

**The Pharma Network LLP**

**IFRS Financial Statements**

*For the year ended March 31, 2017*

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## THE PHARMA NETWORK LLP

### STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2017

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Management of The Pharma Network LLP (hereinafter - "the Company") is responsible for the preparation of the financial statements of the Company, that fairly present, in all material respects, financial position of the Company as at March 31, 2017, and the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards (hereinafter - "IFRS").

In preparing the financial statements, management is responsible for:

- selecting of proper accounting principles and its consistent application;
- presenting information, including accounting policies, in a manner that provides relevance, reliability, comparability and understandability of such information;
- using of reasonable and appropriate estimates and assumptions;
- providing additional disclosures when compliance with the requirements of IFRS is insufficient for users of the financial statements to understand the impact of particular transactions, as well as other events and conditions on the financial position and financial results of the Company's operation; and
- assessment of the Company's ability to continue as a going concern in the foreseeable future.

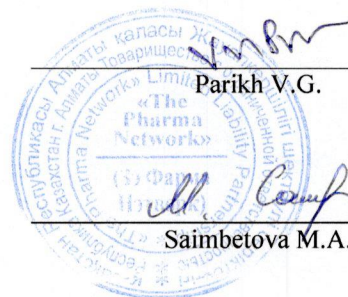
Management is also responsible for:

- designing, implementing and maintaining the effective and reliable functionality of the internal control system;
- maintaining adequate accounting system, allowing the preparation of information about the Company's financial position at any time with reasonable accuracy, and to ensure compliance of financial statements with IFRS;
- maintaining accounting records in accordance with the legislation of the Republic of Kazakhstan;
- adopting measures within its competence to safeguard assets of the Company; and
- detecting and preventing fraud and other irregularities.

The financial statements for the year ended March 31, 2017 were approved by management of the Company on May 15, 2017.

General Director

Chief Accountant



Parikh V.G.

Saimbetova M.A.



## INDEPENDENT AUDITOR'S REPORT

To owner and management of The Pharma Network LLP

### Opinion

We have audited the financial statements of The Pharma Network LLP (hereinafter – the “Company”), which comprise the statement of financial position as at March 31, 2017, and the statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (hereinafter – “IFRS”).

### 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 Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Kazakhstan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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





## Other information

Audit of the financial statements of The Pharma Network LLP as at March 31, 2016 and for the year then ended was conducted by another auditor who expressed unqualified opinion on these financial statements on April 25, 2016.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Pharma Network LLP 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 Company'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 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 Company 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 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 business activities within the Company to express an opinion on the consolidated financial statements;
- we are responsible for the direction, supervision and performance of the audit of The Pharma Network LLP. We remain solely responsible for our audit opinion.



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### Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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

*Grant Thornton*

  
Yerzhan Dossymbekov  
General Director  
Grant Thornton LLP

  
Zhanbota Bekenov  
Engagement partner

Certified Auditor of the Republic of Kazakhstan  
Certificate #MF-0000069 on January 20, 2012  
The Republic of Kazakhstan

Certified Auditor of the Republic of Kazakhstan  
Certificate #MF-0000047 on February 28, 1994  
The Republic of Kazakhstan

State license for providing audit services on the territory of the Republic of Kazakhstan: series MFU-2, #0000087, issued by the Ministry of Finance of the Republic of Kazakhstan on June 21, 2012

