EASTPHARMA LTD.
AND ITS SUBSIDIARIES

Consolidated Financial Statements
For The Year Ended 31 December 2016,
and the Independent Auditors' Report

Building a better
working world

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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.and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2016, 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, 2016, 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), and we have fulfilled our other ethical responsibilities in accordance with 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 our 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.

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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 note11 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 79.4 million 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.

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Inventory obsolescence provisions

Inventory balance as at December 31, 2016 amounting to USD 57.2 million, 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 NRV 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.

Other information included in The Group's 2016 Annual Report

Other information consists of the information included in The Company's 2016 Annual Report other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Company's 2016 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of Management and the Board of Directors 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.

The Board of Directors are responsible for overseeing the Group's financial reporting process.

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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 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 the Board of Directors 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 the Board of Directors 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 the Board of Directors, 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.

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

Zeynep Okuyan
Partner

March 10, 2017
Istanbul, Turkey

EASTPHARMA LTD. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

EASTPHARMA LTD. AND IT’S SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

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

ASSETS		Current Period	Prior Period
		Audited	Audited
CURRENT ASSETS	**Notes**	**31 December 2016**	**31 December 2015**
Cash and cash equivalents	5	12,462,273	15,856,411
Trade and other receivables (net)	6	57,767,783	77,305,814
Inventories	8	57,623,093	68,686,877
Other current assets	9	9,716,228	8,514,364
Total Current Assets		**137,569,377**	**170,363,466**
NON-CURRENT ASSETS			
Property, plant and equipment (net)	10	96,302,594	107,636,272
Intangible assets (net)	11	82,027,442	88,649,026
Goodwill	12	79,461,742	79,662,138
Deferred tax assets	18	1,902,871	6,668,364
Other non-current assets	9	51,466	66,505
Total Non-Current Assets		**259,746,115**	**282,682,305**
TOTAL ASSETS		**397,315,492**	**453,045,771**

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 2016

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

LIABILITIES AND EQUITY		**Current Period**	**Prior Period**
		Audited	**Audited**
CURRENT LIABILITIES	**Notes**	**31 December 2016**	**31 December 2015**
Short-term borrowings	14	43,431,468	129,786,411
Trade payables	15	14,170,274	17,026,889
Due to related parties	7	17,796	20,698
Provisions	17	849,510	1,443,808
Other payables and accrued expenses	16	14,542,247	13,021,576
Current tax payable	18	836,294	52,226
Total Current Liabilities		**73,847,589**	**161,351,608**
NON-CURRENT LIABILITIES			
Long-term borrowings	14	64,093,488	16,709,329
Provision for employment termination benefits	19	4,846,340	4,805,457
Deferred income	16	4,796,881	4,851,584
Total Non-Current Liabilities		**73,736,709**	**26,366,370**
TOTAL LIABILITIES		**147,584,298**	**187,717,978**
EQUITY			
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		(44,043,428)	(59,415,129)
Actuarial loss arising from defined benefit plans		(1,897,804)	(2,046,783)
Foreign currency translation reserve		(219,339,023)	(180,876,299)
Equity attributable to equity holders of the parent		**173,959,438**	**196,901,482**
Non-controlling interests		75,771,756	68,426,311
Total Equity		**249,731,194**	**265,327,793**
TOTAL LIABILITIES AND EQUITY		**397,315,492**	**453,045,771**

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 2016

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

	Notes	Audited 1 January – 31 December 2016	Audited 1 January – 31 December 2015
Revenue	22	224,916,958	209,887,842
Cost of sales	23	(122,937,251)	(117,532,758)
Gross profit		**101,979,707**	**92,355,084**
Operating expenses	24	(63,173,514)	(62,513,711)
Investment revenue	25	17,116,174	18,011,192
Finance costs (net)	26	(33,702,210)	(35,271,458)
Other gains and losses	27	2,041,265	2,091,033
Loss from investment in associates	28	-	(553,825)
Profit before tax		**24,261,422**	**14,118,315**
Current tax expense	18	(836,294)	(52,226)
Deferred tax expense	18	(4,957,641)	(2,746,110)
Tax expense		**(5,793,935)**	**(2,798,336)**
Net profit for the year		**18,467,487**	**11,319,979**
Attributable to:			
Equity holders of the parent		15,371,701	8,699,709
Non-controlling interests		3,095,786	2,620,270
		18,467,487	**11,319,979**
Basic and diluted earnings per share (US Dollar)	31	0.23	0.13

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 2016

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

	Notes	Audited 1 January – 31 December 2016	Audited 1 January – 31 December 2015
Net income for the year		**18,467,487**	**11,319,979**
Other Comprehensive Income :			
Items not to be reclassified subsequently to profit or loss		**(203,801)**	**(2,176,531)**
Actuarial loss arising from defined benefit plans	19	(254,751)	(2,720,663)
Tax effect of other comprehensive income not to be reclassified to profit or loss	18	50,950	544,132
Items that may be reclassified subsequently to profit or loss		**(33,860,285)**	**(43,926,992)**
Foreign currency translation		(33,860,285)	(43,926,992)
Total comprehensive loss for the year		**(15,596,599)**	**(34,783,544)**
Total comprehensive loss attributable to:			
Equity holders of the parent		(22,942,044)	(44,203,166)
Non-controlling interests		7,345,445	9,419,622
		(15,596,599)	**(34,783,544)**

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 2016

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

	Notes	Number of shares	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
Balance as of 1 January 2015	21	67,650,000	338,250,000	99,774,445	1,215,248	129,748	(130,149,955)	(68,114,838)	241,104,648	59,006,689	300,111,337
Actuarial loss arising from defined benefit plans		-	-	-	-	(2,176,531)	-	-	(2,176,531)	-	(2,176,531)
Currency translation		-	-	-	-	-	(50,726,344)	-	(50,726,344)	6,799,352	(43,926,992)
Net profit for the year		-	-	-	-	-	-	8,699,709	8,699,709	2,620,270	11,319,979
Total comprehensive income / (loss)		-	-	-	-	(2,176,531)	(50,726,344)	8,699,709	(44,203,166)	9,419,622	(34,783,544)
Balance as of 31 December 2015		67,650,000	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
Balance as of 1 January 2016	21	67,650,000	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)
Balance as of 31 December 2016		67,650,000	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

