653,468)</u>	<u>(63,173,514)</u>

**25. INVESTMENT REVENUE**

	1 January - 31 December 2017	1 January - 31 December 2016
Amortization of discount on payables	15,402,614	16,670,028
Interest received from sales with deferred settlement terms	81,305	161,708
Interest income	840,772	284,438
	<u>16,324,691</u>	<u>17,116,174</u>

**26. FINANCE COSTS (net)**

	1 January - 31 December 2017	1 January - 31 December 2016
Interest on bank borrowings	(10,521,145)	(11,721,853)
Foreign exchange loss on borrowings	(1,360,660)	(708,380)
Bond interest and expenses	(4,099,552)	(4,532,408)
Loss on derivative financial instruments	(129,426)	-
Amortization of discount on receivables	(15,802,781)	(16,582,100)
Other interest expense	(408,143)	(157,469)
	<u>(32,321,707)</u>	<u>(33,702,210)</u>

## EASTPHARMA LTD. AND IT'S SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 27. OTHER GAINS AND LOSSES

	1 January - 31 December 2017	1 January - 31 December 2016
Foreign exchange gain	981,391	1,197,164
gain on disposal of property, plant and equipment	2,590,562	566,733
Other (*)	1,517,066	277,368
	<u>5,089,019</u>	<u>2,041,265</u>

(\*) For the year ended as of 31 December 2017 and 2016, other mainly consist of TUBITAK projects support income.

#### 28. LOSS FROM INVESTMENT IN ASSOCIATES

The operations of Lypanosys are limited. Total assets and liabilities amount to US Dollars 221,771 and US Dollars 333,716 as of 31 December 2017, respectively. For the year ended 31 December 2017 there were no revenues and the net loss was US Dollars 121,945.

#### 29. SEGMENT INFORMATION

For management purposes, the Group is currently organized into three business segments; production and sale of human pharmaceuticals, veterinary products and other. These segments are the basis on which the Group reports its segment information. The principal activities of each segment are as follows:

- **Human Pharma:** Human pharmaceuticals segment derives the majority of its revenues from the sale of branded generic and licensed products, the manufacturing and sale of antibiotic active ingredients and empty ampoules.
- **Veterinary Products:** Veterinary products segment operates in the sector of veterinary drugs and agrochemicals.
- **Other:** Other segment includes cologne production and sale.

IFRS requires segment information to be presented under a 'management approach', where segment information is to be shown on the same basis as that used for internal reporting purposes.

The Group has identified operating segments in a manner consistent with the internal reporting provided to the chief operating decision maker "CODM".

The accounting policies of the reportable segments are the same as the groups accounting policies described in Note 3.

## EASTPHARMA LTD. AND IT'S SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 29. SEGMENTAL INFORMATION (cont.)

All of the Group's assets are located in Turkey. There are insignificant operations outside Turkey.

For the year ended 31 December 2017	Human pharma	Veterinary products	Other	Total
External sales	204,609,313	13,142,445	2,677,960	220,429,718
Cost of sales	(104,968,648)	(8,460,609)	(2,247,957)	(115,677,214)
Operating expenses	(60,883,978)	(2,425,183)	(344,307)	(63,653,468)
Segment results	38,756,687	2,256,653	85,696	41,099,036
Investment revenue				16,324,691
Finance costs				(32,321,707)
Other gains and losses				5,089,019
Profit before tax				30,191,039
Tax expense				(2,368,581)
Net profit for the year				27,822,458

The Group is dependent on a limited number of distribution partners in Turkey. Distribution of the Group's products by the two largest wholesalers in the Turkish market corresponded to approximately 27% and 38%. Net human pharma revenues attributed to these wholesalers were US Dollar 50,679,495 and US Dollar 70,473,507, respectively.

Group management has emphasised segment reporting on operational profit, therefore the Group has not allocate its other expenses on segment base.

For the year ended 31 December 2016	Human pharma	Veterinary products	Other	Total
External sales	209,212,022	12,781,328	2,923,608	224,916,958
Cost of sales	(111,891,533)	(8,694,004)	(2,351,714)	(122,937,251)
Operating expenses	(60,017,768)	(2,669,624)	(486,122)	(63,173,514)
Segment results	37,302,721	1,417,700	85,772	38,806,193
Investment revenue				17,116,174
Finance costs				(33,702,210)
Other gains and losses				2,041,265
Loss from investment in associates				-
Profit before tax				24,261,422
Tax expense				(5,793,935)
Net profit for the year				18,467,487

The Group is dependent on a limited number of distribution partners in Turkey. Distribution of the Group's products by the two largest wholesalers in the Turkish market corresponded to approximately 27% and 36%. Net human pharma revenues attributed to these wholesalers were US Dollar 54,304,439 and US Dollar 72,399,342, respectively.