May 15, 2017  
Almaty, the Republic of Kazakhstan



# THE PHARMA NETWORK LLP

## STATEMENT OF FINANCIAL POSITION AS AT MARCH 31, 2017

| In thousands of Tenge                | Notes | March 31,<br>2017 | March 31,<br>2016 |
|--------------------------------------|-------|-------------------|-------------------|
| <b>ASSETS</b>                        |       |                   |                   |
| <b>Non-current assets</b>            |       |                   |                   |
| Property, plant and equipment        | 6     | 58,321            | 49,513            |
| Intangible assets                    |       | 10                | 27                |
| Deferred tax asset                   | 21    | 40,552            | –                 |
| <b>Total non-current assets</b>      |       | <b>98,883</b>     | <b>49,540</b>     |
| <b>Current assets</b>                |       |                   |                   |
| Inventories                          | 7     | 82,045            | 140,763           |
| Accounts receivable                  | 8     | 288,440           | 258,144           |
| Advances paid                        | 9     | 7,785             | 4,239             |
| Other current assets                 |       | 3,279             | 771               |
| Cash and cash equivalents            | 10    | 245,164           | 105,698           |
| <b>Total current assets</b>          |       | <b>626,713</b>    | <b>509,615</b>    |
| <b>TOTAL ASSETS</b>                  |       | <b>725,596</b>    | <b>559,155</b>    |
| <b>EQUITY AND LIABILITIES</b>        |       |                   |                   |
| <b>Equity</b>                        |       |                   |                   |
| Charter capital                      | 11    | 832,162           | 547,767           |
| Accumulated losses                   |       | (148,164)         | (281,628)         |
| <b>TOTAL EQUITY</b>                  |       | <b>683,998</b>    | <b>266,139</b>    |
| <b>LIABILITIES</b>                   |       |                   |                   |
| <b>Non-current liabilities</b>       |       |                   |                   |
| Loans payable                        | 12    | –                 | 73,758            |
| <b>Total non-current liabilities</b> |       | <b>–</b>          | <b>73,758</b>     |
| <b>Current liabilities</b>           |       |                   |                   |
| Accounts payable                     | 13    | 4,329             | 173,581           |
| Interest payable                     | 12    | –                 | 7,897             |
| Advances received                    |       | 329               | 1,336             |
| Income tax payable                   |       | –                 | 3,529             |
| Other taxes payable                  | 14    | 10,389            | 2,984             |
| Provisions                           | 15    | 24,258            | 16,736            |
| Other current liabilities            | 16    | 2,293             | 13,195            |
| <b>Total current liabilities</b>     |       | <b>41,598</b>     | <b>219,258</b>    |
| <b>TOTAL LIABILITIES</b>             |       | <b>41,598</b>     | <b>293,016</b>    |
| <b>TOTAL EQUITY AND LIABILITIES</b>  |       | <b>725,596</b>    | <b>559,155</b>    |

*The notes on pages 5 – 24 are an integral part of these financial statements.*

General Director

Parikh V.G.

Chief Accountant

Saimbetova M.A.

May 15, 2017

Almaty, the Republic of Kazakhstan



# THE PHARMA NETWORK LLP

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED MARCH 31, 2017

| In thousands of Tenge                                 | Notes | For the year<br>ended March<br>31, 2017 | For the year<br>ended March<br>31, 2016 |
|---|-------|---|---|
| Revenue   | 17    | 1,026,142                               | 771,965                                 |
| Cost of goods sold                                    |       | (368,616)                               | (265,205)                               |
| <b>Gross profit</b>                                   |       | <b>657,526</b>                          | <b>506,760</b>                          |
| Selling expenses                                      | 5, 18 | (431,018)                               | (271,840)                               |
| General and administrative expenses                   | 5, 19 | (120,373)                               | (51,120)                                |
| Other operating income                                | 20    | 4,157                                   | 1,032                                   |
| Other operating expenses                              | 20    | (13,939)                                | (367,800)                               |
| <b>Operating profit/(loss)</b>                        |       | <b>96,353</b>                           | <b>(182,968)</b>                        |
| Finance income  |       | 4                                       | —                                       |
| Finance costs   | 12    | (3,445)                                 | (4,410)                                 |
| <b>Profit/(loss) before income tax</b>                |       | <b>92,912</b>                           | <b>(187,378)</b>                        |
| Income tax benefit/(expense)                          | 21    | 40,552                                  | (3,907)                                 |
| <b>Net income/(loss) for the year</b>                 |       | <b>133,464</b>                          | <b>(191,285)</b>                        |
| Other comprehensive income                            |       | —                                       | —                                       |
| <b>Total comprehensive income/(loss) for the year</b> |       | <b>133,464</b>                          | <b>(191,285)</b>                        |

*The notes on pages 5 – 24 are an integral part of these financial statements.*

General Director

Chief Accountant

May 15, 2017

Almaty, the Republic of Kazakhstan



Parikh V.G.

Saimbetova M.A.



## THE PHARMA NETWORK LLP

### STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED MARCH 31, 2017

| In thousands of Tenge                          | Notes | Charter capital | Accumulated losses | Total equity    |
|--|-------|-----------------|--------------------|-----------------|
| <b>As at March 31, 2015</b>                    |       | <b>162</b>      | <b>(90,343)</b>    | <b>(90,181)</b> |
| <i>Net loss for the year</i>                   |       | —               | (191,285)          | (191,285)       |
| <i>Other comprehensive income for the year</i> |       | —               | —                  | —               |
| Total comprehensive loss for the year          |       | —               | (191,285)          | (191,285)       |
| Contribution to charter capital                |       | 547,605         | —                  | 547,605         |
| <b>As at March 31, 2016</b>                    |       | <b>547,767</b>  | <b>(281,628)</b>   | <b>266,139</b>  |
| <i>Net income for the year</i>                 |       | —               | 133,464            | 133,464         |
| <i>Other comprehensive income for the year</i> |       | —               | —                  | —               |
| Total comprehensive income for the year        |       | —               | 133,464            | 133,464         |
| Contribution to charter capital                |       | 284,395         | —                  | 284,395         |
| <b>As at March 31, 2017</b>                    |       | <b>832,162</b>  | <b>(148,164)</b>   | <b>683,998</b>  |

*The notes on pages 5 – 24 are an integral part of these financial statements.*

General Director

Parikh V.G.