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 2016

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

	Notes	Audited 1 January- 31 December 2016	Audited 1 January- 31 December 2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit for the year		18,467,487	11,319,979
Adjustments to reconcile net profit to net cash provided by/ (used in) operating activities:			
Depreciation of property, plant and equipment	10	6,602,329	7,556,415
Amortization of intangible assets	11	8,303,149	7,517,904
Impairment losses on intangible assets	11	3,047,520	4,086,036
Loss from investment in associates	28	-	553,825
Provision for employment termination benefits	19	1,251,263	1,176,163
Gain on sale and disposal of property, plant and equipment and intangible assets	27	(566,733)	(288,833)
Loss on derivative financial instruments	26	-	87,758
Allowance for doubtful receivables, net	6	745,134	(144,791)
Allowance for other doubtful receivables	6	-	(134,093)
Amortization of discount	25, 26	(87,928)	239,367
Change in amortised cost of call option liability	27	-	(499)
Change in amortised cost of bonds issued		80,382	648,892
Provisions	17	353,641	260,758
Bank loans interest expense	26	11,879,322	11,478,999
Bonds issued interest expense	26	4,532,408	4,865,088
Change in allowance for diminution in value of inventories	8	874,387	1,591,070
Unrealized foreign exchange gain / (loss)	26, 27	(488,784)	629,598
Interest income	25	(284,438)	(363,981)
Interest income from deferred settlement term sales	25	(161,708)	(155,603)
Tax expense	18	5,793,935	2,798,336
Changes in working capital:			
Increase in trade and other receivables		(18,987,767)	(33,081,017)
Increase in inventories		(8,751,924)	(10,000,005)
Increase in other current assets		(3,868,994)	(1,383,070)
Increase in trade payables		20,181,673	24,026,358
Decrease in due to related parties		(2,902)	(4,239)
Increase in other payables and accrued expenses		8,128,234	728,574
Cash generated from operations		**57,039,686**	**34,008,989**
Income tax paid		(714,720)	(59,070)
Provisions utilized	17	(707,014)	(293,964)
Employment termination benefits paid	19	(629,993)	(815,932)
Net cash provided by operating activities		**54,987,959**	**32,840,023**

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 2016

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

	Notes	Audited 1 January- 31 December 2016	Audited 1 January- 31 December 2015
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment	10	(15,137,745)	(13,012,404)
Purchases of intangible assets	11	(16,041,139)	(15,525,457)
Proceeds on disposal of property, plant and equipment		570,504	328,527
Net cash used in investing activities		**(30,608,380)**	**(28,209,334)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest received		435,718	525,949
Interest paid		(10,563,734)	(10,917,322)
Proceeds from borrowings		273,184,925	200,924,759
Repayment of borrowings		(288,253,738)	(199,296,592)
Cash used in bonds issued		(4,532,408)	(4,865,088)
Net cash used in financing activities		**(29,729,237)**	**(13,628,294)**
NET CHANGES IN CASH AND CASH EQUIVALENTS		(5,349,658)	(8,708,023)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		15,853,592	23,324,080
Effect of exchange rate changes on the balance of cash held in foreign currencies		1,945,092	1,237,535
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	5	**12,449,026**	**15,853,592**

Changes in working capital include currency translation of US Dollar 35,901,592 (1 January – 31 December 2015: US Dollar 34,755,724). The distribution of the currency translation effect for the year is as follows:

	1 January- 31 December 2016	1 January- 31 December 2015
Trade receivables	(37,035,530)	(35,446,556)
Inventories	(19,699,765)	(16,453,211)
Other receivables and current assets	(2,667,130)	(1,853,942)
Trade payables	22,922,345	21,752,353
Other payables and accrued expenses	6,662,266	6,003,922
Financial liabilities	(6,083,778)	(8,758,290)
	(35,901,592)	(34,755,724)

(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" in this report.

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 149 pharmaceutical molecules in 273 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 2016 and 31 December 2015 are as follows:

	Ownership %		Place of incorporation	Principal activity
Direct holdings:	31 December 2016	31 December 2015		
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
Deva Holdings PTY Ltd	100%	100%	Australia	Production and sales of human pharmaceuticals
Indirect holdings:				
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% (2015: 21.75 %) in a company incorporated in Singapore, Lypanosys PTE LTD of which principal activities are production and sales of human pharmaceuticals.

(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 2016. Non-controlling interest amount is mainly refer to these shares.

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

Deva Holding	31 December 2016	31 December 2015
Current assets	127,766,009	163,628,893
Non-current assets	161,666,765	177,637,748
Current liabilities	(69,708,366)	(159,380,302)
Non-current liabilities	(73,662,669)	(23,478,041)
Equity attributable to equity holders of the parent	(146,061,739)	(158,408,644)
Non-controlling interests	-	346

	1 January- 31 December 2016	1 January- 31 December 2015
Sales	228,970,119	213,034,766
Expenses	(208,367,794)	(191,913,883)
Net profit for the year	20,602,325	21,120,883
Attributable to:		
Equity attributable to equity holders of the parent	20,602,325	21,135,852
Non-controlling interests	-	(14,969)
Net profit for the year	20,602,325	21,120,883
Net profit for the year	20,602,325	21,120,883
Actuarial loss arising from defined benefit plans	(248,667)	(2,677,499)
Tax effect other comprehensive income not to be reclassified to profit or loss	49,734	535,500
Foreign currency translation	44,209	(62,139)
Total comprehensive income for the year	20,447,601	18,916,745
Total comprehensive income attributable to:	**20,447,601**	**18,916,745**
Equity attributable to equity holders of the parent	20,447,601	18,931,714
Non-controlling interests	-	(14,969)
	20,447,601	18,916,745

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 69 pharmaceutical molecules in 96 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 interim consolidated financial statements as at 31 December 2016 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 2016. The effects of these standards and interpretations on the Group's financial position and performance have been disclosed in the related paragraphs.

<u>2.1 The new standards, amendments and interpretations which are effective as at 1 January 2016 are as follows:</u>

IAS 19 Defined Benefit Plans: Employee Contributions (Amendment)

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. The amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. These amendments are to be retrospectively applied for annual periods beginning on or after 1 July 2014. The amendments will not have an impact on the financial position or performance of the Group.

Annual Improvements to IAS/IFRSs

In September 2014, IASB has issued the below amendments to the standards in relation to "Annual Improvements - 2010–2012 Cycle" and "Annual Improvements - 2011–2013 Cycle. The changes are effective for annual reporting periods beginning on or after 1 July 2014.