## EASTPHARMA LTD. AND IT'S SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 30. OPERATING LEASE ARRANGEMENTS

##### Operating lease commitments

	For the year ended 31 December 2017	For the year ended 31 December 2016
Minimum lease payments under operating leases recognized as an expense in the related year	1,979,462	1,870,466
	<u>1,979,462</u>	<u>1,870,466</u>

At the balance sheet date, the Group has outstanding commitments under non-cancelable operating leases, which fall due as follows:

	EUR	TRY	31 December 2017
Not longer than 1 year	23,081	9,548,631	2,559,148
Longer than 1 year and not longer than 5 years	16,874	22,637,144	6,021,723
	<u>39,955</u>	<u>32,185,774</u>	<u>8,580,871</u>

	EUR	TRY	31 December 2016
Not longer than 1 year	90,707	5,419,146	1,635,502
Longer than 1 year and not longer than 5 years	16,874	6,042,084	1,734,680
	<u>107,581</u>	<u>11,461,230</u>	<u>3,370,182</u>

Operating lease payments represent rentals payable by the Group for certain of its vehicles and for the rented buildings and warehouses. Leases are negotiated for an average term of three years and increases are at a fixed rate and expense is recognized on a straight-line basis over the lease term.

#### 31. EARNINGS PER SHARE

There were no dilutive equity instruments outstanding, that would require the calculation of separate diluted earnings per share. The calculation of basic earnings per share attributable to ordinary equity holders of the parent is as follows:

	For the year ended 31 December 2017	For the year ended 31 December 2016
Weighted average number of shares (Note 21)	67,650,000	67,650,000
Net profit for the year attributable to the shareholders	23,485,715	15,371,701
Earnings per share	<u>0.347</u>	<u>0.227</u>

## EASTPHARMA LTD. AND IT'S SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 32. FOREIGN CURRENCY POSITION

The functional currency of the Group's subsidiaries located in Turkey is TRY. Those subsidiaries are exposed to foreign currency fluctuations on monetary assets and liabilities held in currencies other than TRY, including EUR, USD and other currencies. The following table details the Group's subsidiaries' foreign currency exposures for each class of financial instruments. The financial assets and liabilities below are grouped in the currencies in which the transactions are denominated.

<b>31 December 2017</b>	US Dollar	EURO	CHF	Other	Equivalent of US Dollar
Cash and cash equivalents	11,803,866	4,021,427	1,425,880	2,557	18,078,748
Trade receivables	1,851,780	2,619,027	-	-	4,987,127
Other assets	1,239,704	3,510,702	2,563,207	170,706	8,291,976
<b>Total Assets</b>	<b>14,895,350</b>	<b>10,151,156</b>	<b>3,989,087</b>	<b>173,263</b>	<b>31,357,851</b>
Trade payables	4,279,706	1,910,535	(1,721,265)	22,596	4,838,226
Short-term borrowings	-	3,325,429	-	-	3,981,011
Long-term borrowings	-	2,757,571	-	-	3,301,204
Other payables and accrued expenses	-	-	(1,130,465)	-	(1,155,311)
<b>Total Liabilities</b>	<b>4,279,706</b>	<b>7,993,535</b>	<b>(2,851,730)</b>	<b>22,596</b>	<b>10,965,130</b>
<b>Net foreign currency position</b>	<b>10,615,644</b>	<b>2,157,621</b>	<b>6,840,817</b>	<b>150,667</b>	<b>20,392,721</b>

  

<b>31 December 2016</b>	US Dollar	EURO	CHF	Other	Equivalent of US Dollar
Cash and cash equivalents	4,190,744	3,698,988	1,822,038	1,449,580	11,652,984
Trade receivables	2,786,832	416,797	-	-	3,226,215
Other assets	658,422	3,807,114	18,600	7,077	4,698,733
<b>Total Assets</b>	<b>7,635,998</b>	<b>7,922,899</b>	<b>1,840,638</b>	<b>1,456,657</b>	<b>19,577,932</b>
Trade payables	2,034,126	1,078,896	1,670,989	-	4,807,433
Short-term borrowings	-	2,500,000	-	-	2,635,471
Long-term borrowings	-	3,583,000	-	-	3,777,157
Other payables and accrued expenses	-	-	802,750	-	785,916
<b>Total Liabilities</b>	<b>2,034,126</b>	<b>7,161,896</b>	<b>2,473,739</b>	<b>-</b>	<b>12,005,977</b>
<b>Net foreign currency position</b>	<b>5,601,872</b>	<b>761,003</b>	<b>(633,101)</b>	<b>1,456,657</b>	<b>7,571,955</b>

## **EASTPHARMA LTD. AND IT'S SUBSIDIARIES**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### **33. FINANCIAL RISK MANAGEMENT**

##### **(a) Capital risk management**

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and the equity balance.