Chief Accountant

Saimbetova M.A.

May 15, 2017  
Almaty, the Republic of Kazakhstan

**THE PHARMA NETWORK LLP**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED MARCH 31, 2017**

| In thousands of Tenge                                     | Notes | For the year<br>ended March 31,<br>2017 | For the year<br>ended March 31,<br>2016 |
|---|-------|---|---|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>              |       |   |   |
| Profit/(loss) before income tax                           |       | 92,912                                  | (187,378)                               |
| <b>Adjustments for:</b>                                   |       |   |   |
| Depreciation of property, plant and equipment             | 6     | 22,282                                  | 17,332                                  |
| Amortization of intangible assets                         |       | 30                                      | 61                                      |
| Loss on disposal of property, plant and equipment         | 20    | 244                                     | —                                       |
| Finance costs   | 12    | 3,445                                   | 4,410                                   |
| Finance income  |       | (4)                                     | —                                       |
| Provision for unused vacation                             |       | —                                       | 16,285                                  |
| Provision for doubtful accounts                           | 8,9   | 8,917                                   | 1,330                                   |
| Provision for obsolete and slow-moving goods              | 7     | 10,331                                  | 2,810                                   |
| Other provisions  |       | 7,522                                   | 451                                     |
| Foreign exchange losses                                   | 20    | 13,695                                  | 359,242                                 |
| <b>Operating income before changes in working capital</b> |       | <b>159,374</b>                          | <b>214,543</b>                          |
| <b>Changes in working capital:</b>                        |       |   |   |
| Changes in inventories                                    |       | 48,387                                  | (53,759)                                |
| Changes in accounts receivable                            |       | (37,796)                                | (121,412)                               |
| Changes in advances paid                                  |       | (4,963)                                 | (2,665)                                 |
| Changes in other current assets                           |       | (2,508)                                 | (98)                                    |
| Changes in accounts payable                               |       | (161,428)                               | (484,790)                               |
| Changes in advances received                              |       | (1,007)                                 | 1,336                                   |
| Changes in other taxes payable                            |       | 3,876                                   | 1,645                                   |
| Changes in other current liabilities                      |       | (10,902)                                | 12,233                                  |
| <b>Cash outflows from operating activities</b>            |       | <b>(6,967)</b>                          | <b>(432,967)</b>                        |
| Corporate income tax paid                                 |       | —                                       | (1,112)                                 |
| <b>Net cash outflows from operating activities</b>        |       | <b>(6,967)</b>                          | <b>(434,079)</b>                        |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>              |       |   |   |
| Acquisition of property, plant and equipment              | 6     | (31,834)                                | (29,168)                                |
| Acquisition of intangible assets                          |       | (13)                                    | —                                       |
| Proceeds from sale of property, plant and equipment       |       | 500                                     | 33                                      |
| <b>Net cash used in investing activities</b>              |       | <b>(31,347)</b>                         | <b>(29,135)</b>                         |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>              |       |   |   |
| Repayments of loans                                       |       | (84,538)                                | —                                       |
| Contribution to charter capital                           |       | 284,395                                 | 547,604                                 |
| <b>Net cash received from financing activities</b>        |       | <b>199,857</b>                          | <b>547,604</b>                          |
| Net increase in cash and cash equivalents                 |       | 161,543                                 | 84,390                                  |
| The effect of changes in foreign exchange rates           |       | (22,077)                                | —                                       |
| Cash and cash equivalents at the beginning of the year    | 10    | 105,698                                 | 21,308                                  |
| <b>Cash and cash equivalents at the end of the year</b>   | 10    | <b>245,164</b>                          | <b>105,698</b>                          |

*The notes on pages 5 – 24 are an integral part of these financial statements.*

General Director

Parikh V.G.

Chief Accountant

Saimbetova M.A.

May 15, 2017

Almaty, the Republic of Kazakhstan



## **THE PHARMA NETWORK LLP**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2017**

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#### **1. GENERAL INFORMATION**

The Pharma Network LLP (the “Company”) was registered with Almaty city department of Ministry of Justice of the Republic of Kazakhstan.

As at March 31, 2017 and 2016 the sole owner of the Company was Alkem Laboratories Limited, India (the “Parent Company”). The Parent’s shares are listed on the Bombay Stock Exchange Limited and the National Stock Exchange of India Limited.

The main activity of the Company is purchase and subsequent wholesale of medicine.

The Company has a license #FD64600532KA dated November 29, 2012 issued by the State Institution Department of the Control Committee for Medical and Pharmaceutical Activities to engage in pharmaceutical activity.