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 2016 (cont'd):

Annual Improvements to IAS/IFRSs (cont'd)

Annual Improvements to IFRSs 2010 - 2012 Cycle

IFRS 2 Share-based Payment

Definitions relating to vesting conditions have changed and performance condition and service condition are defined in order to clarify various issues. The amendment is effective prospectively.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39 (or IFRS 9, as applicable).

IFRS 8 Operating Segments

The amendments clarify that: i) An entity must disclose the judgements made by management in applying the aggregation criteria in IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'. ii) The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The amendments are effective retrospectively.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment to IAS 16.35(a) and IAS 38.80(a) clarifies that revaluation can be performed, as follows:
i) Adjust the gross carrying amount of the asset to market value or ii) determine the market value of the carrying amount and adjust the gross carrying amount proportionately so that the resulting carrying amount equals the market value. The amendment is effective retrospectively.

IAS 24 Related Party Disclosures

The amendment clarifies that a management entity – an entity that provides key management personnel services – is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment is effective retrospectively.

Annual Improvements – 2011–2013 Cycle

IFRS 3 Business Combinations

The amendment clarifies that: i) Joint arrangements are outside the scope of IFRS 3, not just joint ventures ii) The scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is effective prospectively.

IFRS 13 Fair Value Measurement

The portfolio exception in IFRS 13 can be applied to financial assets, financial liabilities and other contracts within the scope of IAS 39 (or IFRS 9, as applicable). The amendment is effective prospectively.

IAS 40 Investment Property

The amendment clarifies that IFRS 3, not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The amendment is effective prospectively.

Above amendments did not have a significant impact on the interim condensed consolidated financial statements of the Group.

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

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 11 Acquisition of an Interest in a Joint Operation (Amendment)

IFRS 11 is amended to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. This amendment clarifies that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 Business Combinations, to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs except for those principles that conflict with the guidance in this IFRS. In addition, the acquirer shall disclose the information required by IFRS 3 and other IFRSs for business combinations. The amendments did not have an impact on the financial position or performance of the Group.

IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)

The amendments to IAS 16 and IAS 38, have prohibited the use of revenue-based depreciation for property, plant and equipment and significantly limiting the use of revenue-based amortisation for intangible assets. The amendments did not have an impact on the financial position or performance of the Group.

IAS 16 Property, Plant and Equipment and IAS 41 Agriculture (Amendment) – Bearer Plants

IAS 16 is amended to provide guidance that bearer plants, such as grape vines, rubber trees and oil palms should be accounted for in the same way as property, plant and equipment in IAS 16. Once a bearer plant is mature, apart from bearing produce, its biological transformation is no longer significant in generating future economic benefits. The only significant future economic benefits it generates come from the agricultural produce that it creates. Because their operation is similar to that of manufacturing, either the cost model or revaluation model should be applied. The produce growing on bearer plants will remain within the scope of IAS 41, measured at fair value less costs to sell. The amendment is not applicable for the Group and did not have an impact on the financial position or performance of the Group.

IAS 27 Equity Method in Separate Financial Statements (Amendments to IAS 27)

IASB issued an amendment to IAS 27 to restore the option to use the equity method to account for investments in subsidiaries and associates in an entity's separate financial statements. Therefore, an entity must account for these investments either:
• At cost
• In accordance with IFRS 9,
Or
• Using the equity method defined in IAS 28

The entity must apply the same accounting for each category of investments. The amendment is not applicable for the Group and did not have an impact on the financial position or performance of the Group.

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)

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. The amendment is not applicable for the Group and did not have an impact on the financial position or performance of the Group.

IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10 and IAS 28)

Amendments issued to IFRS 10, IFRS 12 and IAS 28, to address the issues that have arisen in applying the investment entities exception under IFRS 10 Consolidated Financial Statements. The amendment is not applicable for the Group and did not have an impact on the financial position or performance of the Group.

IAS 1: Disclosure Initiative (Amendments to IAS 1)

Amendments issued to IAS 1. Those amendments include narrow-focus improvements in the following five areas: Materiality, Disaggregation and subtotals, Notes structure, Disclosure of accounting policies, Presentation of items of other comprehensive income (OCI) arising from equity accounted investments. These amendments did not have significant impact on the notes to the interim consolidated financial statements of the Group.

Annual Improvements to IFRSs - 2012-2014 Cycle

IASB issued, Annual Improvements to IFRSs 2012-2014 Cycle. The document sets out five amendments to four standards, excluding those standards that are consequentially amended, and the related Basis for Conclusions. The standards affected and the subjects of the amendments are:
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – clarifies that changes in methods of disposal (through sale or distribution to owners) would not be considered a new plan of disposal, rather it is a continuation of the original plan
IFRS 7 Financial Instruments: Disclosures – clarifies that i) the assessment of servicing contracts that includes a fee for the continuing involvement of financial assets in accordance with IFRS 7; ii) the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report
IAS 19 Employee Benefits – clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located
IAS 34 Interim Financial Reporting – clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report

These amendments did not have any impact on the financial position or performance of the Group.

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 - 2012-2014 Cycle (cont'd.)

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.

IFRS 9 Financial Instruments - Final standard (2014)

The IASB published the final version of IFRS 9 Financial Instruments. The final version of IFRS 9 brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. 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. However, the Standard is available for early application. In addition, the own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments. The Group is in the process of assessing the impact of the standard on 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.

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 - 2012-2014 Cycle (cont'd.)

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.

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. The amendment is not applicable for the Group and will not have an impact on the 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.

Annual Improvements to IFRSs - 2014-2016 Cycle

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.

- 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.

- 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 amendments are not applicable for the Group and will not have an impact on the financial position or performance of the 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 10 March 2017. 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.

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.

(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.

(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.

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.

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:

	Useful life
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.

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 2016 US Dollar 861,208 (31 December 2015: US Dollar 802,628) amount was capitalized on qualifying assets. The weighted average capitalization rate on funds borrowed generally is 6.6% per annum (2015: 6.3% per annum).

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.

(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 2016 and 2015 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.

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.

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 2016, 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 2016 was US Dollar 45,470,436 (31 December 2015: US Dollar 43,192,267). During the year ended 31 December 2016, the Group Management has recognized an impairment loss of US Dollar 3,047,520 and written-off the impaired amount from product lines, license and supply agreements (31 December 2015: 4,086,036).