The capital structure of the Group consists of debt which includes the borrowings (Note 14), cash and cash equivalents (Note 5) and equity attributable to equity holders of the parent, comprising issued capital and retained earnings (Note 21).

The Group Management analyzes the cost of capital and the risks associated with capital semiannually. The Group Management aims to balance its overall capital structure through the payment and receipt of dividends, and new share issues as well as obtaining new debt or the redemption of existing debt.

In addition and consistent with others in the industry, the group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

During 2017, the Group's strategy, which was unchanged from 2016, was to maintain the gearing ratio within 35% to 50%.

##### **(b) Significant accounting policies**

The Group's accounting policies about financial instruments are disclosed in Note 3 to the consolidated financial statements.



**EASTPHARMA LTD. AND IT'S SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

**33. FINANCIAL RISK MANAGEMENT (cont.)**

(c) Financial instrument categories

<b>31 December 2017</b>	measured according to effective interest rate and	Financial liabilities through profit and loss	Financial liabilities at amortized cost	Carrying value	Note
<u>Financial assets</u>					
Cash and cash equivalents	24,860,134	-	-	24,860,134	5
Trade receivables	76,938,309	-	-	76,938,309	6
<u>Financial liabilities</u>					
Borrowings	-	-	129,503,959	129,503,959	14
Trade payables (including related parties)	-	-	18,535,890	18,535,890	7-15
 <b>31 December 2016</b>					
<u>Financial assets</u>					
Cash and cash equivalents	12,462,273	-	-	12,462,273	5
Trade receivables	57,767,783	-	-	57,767,783	6
<u>Financial liabilities</u>					
Borrowings	-	-	107,524,956	107,524,956	14
Trade payables (including related parties)	-	-	14,188,070	14,188,070	7-15

The fair value of the Group's financial assets and liabilities approximate the carrying amount.

## EASTPHARMA LTD. AND IT'S SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 33. FINANCIAL RISK MANAGEMENT (cont.)

(c) Financial instrument categories (cont.)

##### Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined and grouped as follows:

- Level 1: the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- Level 2: the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- Level 3: the fair value of the financial assets and financial liabilities where there is no observable market data. The fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available, estimate is made based on discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

Based on the fair value hierarchy, the Group's financial assets and liabilities are categorized as follow:

<b>31 December 2017</b>	<b><u>Level 1</u></b>	<b><u>Level 2</u></b>	<b><u>Level 3</u></b>	<b><u>Total</u></b>
Financial liabilities at FVTPL:				
Call option liability	-	-	-	-
<b>31 December 2016</b>	<b><u>Level 1</u></b>	<b><u>Level 2</u></b>	<b><u>Level 3</u></b>	<b><u>Total</u></b>
Financial liabilities at FVTPL:				
Call option liability	-	-	-	-

There have been no transfers between Level 1, 2 or 3 during the year ended 31 December 2017 and 31 December 2016.

## EASTPHARMA LTD. AND IT'S SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 33. FINANCIAL RISK MANAGEMENT (cont.)

##### (d) Financial risk management objectives

The Group's finance function provides services to the business, coordinates access to domestic and international markets, monitors and manages the financial risks relating to the operations of the Group. These risks include market risk (including currency risk, fair value interest rate risk and price risk) credit risk, liquidity risk and cash flow interest rate risk.

##### (e) Market risk

The Group is exposed to market risks with respect to foreign currency exchange rates and interest rates. The Group seeks to minimize external foreign currency risks whenever possible by entering into forward foreign exchange contracts. Interest rate risk is managed by entering into a balanced, preferred ratio of fixed / floating borrowing arrangements.

The Group Management measures the market risks on the basis of sensitivity analysis.

##### (f) Foreign currency risk management

The Company's functional currency is the US dollar while almost all of its operations are located in Turkey and, as a result, a majority of the Group's revenues and costs are denominated in Turkish Lira ("TRY") and the Group is exposed to currency fluctuations between the US Dollar and other currencies.

The Group's business involves purchases from and limited sales to a number of countries. Those sales, expenses, assets and liabilities are in currencies other than the US Dollar. In addition, the Group has debt in currencies other than the US Dollar.

The Group's assets' and liabilities' foreign currency position is presented in Note 32.