Legal address of the Company is: 26B, Konayev St., Almaty, the Republic of Kazakhstan.

The number of employees of the Company as at March 31, 2017 was 54 people (2016: 49 people).

#### **2. SIGNIFICANT ACCOUNTING POLICIES**

##### **Basis of preparation**

The financial statements have been prepared on the historical cost basis except for certain financial instruments.

The financial statements of the Company were presented in Kazakhstani Tenge (hereinafter - “Tenge”). The functional and presentation currency of the financial statements of the Company is Tenge. All amounts in these financial statements are rounded to thousand unless otherwise stated.

##### **Going concern basis**

These financial statements have been prepared in accordance with IFRS, based on the assumption that the Company will adhere to the principle of going concern. This assumes sale of assets and settlement of liabilities in the normal course of business in the foreseeable future.

Management of the Company does not have any intention or necessity to liquidate or significantly reduce the size of its business and believes that the Company will be able to continue as going concern.

##### **Accrual basis**

These financial statements were prepared on the accrual basis. The accrual basis assumes recognition of the results of business operations, as well as events when they occurred, regardless of the time of payment. Transactions and events are recorded in the accounting and are included in the financial statements for the periods to which they relate.

##### **Recognition of the elements of financial statements**

These financial statements include all assets, liabilities, equity, income and expenses, which are the elements of the financial statements. All elements of financial statements were presented on a linear basis. The inclusion of several elements of the financial statements into a single item is made considering their characteristics (functions) in the Company’s operations. Each material class of similar items was presented separately in the financial statements. Items of a dissimilar nature or function were presented separately unless they are immaterial.

##### **Foreign currency translation**

In preparing the financial statements, transactions in foreign currencies (other than the functional currency) are carried at the exchange rates prevailing at the transaction date. Monetary items denominated in foreign currencies are translated at the exchange rates prevailing at the reporting date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated at the exchange rates prevailing at the date of determination of fair value. Non-monetary items measured at historical cost, denominated in foreign currency, are not retranslated.



## THE PHARMA NETWORK LLP

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2017 (CONTINUED)

#### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Foreign currency translation (continued)

Exchange differences on monetary items, which arise as a result of changes in the exchange rates, are recognized in profit or loss in the period when they arise, except for exchange differences on loans in foreign currencies attributable to construction-in-progress items intended for future use for production purposes, which included in the cost of such assets as adjustment of interest expenses on loans in foreign currencies.

Weighted average exchange rates prevailing on Kazakhstan Stock Exchange (hereinafter - "KASE") are used as official exchange rates in the Republic of Kazakhstan.

As at March 31, 2017 currency exchange rates of KASE used by the Company in preparing the financial statements are as follows: 1 US Dollar was equal to 314.79 Tenge, 1 Indian Rupee was equal to 4.85 Tenge (March 31, 2016: 343.62 Tenge per 1 USD Dollar, 5.19 Tenge per 1 Indian Rupee).

##### Property, plant and equipment

An item is recognized as property, plant and equipment when it is highly probable that future economic benefits associated with the item will flow to the Company, and the actual acquisition cost of the asset can be measured reliably.

Historical cost of property, plant and equipment includes the purchase price as well as import duties and other non-recoverable taxes, borrowing costs which are directly attributable to construction of long-term projects, if recognition criteria are met, also direct costs attributable to bringing the asset to the working condition and delivery to the place of its intended use.

Subsequent costs relating to an item of property, plant and equipment, which has been already recognized, increase its carrying amount when it is highly probable that the Company will receive future economic benefits, which exceed the initially calculated standard parameters for the existing asset.

All other costs are recognized as expenses in the reporting period when they are incurred.

After initial recognition as an asset, the item of property, plant and equipment is stated at historical cost less depreciation and impairment losses accumulated subsequently.

The useful life of property, plant and equipment is determined taking into account the expected use of an asset and may be shorter than its economic life. The useful life of property, plant and equipment is a matter of judgment based on the experience with similar assets.

The Company determines the following average useful lives for property, plant and equipment:

| Category of property, plant and equipment | Useful life |
|---|-------------|
| Office equipment                          | 4 years     |
| Computer hardware                         | 2.5 years   |
| Furniture and fixtures                    | 5-6 years   |
| Vehicles                                  | 3-6 years   |

The useful life of items of property, plant and equipment and their residual value may be revised by management as necessary, considering all factors, which influence future economic benefits and the Company's intention with respect to the use of property, plant and equipment.

Depreciation of property, plant and equipment is recognized in the statement of profit or loss and other comprehensive income and is calculated using the straight-line method over the expected useful lives of the assets.

Upon sale or disposal of asset, its cost and accumulated depreciation are eliminated from the respective accounts, and any gain or loss resulted from its disposal are included in the statement of profit or loss and other comprehensive income.