Intangible asset recognized on 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 at 31 December 2016, 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 12.1% per annum. Cash flows beyond that five-year period have been extrapolated by using a steady 10% per annum growth rate consisting of 8% inflation and real growth rate of 1.85%.

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 2016 there were no indicators of impairment and therefore the Group did not test goodwill for impairment. As at 31 December 2016 and 2015, 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.

(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.

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

5. CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Petty cash	17,822	21,623
Demand deposits	6,383,281	990,728
Time deposits	6,047,923	14,841,241
Cash and cash equivalents in cash flow statement	12,449,026	15,853,592
Interest income accruals	13,247	2,819
	12,462,273	15,856,411

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% (as of 31 December 2015, the Group's time deposits were Euro and US Dollar time deposit, and the average interest rate for Euro time deposit is 1.83%, and US Dollar time deposit is 2.96%, 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 2016, the Group does not have any cash deposits pledged against the bank loans used (31 December 2015: 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 2016, two customers each represented 20% and 29% of the total trade and other receivables balance, respectively (31 December 2015: 25% and 31%, respectively).

	31 December 2016	31 December 2015
Trade receivables	20,124,946	22,278,321
Less: Allowance for doubtful receivables	(1,802,111)	(2,211,904)
Notes receivable	39,374,837	57,198,143
Other receivables	615,386	701,226
Less: Allowance for other doubtful receivables	(545,275)	(659,972)
	57,767,783	77,305,814

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

As at 31 December 2016 and 31 December 2015, 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 2016, the average credit period on sales is 109 days (31 December 2015: 120 days).

Movement of allowance for doubtful receivables in value for the year ended 31 December 2016 and 2015 is as follows:

	For the year ended 31 December 2016	For the year ended 31 December 2015
Balance at 1 January	2,211,904	2,954,991
Provision charge	858,596	149,380
Reversal of provision	(113,462)	(294,171)
Collections	(770,522)	-
Translation effect	(384,405)	(598,296)
Balance at 31 December	1,802,111	2,211,904

Impaired receivables have an aging of more than two years as at 31 December 2016 and 2015.

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.

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

6. TRADE AND OTHER RECEIVABLES (cont.)

Provision for other doubtful receivables(-)	For the year ended 31 December 2016	For the year ended 31 December 2015
Balance at 1 January	659,972	585,324
Charge for the year	-	134,093
Translation effect	(114,697)	(59,445)
Balance at 31 December	545,275	659,972

Collateral received in relation to trade receivables were as follows:

	31 December 2016	31 December 2015
Letters of guarantees	6,271,826	7,888,203

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.

Due to related parties	31 December 2016	31 December 2015
Benefits payable to the Board of Directors and individual shareholders	17,796	20,698
	17,796	20,698

Total amount of compensation benefits provided to Chairman and Vice Chairman of Board of Directors, general manager, deputy general manager and directors, include the salaries, premiums and retirement pay for the year ended 31 December 2016 and 2015 are stated below:

Compensation of key management personnel	For the year ended 31 December 2016	For the year ended 31 December 2015
Short-term benefits	7,876,369	5,461,987
Employment termination benefits	79,263	50,827
Total compensation	7,955,632	5,512,814

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

8. INVENTORIES

	31 December 2016	31 December 2015
Raw materials	29,640,249	36,224,264
Work-in-progress	4,027,595	5,475,034
Finished goods	25,095,735	26,196,125
Goods in transit	2,230,531	3,813,238
Allowance for diminution in value of inventories	(3,371,017)	(3,021,784)
	57,623,093	68,686,877

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 2016	For the year ended 31 December 2015
Opening balance	3,021,784	1,793,929
Charge for the year	4,531,380	2,811,562
Provisions utilized	(3,656,993)	(1,220,492)
Translation effect	(525,154)	(363,215)
Closing balance	3,371,017	3,021,784

9. OTHER CURRENT AND NON-CURRENT ASSETS

Other current assets	31 December 2016	31 December 2015
Value added tax (VAT) receivable	6,665,994	6,224,670
Business advances given	204,066	348,661
Income accruals (*)	1,074,566	607,340
Prepaid expenses	1,013,856	1,009,088
Prepaid taxes	662,494	45,729
Other assets	95,252	278,876
	9,716,228	8,514,364

(*) 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 TUBİTAK (Scientific and Technological Research Council of Turkey).

Other non - current assets	31 December 2016	31 December 2015
Prepaid expenses	51,466	66,505
	51,466	66,505

(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
Acquisition cost											
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
Accumulated depreciation											
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).

(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
Acquisition cost											
At 1 January 2015	13,211,030	239,315	60,515,059	90,080,975	1,526,888	2,218,562	(9,356)	7,302,583	110,284	13,286,644	188,481,984
Currency translation	(2,708,472)	(48,454)	(12,252,447)	(18,238,640)	(309,148)	(449,191)	1,894	(1,478,549)	(22,329)	(2,690,139)	(38,195,475)
Additions	-	550	-	-	-	-	-	863,383	7,910	12,140,561	13,012,404
Transfers	-	-	1,331,980	13,728,400	-	-	-	-	-	(15,060,380)	-
Disposals	-	(24)	-	(435,723)	-	(16,716)	-	(105,631)	-	-	(558,094)
At 31 December 2015	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
Accumulated depreciation											
At 1 January 2015	-	(85,450)	(7,866,387)	(43,228,352)	(892,548)	(814,512)	9,356	(4,600,307)	(83,182)	-	(57,561,382)
Currency translation	-	18,156	1,673,513	9,211,299	180,714	189,442	(1,894)	972,415	17,257	-	12,260,902
Depreciation capitalized in intangible assets (Note 11) (*)	-	-	-	(953,830)	-	-	-	-	-	-	(953,830)
Depreciation charge for the year	-	(13,195)	(1,260,166)	(7,025,523)	(52,682)	(378,351)	-	(632,318)	(6,402)	-	(9,368,637)
Disposals	-	12	-	405,921	-	7,243	-	105,224	-	-	518,400
At 31 December 2015	-	(80,477)	(7,453,040)	(41,590,485)	(764,516)	(996,178)	7,462	(4,154,986)	(72,327)	-	(55,104,547)
Carrying amount at 31 December 2015	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
Carrying amount at 1 January 2015	13,211,030	153,865	52,648,672	46,852,623	634,340	1,404,050	-	2,702,276	27,102	13,286,644	130,920,602

(*) US Dollar 953,830, 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 2015.