##### Foreign currency sensitivity

The functional currency of the Group's subsidiaries is TRY. Those subsidiaries are exposed to foreign currency fluctuations on monetary assets and liabilities held in currencies other than TRY, including EUR and USD. The following table details the Company's sensitivity to 10% devaluation in the exchange rate of USD against TRY and EUR against TRY. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

The table below shows only impact related to the two currencies named and assumes the rate between all other currencies to be held constant and net of tax. Positive amounts in the following table represent increase in net profit for the period. Equity effect is nil.

	Year ended 31 December 2017	
	Effect of US Dollar: TRY	Effect of EUR: TRY
Loss	(3,203,292)	(779,419)

  

	Year ended 31 December 2016	
	Effect of US Dollar: TRY	Effect of EUR: TRY
Loss	(1,577,129)	(225,860)

The equity effect of 10% devaluation in the exchange rate of USD against TRY is US Dollar 21,798,785 as the functional currencies of Turkish subsidiaries is Turkish Lira.

## EASTPHARMA LTD. AND IT'S SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 33. FINANCIAL RISK MANAGEMENT (cont.)

##### (g) Interest rate risk management

The Group has a number of borrowings with interest rates that are based on market interest rates. Therefore the Group is subject to market risk deriving from changes in interest rates, which may affect the cost of current floating rate indebtedness and future financing. The Group management seeks to manage this risk by maintaining an appropriate mix between fixed and floating rate borrowings. As at 31 December 2017, 23% of total indebtedness was floating rate and mainly denominated in Turkish Lira and Euro. Interest rates are fixed in short-term loans. The Group does not enter into long-term loans denominated in Turkish Lira.

##### Interest rate sensitivity

The sensitivity analyses have been determined based on the exposure to interest rates at the balance sheet date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. 50 basis points is the sensitivity rate used when reporting interest rate risk internally to key management personnel.

If Libor and Euribor had been 50 basis points higher and all other variables were held constant, net profit for the year ended at 31 December 2017 would decrease by US Dollar 208,886 net of tax (31 December 2016: decrease by US Dollar 297,320). If Libor and Euribor had been 50 basis points lower, the profit of the Group for the year ended would increase with the same absolute amount. The equity effect is nil.

##### (h) Credit risk management

Credit risks refer to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure and credit ratings of its counterparties are continuously monitored.

##### (i) Liquidity risk management

The Group's management has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long term funding and liquidity management requirements.

The Group's liquidity requirements arise primarily from the need to fund working capital, capital expenditure program relating to the construction and relocation of production plants and the development and expansion of the geographic coverage of operations as well as product portfolio through selective acquisitions. The Company has financed its operations and investments primarily by means of capital increases subsequent to the acquisition of Deva.

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profile of financial assets and liabilities.

## EASTPHARMA LTD. AND IT'S SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise indicated all amounts expressed in US Dollar.)

#### 33. FINANCIAL RISK MANAGEMENT (cont.)

##### (i) Liquidity risk management (cont.)

##### Liquidity analysis

The following table details the Group's expected maturity for its non-derivative financial liabilities. The tables below have been drawn up based on the undiscounted contractual maturities of the financial liabilities including interest that will accrue to those liabilities except where the Group is entitled and intense to repay the liability before its maturity.

<b><u>31 December 2017</u></b>	Carrying value	Cashflow according to the agreement	Less than 3 month	3 – 6 month	6 – 9 month	9 month – 1 year	1 – 3 year	3 + year
Bank borrowings and bonds issued	129,503,959	156,196,664	30,722,694	6,746,875	6,886,968	39,032,816	44,619,129	28,188,182
Trade payables	19,027,129	21,900,887	21,653,718	247,169	-	-	-	-
Due to related parties	4,811	4,811	4,811	-	-	-	-	-
	<b>148,535,899</b>	<b>178,102,362</b>	<b>52,381,223</b>	<b>6,994,044</b>	<b>6,886,968</b>	<b>39,032,816</b>	<b>44,619,129</b>	<b>28,188,182</b>

  

<b><u>31 December 2016</u></b>	Carrying value	Cashflow according to the agreement	Less than 3 month	3 – 6 month	6 – 9 month	9 month – 1 year	1 – 3 year	3 + year
Bank borrowings	107,524,956	128,910,730	27,869,734	7,076,139	5,917,000	4,896,900	34,220,288	48,930,669
Trade payables	14,170,274	14,230,336	14,122,785	107,551	-	-	-	-
Due to related parties	17,796	17,796	17,796	-	-	-	-	-
	<b>121,713,026</b>	<b>143,158,862</b>	<b>42,010,315</b>	<b>7,183,690</b>	<b>5,917,000</b>	<b>4,896,900</b>	<b>34,220,288</b>	<b>48,930,669</b>

**EASTPHARMA LTD. AND IT'S SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**34. SUBSEQUENT EVENTS**

None.