## **THE PHARMA NETWORK LLP**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2017 (CONTINUED)**

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#### **2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **Inventories**

Inventories are initially recognized at purchase cost, which includes the purchase price, import duties and other non-recoverable taxes, and transportation expenses, handling and other costs directly attributable to the purchase of inventories.

Weighted average costing method is used for measuring cost of inventories, under which the cost of each item is determined from the weighted average cost of similar items at the beginning of a period and the cost of similar items purchased during the period.

The average amount is calculated on a periodic basis, as each additional goods are received.

After initial recognition, inventories are measured at the lower of cost or net realizable value. The amount of partial write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the reporting period when the write-down or loss occur. The amount of any reversal of the write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction of previously recognized expenses in the period in which the reversal occurs.

Inventories are written down to net realizable value item by item.

##### **Financial instruments**

Financial assets and financial liabilities are recognized using the transaction date principle.

Financial assets and financial liabilities are initially measured at cost, which is determined as fair value of consideration received or paid, including or deducting transaction costs directly attributable to the transaction, and are subsequently measured at fair value or amortized cost.

Fair value is generally determined by reference to the official market quotes. If quoted market prices are not available, fair value is determined using conventional methods of assessment, such as discounting future cash flows that are based on market data.

Amortized cost is calculated using the effective interest rate method. The effective interest rate is the discount rate of estimated future cash receipts and payments (including all fees received or paid on debt instrument that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the carrying amount of the debt instrument at initial recognition.

##### **Classification and subsequent measurement of financial assets**

For the purpose of subsequent measurement, financial assets, except for those identified and recognized as hedging instruments, are classified into the following categories at initial recognition:

- loans and receivables;
- financial assets measured at fair value through profit or loss (FVTPL);
- held-to-maturity (HTM) investments;
- available-for-sale (AFS) financial assets.

All financial assets except those measured at FVTPL to be assessed for impairment at least at each reporting date to determine objective evidence that a financial asset or group of financial assets is impaired. To assess impairment, different criteria for each category of financial assets which are described below are applied.

All income and expenses relating to financial assets which are recognized in profit or loss for the period are presented in finance costs, finance income or other finance accounts, except for impairment of receivables which is subject to disclosure in general and administrative expenses.



NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2017 (CONTINUED)

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial assets**

Financial assets of the Company include cash and cash equivalents and accounts receivable.

*Cash and cash equivalents*

Cash and cash equivalents include cash on current accounts in banks and cash on hand.

*Accounts receivable*

Accounts receivable are recognized in the statement of financial position at the invoice amount receivable, net of provision for doubtful debts.

*Derecognition*

A financial asset (or, where applicable a part of a financial asset or a part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- either (a) the Company has transferred substantially all the risks and rewards from the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards from the asset, but has transferred control over the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered a 'pass-through' arrangement, and has neither transferred nor retained substantially all the risks and rewards from the asset nor transferred control over the asset, the new asset is recognized to the extent of the Company's continuing involvement in the transferred asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of two values: the initial carrying amount of the asset or the maximum amount of consideration that the Company could be required to pay.

*Impairment of financial assets*

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired only when there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event'), which has an impact on expected future cash flows from the financial asset or the group of financial assets that can be reliably measured. Evidences of impairment may include indications that the debtor or group of debtors are experiencing significant financial difficulties, cannot serve its debt or delinquency in payment of interest or debt principal amount, as well as the likelihood that they will enter bankruptcy or other type of financial reorganization. In addition, such evidences include observable data indicating the presence of a measurable decrease in estimated future cash flows of financial instrument such as change in volume of past due debts or economic conditions that correlate with failure to fulfill its obligations to pay the debts. Reversal of previously recognized impairment loss is recorded when the decrease in impairment loss can be objectively related to the event occurring after decrease in cost.

For financial assets carried at amortized cost, the amount of impairment is represented by the difference between carrying amount of the asset and present value of estimated future cash flows, discounted at the original effective interest rate.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2017 (CONTINUED)**

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial assets (continued)**

*Impairment of financial asset (continued)*

Carrying value of financial asset is reduced by impairment loss directly for all financial assets, except for accounts receivable, carrying amount of which is reduced through use of an allowance for doubtful debts. The Company accrues the allowance for doubtful debts in case of nonpayment of receivables within terms specified in a contract.

Allowance for doubtful debts is reviewed periodically and, if there is a need for adjustments, the corresponding amounts are recognized in the statement of profit or loss and other comprehensive income for the period in which the need was revealed. Bad debts are written off as it is defined at the expense of the provision.

If during the next year amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying value of the asset at the date of the reversal of the impairment loss does not exceed the amount which would have been recognized as amortized cost if no impairment had been recognized.