As of 31 December 2015, insured property, plant and equipment amounts to TRY 715,585,000 (Equivalent of US Dollar 246,108,474) (31 December 2014: TRY 657,665,000; Equivalent of US Dollar 283,610,764).

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 20,000,000, US Dollar 15,750,000 and TRY 16,200,000 (Note 20).

(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:

	31 December 2016	31 December 2015
Cost of goods sold	6,505,950	6,664,418
Operating expenses	8,399,528	8,409,901
Capitalized on inventory	1,526,520	1,812,222
	16,431,998	16,886,541

11. INTANGIBLE ASSETS

Acquisition cost	Product lines license and supply agreement	Customer relationships	Other intangible assets	Total
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	120,990,023	19,043,653	6,366,720	146,400,396
Accumulated amortization and impairment				
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)
At 31 December 2016	(58,254,583)	(4,969,523)	(1,148,848)	(64,372,954)
Carrying amount at 31 December 2016	62,735,440	14,074,130	5,217,872	82,027,442
Carrying amount at 1 January 2016	69,248,700	14,926,570	4,473,756	88,649,026

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

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

11. INTANGIBLE ASSETS (cont.)

Acquisition cost	Product lines license and supply agreement	Customer relationships	Other intangible assets	Total
At 1 January 2015	135,622,618	22,293,431	5,400,700	163,316,749
Currency translation	(25,581,540)	(2,012,360)	(442,353)	(28,036,253)
Additions (*)	16,328,085	-	-	16,328,085
Capitalized depreciation from property, plant and equipment (Note 10)	-	-	953,830	953,830
Disposals	(4,086,036)	-	-	(4,086,036)
At 31 December 2015	122,283,127	20,281,071	5,912,177	148,476,375
Accumulated amortization and impairment				
At 1 January 2015	(54,052,626)	(5,892,758)	(1,861,427)	(61,806,811)
Currency translation	7,988,012	1,086,348	423,006	9,497,366
Charge for the year	(6,969,813)	(548,091)	-	(7,517,904)
At 31 December 2015	(53,034,427)	(5,354,501)	(1,438,421)	(59,827,349)
Carrying amount at 31 December 2015	69,248,700	14,926,570	4,473,756	88,649,026
Carrying amount at 1 January 2015	81,569,992	16,400,673	3,539,273	101,509,938

As of 31 December 2015, capitalized financial expense amounts to US Dollar 802,628 (31 December 2014: US Dollar 1,062,941).

(*) 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.

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

12. GOODWILL

Cost	
Balance at 1 January 2015	82,519,215
Net foreign currency translation	(292,737)
Balance at 31 December 2015	82,226,478
Balance at 1 January 2016	82,226,478
Net foreign currency translation	(200,396)
Balance at 31 December 2016	82,026,082
Accumulated impairment losses	
Balance at 1 January 2016	(2,564,340)
Net foreign currency translation	-
Balance at 31 December 2016	(2,564,340)
Carrying amount as at 31 December 2016	79,461,742
Carrying amount as at 31 December 2015	79,662,138

As at 31 December 2016, 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 12.1% per annum. Cash flows beyond that five-year period have been extrapolated by using a steady 10% per annum growth rate consisting of 8% inflation and real growth rate of 1.85%. 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 2016 and 2015, no impairment loss has been recognized in the accompanying consolidated financial statements.

13. INVESTMENT IN ASSOCIATES

Investments in associates	%	31 December 2016	%	31 December 2015
Lypanosys Pte Limited	21.75%	-	21.75%	-
		-		-

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 2016, respectively. For the year ended 31 December 2016 there were no revenues and the net loss was US Dollars 121,945.

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

14. BORROWINGS

	31 December 2016	31 December 2015
Short term bank loans	24,975,295	76,894,604
Current portion of long term loans	17,856,609	17,951,073
Current portion of bonds issued (*)	599,564	34,940,734
Total short term borrowings	43,431,468	129,786,411
Long term portion of bank loans	35,755,714	16,709,329
Bonds issued (*)	28,337,774	-
Total long term borrowings	64,093,488	16,709,329
Total borrowings	107,524,956	146,495,740

(*)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 13.75% as at 31 December 2016 and discounted estimated future cash payments through the expected life of the financial liability is calculated as TRY 101,836,281 (Equivalent of US Dollar 28,937,338).

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 60% and 40% respectively.

The repayments of the borrowings are as follows:

	31 December 2016	31 December 2015
On demand or within one year	43,431,468	129,786,411
In the second year	39,223,497	5,965,072
In the third year	11,394,032	6,961,068
In the fourth year	8,268,322	3,783,189
In the fifth year	5,207,637	-
	107,524,956	146,495,740

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.

(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 2016	Currency Type	Weighted Average Interest Rate	Principal	31 December 2015
TRY	10.3%	78,520,555	22,312,047	TRY	12.8%	220,891,341	75,970,333
EUR	0.8%	2,500,000	2,635,471	EUR		-	
Accrued interest			27,777	Accrued interest			924,271
			24,975,295				76,894,604

Short term borrowings consist of revolving lines of credits with several banks and carry fixed rate interests. As at 31 December 2016 and 31 December 2015, the total available lines of credits were US Dollar 298,091,652 (TRY 1,049,044,140) and 229,900,550 (TRY 871,990,840), 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 2016	Currency Type	Weighted Average Interest Rate	Principal	31 December 2015
TRY	10.8%	55,278,150	15,707,590	TRY	10.7%	32,927,161	11,324,515
US Dollars	-	-	-	US Dollars	4.9%	722,224	722,224
EUR			-	EUR	4.2%	5,000,000	5,464,300
Accrued interest			2,149,019	Accrued interest			440,034
			17,856,609				17,951,073

Long-term bank loans consist of the following:

Currency Type	Weighted Average Interest Rate	Principal	31 December 2016	Currency Type	Weighted Average Interest Rate	Principal	31 December 2015
TRY	13.4%	112,538,938	31,978,557	TRY	11.1%	48,584,045	16,709,329
EUR	2.5%	3,583,000	3,777,157	EUR			-
			35,755,714				16,709,329

14. BORROWINGS (cont.)

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

a) A loan of TRY 6,480,000 (Equivalent of US Dollar 1,841,328) (2015: TRY 9,720,000) 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 2,461,539 (Equivalent of US Dollar 699,460) (2015: TRY 4,923,077) was drawn down on 24 October 2013. Repayments of interest and principal will be commenced on 24 October 2014 and will continue till 19 October 2017 quarterly. The loan carries interest of 11.0%. This loan is also secured by the Group's factory buildings located at Çerkezköy and other buildings' mortgages at an amount of US Dollar 15,750,000 (Note 17).