**Financial liabilities**

Financial liabilities of the Company include accounts payable and loans.

*Accounts payable*

Accounts payable are initially measured at fair value and subsequently at amortized cost using the effective interest rate method.

*Loans*

After initial recognition, interest bearing loans are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of profit or loss and other comprehensive income when the liabilities are derecognized as well as through the effective interest rate amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance costs in the statement of profit or loss and other comprehensive income.

*Derecognition*

A financial liability is derecognized in the statement of financial position when the liability is settled, cancelled or expired.

*Offsetting*

Financial assets and financial liabilities may be offset and the net amount may be disclosed in the statement of financial position only when there is a legal enforceable right for set off recognized amounts and the Company intends either to offset or to realize the asset and settle the liability simultaneously.

**Fair value of financial instruments**

Fair value of financial instruments traded in active markets is determined at each reporting date, based on quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, fair value is determined using appropriate valuation techniques. Such techniques may include using prices of recent arm's length market transactions, using current fair value of similar instruments; discounted cash flow analysis or other valuation models.



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2017 (CONTINUED)**

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Income taxes**

Income taxes have been provided for in these financial statements in accordance with Kazakhstani legislation enacted or substantively enacted by the reporting date. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the state budget in respect of taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within other operating expenses.

Deferred income tax is provided using the liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences are reversed or the tax loss carry forwards are utilized. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profits will be available against which the deductions can be utilized.

**Deductions from employees' remuneration**

The Company pays a social tax to the state budget of the Republic of Kazakhstan in accordance with the tax laws of the Republic of Kazakhstan at a flat rate of 11% of salaries.

The Company withholds up to 10% from the salaries of its employees as contributions to the State accumulative pension fund JSC. The Company does not have any other pension obligations.

The Company also withholds a personal income tax from the salaries of its employees at a flat rate of 10% and pays to the state budget of the Republic of Kazakhstan.

**Recognition of revenue and expenses**

*Revenue*

Revenue is recognized at the fair value of compensation received or receivable.

Revenue is recognized if:

- the risks and benefits associated with the ownership of goods are transferred to the customers;
- the Company reserves neither management functions, to the extent they are usually associated with the ownership of goods, nor actual control over the sold goods;
- it is highly probable that the transaction will bring economic benefits;
- the amount of income can be reliably measured; the amount of incurred or future expenses attributable to the transaction can be reliably determined.

*Expenses*

Expenses are recognized at the moment of actual receipt of relevant goods or services, regardless of when cash was paid and are recorded in financial statements in the period to which they relate.

**Events after reporting period**

Events occurred after the end of the year, which provide additional information about the position of the Company as at the date of the statement of financial position (adjusting events) are reflected in the financial statements. Events occurred after the end of the year that are not adjusting events are disclosed in notes if they are significant.



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2017 (CONTINUED)**

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Related party transactions**

Per IAS 24 “Related party disclosure”, the Company discloses the nature of the related party relationships as well as information about those transactions and outstanding account balances necessary for an understanding of the potential effect of the relationships on the financial statements.

In these financial statements related parties are those that can control or exercise significant influence over operating and financial decisions of other party. When deciding on whether the parties are related, a substance of the relationship is considered, and not merely its legal form.

**3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES**

Preparation of financial statements in accordance with IFRS requires the application of judgments by management of the Company and use of subjective estimates and assumptions that affect recorded amounts of assets and liabilities and disclosure of information about potential assets and liabilities at the reporting date of financial statements and recorded amounts of income and expenses during the reporting period. Even though the estimates are based on historical knowledge and other significant factors, events or actions may arise in such a manner, so actual results may differ from these estimations.

Key assumptions for future and other key sources of estimation of uncertainty at the reporting date that have a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next reporting period were presented below:

*Taxation*

Various Kazakhstani laws and regulations are not always clearly stated. There may be cases of divergence in opinion between regional and national tax authorities. Thus, in the case of accrual of additional charges of taxes by tax authorities, the existing fines and penalties are severe: fines comprise 50% of the amount of additionally accrued taxes and penalties are at 2.5 of the refinancing rate of the National Bank of the Republic of Kazakhstan of the amount of untimely paid tax. As a result, fines and penalties may exceed the amount of additional taxes.

Because of the uncertainties mentioned above, potential amount of taxes, fines and penalties, if such charges arise, may exceed the amount expensed to date and accrued at the reporting date. Differences between estimates and the amounts actually paid, if any, could have a material effect on future operating results.

*Useful lives of property, plant and equipment*

The depreciation of property, plant and equipment is calculated over their useful lives. Useful life is determined based on management’s estimate of the period, during which the assets will generate income. Useful life is reviewed periodically to determine whether the continued use of assets makes sense.

**4. STANDARDS AND INTERPRETATIONS**

**Standards and interpretations adopted this year**

The Company adopted the following new and revised standards during the reporting year:

- Annual improvements to IFRS, period 2012–2014;
- Amendments to IAS 1 “Presentation” – Disclosure Initiative;
- Amendments to IAS 16 “Property, Plant and Equipment” – Clarification of Acceptable Methods of Depreciation and Amortisation;
- IFRS 14 “Regulatory Deferral Accounts”.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2017 (CONTINUED)**

**4. STANDARDS AND INTERPRETATIONS (CONTINUED)**

**Standards and interpretations adopted this year (continued)**

Management believes that the adoption of all new and revised IFRS, as well as respective amendments and Interpretations, did not have significant impact on the presented in the financial statements amounts of assets and liabilities, income and expenses, the results of business operations and changes in equity, as well as the notes to the financial statements.

**New and revised IFRS – issued but not yet effective**

The Company did not adopt the following new and revised IFRS and Interpretations (issued, but not yet effective):

- IFRS 9 “Financial instruments”<sup>1</sup>;
- IFRS 15 “Revenue from Contracts with Customers”<sup>1</sup>;
- IFRS 16 “Leases”<sup>2</sup>.

*1 Effective for annual periods beginning on or after January 1, 2018, with permission of early adoption.*

*2 Effective for annual periods beginning on or after January 1, 2019, with permission of early adoption.*

Management of the Company believes that the application of IFRS 9 “Financial instruments” in the future may have significant impact on amounts of financial assets and liabilities of the Company. However, there is no possibility to assess the impact of application of IFRS 9 “Financial instruments” until detailed analysis is performed.

Management of the Company believes that the application of IFRS 15 “Revenue from Contracts with Customers” in the future may have significant impact on amounts and period of revenue recognition. However, there is no possibility to assess the impact of application of IFRS 15 “Revenue from Contracts with Customers” until detailed analysis is performed.

Management of the Company believes that the application of IFRS 16 “Leases” in the future may have significant impact on amounts and period of revenue recognition. However, there is no possibility to assess the impact of application of IFRS 16 “Leases” until detailed analysis is performed.

**5. RECLASSIFICATION**

**Reclassification**

In the statement of profit or loss and other comprehensive income for the previous year ended March 31, 2016, the Company made a reclassification of general and administrative expenses and selling expenses to conform to the presentation of the profit and loss and other comprehensive income for the year ended March 31, 2017, as follows:

| In thousands of Tenge  | For the year<br>ended March 31,<br>2016 (before the<br>change) | Reclassification | For the year<br>ended March 31,<br>2016 (after the<br>change) |
|--|--|------------------|---|
| <b>Statement of profit or loss and other comprehensive income, for<br/>the year ended March 31, 2016</b> |  |                  |   |
| General and administrative expenses  | 322,960  | (271,840)        | <b>51,120</b>   |
| Selling expenses   | —  | 271,840          | <b>271,840</b>  |



# THE PHARMA NETWORK LLP

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2017 (CONTINUED)

### 6. PROPERTY, PLANT AND EQUIPMENT

The movement in property, plant and equipment for the years ended March 31, 2017 and 2016 are presented below:

| In thousands of Tenge             | Furniture and fixtures | Vehicles        | Office equipment | Total           |
|-----------------------------------|------------------------|-----------------|------------------|-----------------|
| <b>Cost:</b>                      |                        |                 |                  |                 |
| <b>As at March 31, 2015</b>       | <b>357</b>             | <b>44,572</b>   | <b>1,398</b>     | <b>46,327</b>   |
| Additions                         | 1,218                  | 26,319          | 1,619            | 29,156          |
| Disposals                         | (32)                   | —               | —                | (32)            |
| <b>As at March 31, 2016</b>       | <b>1,543</b>           | <b>70,891</b>   | <b>3,017</b>     | <b>75,451</b>   |
| Additions                         | 816                    | 29,940          | 1,078            | 31,834          |
| Disposals                         | —                      | (1,019)         | —                | (1,019)         |
| <b>As at March 31, 2017</b>       | <b>2,359</b>           | <b>99,812</b>   | <b>4,095</b>     | <b>106,266</b>  |
| <b>Accumulated depreciation:</b>  |                        |                 |                  |                 |
| <b>As at March 31, 2015</b>       | <b>(66)</b>            | <b>(8,169)</b>  | <b>(382)</b>     | <b>(8,617)</b>  |
| Charge for the year (Note 18, 19) | (134)                  | (16,484)        | (714)            | (17,332)        |
| Depreciation on disposal          | 11                     | —               | —                | 11              |
| <b>As at March 31, 2016</b>       | <b>(189)</b>           | <b>(24,653)</b> | <b>(1,096)</b>   | <b>(25,938)</b> |
| Charge for the year (Note 18, 19) | (405)                  | (21,214)        | (663)            | (22,282)        |
| Depreciation on disposal          | —                      | 275             | —                | 275             |
| <b>As at March 31, 2017</b>       | <b>(594)</b>           | <b>(45,592)</b> | <b>(1,759)</b>   | <b>(47,945)</b> |
| <b>Net book value:</b>            |                        |                 |                  |                 |
| <b>As at March 31, 2017</b>       | <b>1,765</b>           | <b>54,220</b>   | <b>2,336</b>     | <b>58,321</b>   |
| <b>As at March 31, 2016</b>       | <b>1,354</b>           | <b>46,238</b>   | <b>1,921</b>     | <b>49,513</b>   |