c) A loan of TRY 4,000,000 (Equivalent of US Dollar 1,136,622) (2015: TRY 6,000,000) was drawn down on 4 December 2013. Repayments of interest and principal will be 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).

d) A loan of TRY 8,000,000 (Equivalent of US Dollar 2,273,244) (2015: TRY 12,000,000) was drawn down on 10 December 2013. Repayments of interest and principal will be commenced on 10 December 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 20,000,000 (Note 17).

e) A loan of TRY 25,549 (Equivalent of US Dollar 7,259) (2015: TRY 48,418) was drawn down on 31 October 2014. Repayments of interest and principal commenced on 28 November 2014 and will continue till 31 October 2017. The loan carries interest of 11.40%. This loan is also secured by pledges on the purchased vehicles (Note 17).

f) A loan of TRY 33,000,000 (Equivalent of US Dollar 9,377,131) (2015: TRY 44,000,000) was drawn down on 23 December 2014. Repayments of interest and principal will be 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).

g) A loan of TRY 65,000,000 (Equivalent of US Dollar 18,470,107) (2015: None.) was drawn down on 14 January 2016. Repayments of interest and principal commenced on 16 January 2017 and will continue till 14 Ocak 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 two lands located at Çerkezköy at an amount of TRY 35,000,000 (Note 17).

h) A loan of TRY 14,850,000 (Equivalent of US Dollar 4,219,709) (2015: None.) 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).

i) A loan of Euro 2,195,000 (Equivalent of US Dollar 2,313,944) (2015: None.) was drawn down on 25 May 2016. Repayments of interest and principal 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.

14. BORROWINGS (cont.)

j) A loan of TRY 34.000.000 (Equivalent of US Dollar 9,661,287) (2015: None.) 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).

k) A loan of Euro 1.388.000 (Equivalent of US Dollar 1,463,213) (2015: None.) was drawn down on 16 December 2016. Repayments of interest and principal 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.

l) The Group has spot loans amounting to TRY 78,520,555 (Equivalent of US Dollar 22,312,047) (2015: TRY 218,607,000), with an average interest of %10.29 and have no loans with no interest (2015: TRY 2,284,341).

m) The Group has spot loans amounting to Euro 2,500,000 (Equivalent of US Dollar 2,635,471) (2015: None), with an average interest of 0.8 %

The Group uses its notes receivables as collaterals for its revolving loans. As at 31 December 2016, the amount of the notes receivables given as collateral is USD 15,575,000 (31 December 2015: USD 50,638,650).

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

15. TRADE PAYABLES

	31 December 2016	31 December 2015
Short-term trade payables	14,168,605	17,025,219
Notes payable	1,669	1,670
	14,170,274	17,026,889

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 46 days (31 December 2015: 53 days).

16. OTHER PAYABLES AND ACCRUED EXPENSES

	31 December 2016	31 December 2015
Accrued sales discounts and free samples (**)	1,098,481	1,348,704
Accrued vacation pay	1,859,402	1,820,781
Payroll taxes and dues payable	1,710,633	1,228,301
Deferred income (*)	990,531	1,206,595
Social security premiums payable	1,557,200	777,812
Accrued sales premiums and bonuses	588,942	621,694
Advances received	383,896	180,559
Accrued payroll	123,751	194,001
Other accruals and liabilities	6,229,411	5,643,129
	14,542,247	13,021,576

(**) US Dollar 246,107 of the amount relates to accrued reimbursement charges given to pharmacies and warehouses due to the price differences (2015: US Dollar 405,252).

	31 December 2016	31 December 2015
Long-term deferred income (*)	4,796,881	4,851,584
	4,796,881	4,851,584

(*) 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.

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

17. PROVISIONS

	31 December 2016	31 December 2015
Provision for legal claims	802,010	1,386,308
Provision for seniority incentive and other benefits	47,500	57,500
	849,510	1,443,808

	Provision for seniority incentive and other benefits	Provision for legal claims	Total
At 1 January 2015	57,500	1,779,887	1,837,387
Charge for the year	-	1,023,215	1,023,215
Utilization of provision	-	(293,964)	(293,964)
Provision released	-	(762,457)	(762,457)
Translation effect	-	(360,373)	(360,373)
At 31 December 2015	57,500	1,386,308	1,443,808
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	47,500	802,010	849,510

The provision for seniority incentive and other benefits as at 31 December 2016 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.

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

18. TAXATION ON INCOME

	31 December 2016	31 December 2015
Current Tax Payable:		
Current corporate and income tax	836,294	52,226
	836,294	52,226

	For the year ended 31 December 2016	For the year ended 31 December 2015
Taxation:		
Current tax expense	836,294	52,226
Deferred tax expense	4,957,641	2,746,110
	5,793,935	2,798,336

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

	For the year ended 31 December 2016	For the year ended 31 December 2015
Profit before tax	24,261,422	14,118,315
Corporate income tax rate	0%	0%
Expected taxation	-	-
tax effects of:		
- r&d incentives deductions	(1,284,733)	(2,517,592)
- effect of different tax rate of subsidiaries operating in other jurisdiction	7,552,165	5,170,585
- other	(473,497)	145,343
Income tax expense per consolidated statement of income	5,793,935	2,798,336

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.

Corporate Tax in Turkey

Turkish subsidiaries are subject to Turkish corporate taxes. Provision is made in the accompanying consolidated financial statements for the estimated charge based on the results for the year of those subsidiaries. Turkish tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

Turkish corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized. The corporate income tax rate in 2016 and 2015 is 20%.

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2016 is 20% (2015: 20%). Losses can be carried forward for offset against future taxable income for up to five years. However, losses cannot be carried back for offset against profits from previous periods.

Furthermore, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1-25 April following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

Income Withholding Tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are Turkish residents and Turkish branches of foreign companies. The income withholding tax rate has been changed to 15% upon the Council of Ministers’ Resolution No: 2006/10731. Undistributed dividends incorporated in share capital are not subject to income withholding tax.

Deferred Tax

The Group recognizes deferred tax assets and liabilities based upon temporary differences arising between its consolidated financial statements as reported for IFRS purposes and its statutory tax financial statements. These differences usually result in the recognition of revenue and expenses in different reporting periods for IFRS and tax purposes and they are given below.

For calculation of deferred tax asset and liabilities, the rate of 20% (2015: 20%) is used.

In Turkey, the companies cannot file a consolidated tax return, therefore subsidiaries that have deferred tax assets were not netted against subsidiaries that have deferred tax liabilities.

(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 2016	31 December 2015
Basis difference on property, plant and equipment and intangible assets	(3,655,780)	(3,606,345)
R&D incentive deductions	-	4,331,758
Carry forward tax losses	1,121,304	1,494,410
Basis difference on inventory	853,889	806,989
Provision for employment termination benefits	969,268	961,091
Accrued vacation	371,880	364,156
Provision for legal cases	163,660	276,986
Amortization of discount on notes receivable and payables	199,027	258,527
Expense accruals due to price regulation	49,221	81,050
Other	1,830,402	1,699,742
Net deferred tax asset	1,902,871	6,668,364

<u>Movement of deferred tax assets:</u>	For the year ended 31 December 2016	For the year ended 31 December 2015
Opening balance	6,668,364	10,181,298
Charge for the year	(4,957,641)	(2,746,110)
Tax income recognized in other comprehensive income	50,950	544,132
Translation effect	141,198	(1,310,956)
Closing balance	1,902,871	6,668,364

As at 31 December 2016 and 31 December 2015, the Group has unused tax losses of US Dollar 5,606,518 and 29,130,840 respectively, available for offset against future profits. The Group does not have any unrecognized deferred tax assets in 2016 (2015: 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 2016	31 December 2015
2018	-	1,569,272
2019	-	1,932,766
2020	2,690,135	3,970,012
2021	2,916,383	-
	5,606,518	7,472,050

(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 1,221 and 1,317 (TRY equivalent of 4,297 and 3,828, respectively) for each period of service as at 31 December 2016 and 31 December 2015, 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 2016 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 2015: 3.23%). The anticipated rate of retirement was 88.22% (2015: 88.82%). 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 4,426 effective from 1 January 2017 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 2016	For the year ended 31 December 2015
Opening balance	4,805,457	2,162,379
Service cost	1,126,404	1,112,689
Interest cost	124,859	63,474
Benefits paid	(629,993)	(815,932)
Actuarial loss	254,751	2,720,663
Translation effect	(835,138)	(437,816)
Closing balance	4,846,340	4,805,457

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

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:

	Amount		31 December 2016 US Dollars
Letters of guarantee given	TRY	27,653,352	7,857,852
	EUR	6,344,750	6,688,562
	US Dollar	196,885	196,885
Promissory notes and	TRY	-	-
collaterals given	US Dollar	-	-
Loan secured by building	TRY	168,600,000	47,908,616
Pledges	TRY	25,549	7,259
			62,659,174

	Amount		31 December 2015 US Dollars
Letters of guarantee given	TRY	28,198,379	9,698,163
Promissory notes and	TRY	110,122,500	37,874,020
collaterals given	US Dollar	23,519,397	23,519,397
Loan secured by building	US Dollar	15,750,000	15,750,000
	TRY	111,200,000	38,244,600
Pledges	TRY	57,131	19,649
			125,105,829

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 five US Dollar per share. As at 31 December 2016 and 31 December 2015, 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 2016 (31 December 2015: 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 2016 the call option has been expired and the Company management has decided not to extend the call option thereafter (31 December 2015: Nil).

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

22. REVENUE

	1 January - 31 December 2016	1 January - 31 December 2015
Human pharma revenue	209,212,022	195,305,820
Veterinary products revenue	12,781,328	11,766,795
Other revenue	2,923,608	2,815,227
	224,916,958	209,887,842

Sales amounts are presented net of sales returns and discounts.

23. COST OF SALES

	1 January - 31 December 2016	1 January - 31 December 2015
Raw materials used	(82,446,885)	(80,319,469)
Direct labor cost	(6,837,559)	(6,008,135)
Production overheads	(24,599,028)	(27,709,201)
Depreciation and amortisation expenses	(6,505,950)	(6,664,418)
Change in work in process	(1,447,439)	(3,064,890)
Change in finished goods	(1,100,390)	6,233,355
	(122,937,251)	(117,532,758)

24. OPERATING EXPENSES

	1 January - 31 December 2016	1 January - 31 December 2015
Research and development expenses (*)	(4,064,456)	(4,894,614)
Sales and marketing expenses	(32,101,695)	(33,297,880)
General administration expenses	(27,007,363)	(24,321,217)
	(63,173,514)	(62,513,711)

(*) As of 31 December 2016, the Group realized research and development expense amounting to US Dollars 1,327,472 for tangible assets and US Dollars 14,309,097 for intangible assets with the total amount of US Dollars 15,636,569 (31 December 2015: US Dollars 13,730,564). As at the balance sheet date US Dollars 10,176,693 of the amount is from government grants and incentives (31 December 2015: US Dollars 9,522,243). Of this total amount US Dollars 15,192,875 was capitalized on intangible development costs, and US Dollars 443,694 portion of the total US Dollars 3,959,355 cancelled projects and other expenses is expended in 2016.

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

24. OPERATING EXPENSES (cont.)

	1 January - 31 December 2016	1 January - 31 December 2015
Employee benefits expense	(31,182,248)	(29,082,515)
Depreciation and amortization expense	(8,399,528)	(8,409,901)
Transportation expense	(2,592,424)	(2,496,662)
Rent expense	(2,944,812)	(3,033,180)
Consultancy expense	(1,295,755)	(1,554,516)
Promotional and advertising expense	(7,085,441)	(8,128,785)
Other operating expenses	(14,773,583)	(15,329,209)
	(68,273,791)	(68,034,768)
Capitalized personnel expenses	5,100,277	5,521,057
	(63,173,514)	(62,513,711)

25. INVESTMENT REVENUE

	1 January - 31 December 2016	1 January - 31 December 2015
Amortization of discount on payables	16,670,028	17,491,608
Interest received from sales with deferred settlement terms	161,708	155,603
Interest income	284,438	363,981
	17,116,174	18,011,192

26. FINANCE COSTS (net)

	1 January - 31 December 2016	1 January - 31 December 2015
Interest on bank borrowings	(11,721,853)	(11,160,575)
Foreign exchange loss on borrowings	(708,380)	(1,108,638)
Bond interest and expenses	(4,532,408)	(4,865,088)
Loss on derivative financial instruments	-	(87,758)
Amortization of discount on receivables	(16,582,100)	(17,730,975)
Other interest expense	(157,469)	(318,424)
	(33,702,210)	(35,271,458)

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

27. OTHER GAINS AND LOSSES

	1 January - 31 December 2016	1 January - 31 December 2015
Foreign exchange gain	1,197,164	479,040
Change in fair value of call option liability (Note 21)	-	499
Gain on disposal of property, plant and equipment	566,733	288,833
Other (*)	277,368	1,322,661
	2,041,265	2,091,033

(*) For the year ended as of 31 December 2016 and 2015, other mainly consist of TUBITAK projects support income.

28. LOSS FROM INVESTMENT IN ASSOCIATES

The operations of Lypanosys are limited as at 31 December 2016. The details are as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Revenue	-	-
Loss for the year	-	(2,545,975)
Group's share on loss of the associate	-	(553,825)

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 2016, respectively. For the year ended 31 December 2016 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.

(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 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
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.

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 2015	Human pharma	Veterinary products	Other	Total
External sales	195,305,820	11,766,795	2,815,227	209,887,842
Cost of sales	(105,760,368)	(9,581,932)	(2,190,458)	(117,532,758)
Operating expenses	(59,211,424)	(2,844,038)	(458,249)	(62,513,711)
Segment results	30,334,028	(659,175)	166,520	29,841,373
Investment revenue				18,011,192
Finance costs				(35,271,458)
Other gains and losses				2,091,033
Loss from investment in associates				(553,825)
Profit before tax				14,118,315
Tax expense				(2,798,336)
Net profit for the year				11,319,979

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 26% and 38%. Net human pharma revenues attributed to these wholesalers were US Dollar 48,681,929 and US Dollar 71,338,919, respectively.

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

30. OPERATING LEASE ARRANGEMENTS

Operating lease commitments

	For the year ended 31 December 2016	For the year ended 31 December 2015
Minimum lease payments under operating leases recognized as an expense in the related year	1,870,466	1,927,295
	1,870,466	1,927,295

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

	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
	107,581	11,461,230	3,370,182

	EUR	TRY	31 December 2015
Not longer than 1 year	811,097	2,687,002	1,810,546
Longer than 1 year and not longer than 5 years	82,010	2,889,252	1,083,315
	893,107	5,576,254	2,893,861

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 2016	For the year ended 31 December 2015
Weighted average number of shares	67,650,000	67,650,000
Net profit for the year attributable to the shareholders	15,371,701	8,699,709
Earnings per share	0.227	0.129

(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.

31 December 2016	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
Total Assets	**7,635,998**	**7,922,899**	**1,840,638**	**1,456,657**	**19,577,932**
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
Total Liabilities	**2,034,126**	**7,161,896**	**2,473,739**	**-**	**12,005,977**
Net foreign currency position	**5,601,872**	**761,003**	**(633,101)**	**1,456,657**	**7,571,955**

31 December 2015	US Dollar	EURO	CHF	Other	Equivalent of US Dollar
Cash and cash equivalents	4,931,025	9,880,091	10,208	3,041	15,743,359
Trade receivables	3,274,300	263,763	-	-	3,562,556
Other assets	1,649,350	2,936,922	770,703	117,960	5,809,530
Total Assets	**9,854,675**	**13,080,776**	**780,911**	**121,001**	**25,115,445**
Trade payables	4,481,187	2,005,645	1,373,414	65,047	8,152,244
Short-term borrowings	722,224	5,000,000	-	-	6,186,524
Long-term borrowings	-	-	-	-	-
Other payables and accrued expenses	-	-	61,528	-	61,955
Total Liabilities	**5,203,411**	**7,005,645**	**1,434,942**	**65,047**	**14,400,723**
Net foreign currency position	**4,651,264**	**6,075,131**	**(654,031)**	**55,954**	**10,714,722**

(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 2016, the Group's strategy, which was unchanged from 2015, 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.

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

33. FINANCIAL RISK MANAGEMENT (cont.)

(c) Financial instrument categories

31 December 2016	Loans and receivables	Financial liabilities through profit and loss	Financial liabilities at amortized cost	Carrying value	Note
Financial assets					
Cash and cash equivalents	12,462,273	-	-	12,462,273	5
Trade receivables	57,767,783	-	-	57,767,783	6
Financial liabilities					
Borrowings	-	-	107,524,956	107,524,956	14
Trade payables (including related parties)	-	-	14,188,070	14,188,070	7-15
31 December 2015					
Financial assets					
Cash and cash equivalents	15,856,411	-	-	15,856,411	5
Trade receivables	77,305,814	-	-	77,305,814	6
Financial liabilities					
Borrowings	-	-	146,495,740	146,495,740	14
Trade payables (including related parties)	-	-	17,047,587	17,047,587	7-15

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

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:

31 December 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities at FVTPL:				
Call option liability	-	-	-	-

31 December 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities at FVTPL:				
Call option liability	-	-	-	-

There have been no transfers between Level 1, 2 or 3 during the year ended 31 December 2016 and 31 December 2015.

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

	Year ended 31 December 2015	
	Effect of US Dollar: TRY	Effect of EUR: TRY
Loss	(1,081,921)	(1,544,347)

The equity effect of 10% devaluation in the exchange rate of USD against TRY is US Dollar 20,826,590 as the functional currencies of Turkish subsidiaries is Turkish Lira.

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 2016, 40% of total indebtedness was floating rate and mainly denominated in Turkish Lira. 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 2016 would decrease by US Dollar 297,320 net of tax (31 December 2015: US Dollar 171,292). 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.

(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.

31 December 2016	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	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	13,768,385	13,828,447	13,720,896	107,551	-	-	-	-
Due to related parties	17,796	17,796	17,796	-	-	-	-	-
	121,311,137	142,756,973	41,608,426	7,183,690	5,917,000	4,896,900	34,220,288	48,930,669

31 December 2015	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	146,495,740	156,601,258	80,038,343	5,798,912	7,515,486	39,415,407	18,444,055	5,389,055
Trade payables	17,026,889	17,090,695	16,898,184	192,511	-	-	-	-
Due to related parties	20,698	20,698	20,698	-	-	-	-	-
	163,543,327	173,712,651	96,957,225	5,991,423	7,515,486	39,415,407	18,444,055	5,389,055

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

34. SUBSEQUENT EVENTS

None.