As at March 31, 2017 and 2016 the Company did not have any property, plant and equipment pledged as collateral.

As at March 31, 2017 the amount of fully depreciated but still in use property, plant and equipment was 1,733 thousand tenge (March 31, 2016: 218 thousand tenge).

### 7. INVENTORIES

Inventories as at March 31, 2017 and 2016 are presented below:

| In thousands of Tenge                                    | March 31, 2017 | March 31, 2016 |
|--|----------------|----------------|
| Goods for sale (Medicines)                               | 94,224         | 143,573        |
| Other inventories  | 962            | —              |
| Less: Allowance for obsolete and slow-moving inventories | (13,141)       | (2,810)        |
|  | <b>82,045</b>  | <b>140,763</b> |

The movement of provision for obsolete inventories for the years ended March 31, 2017 and 2016 is presented below:

| In thousands of Tenge          | For the year ended March 31, 2017 | For the year ended March 31, 2016 |
|--------------------------------|-----------------------------------|-----------------------------------|
| As at April 1                  | 2,810                             | —                                 |
| Accrued for the year (Note 19) | 10,331                            | 2,810                             |
| <b>As at March 31</b>          | <b>13,141</b>                     | <b>2,810</b>                      |

**THE PHARMA NETWORK LLP**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2017 (CONTINUED)**

**8. ACCOUNTS RECEIVABLE**

Accounts receivable as at March 31, 2017 and 2016 are presented below:

| In thousands of Tenge              | March 31,<br>2017 | March 31,<br>2016 |
|------------------------------------|-------------------|-------------------|
| Trade accounts receivable          | 294,064           | 257,724           |
| Other accounts receivable          | 1,876             | 420               |
| Less: allowance for doubtful debts | (7,500)           | —                 |
|                                    | <b>288,440</b>    | <b>258,144</b>    |

As at March 31, 2017 and 2016 all accounts receivable were denominated in Tenge.

The movement of allowance for doubtful accounts for the years ended March 31, 2017 and 2016 are presented below:

| In thousands of Tenge          | For the year<br>ended March 31,<br>2017 | For the year<br>ended March 31,<br>2016 |
|--------------------------------|---|---|
| As at April 1                  | —                                       | —                                       |
| Accrued for the year (Note 19) | 7,500                                   | —                                       |
| <b>As at March 31</b>          | <b>7,500</b>                            | <b>—</b>                                |

**9. ADVANCES PAID**

Advances paid as at March 31, 2017 and 2016 are presented below:

| In thousands of Tenge              | March 31,<br>2017 | March 31,<br>2016 |
|------------------------------------|-------------------|-------------------|
| Advances paid for services         | 5,922             | —                 |
| Advances paid for goods            | 1,863             | 5,569             |
| Less: allowance for doubtful debts | —                 | (1,330)           |
|                                    | <b>7,785</b>      | <b>4,239</b>      |

As at March 31, 2017 and 2016 advances paid were presented primarily by payments for goods and services.

The movement of allowance for doubtful accounts for the years ended March 31, 2017 and 2016 are presented below:

| In thousands of Tenge          | For the year<br>ended March 31,<br>2017 | For the year<br>ended March 31,<br>2016 |
|--------------------------------|---|---|
| As at April 1                  | 1,330                                   | —                                       |
| Accrued for the year (Note 19) | 1,417                                   | 1,330                                   |
| Write off                      | (2,747)                                 | —                                       |
| <b>As at March 31</b>          | <b>—</b>                                | <b>1,330</b>                            |

**10. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents as at March 31, 2017 and 2016 are presented below:

| In thousands of Tenge | March 31,<br>2017 | March 31,<br>2016 |
|-----------------------|-------------------|-------------------|
| Cash in transit       | 232,866           | —                 |
| Cash on bank accounts | 11,940            | 105,254           |
| Cash on hand          | 358               | 444               |
|                       | <b>245,164</b>    | <b>105,698</b>    |



THE PHARMA NETWORK LLP

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2017 (CONTINUED)

10. CASH AND CASH EQUIVALENTS (CONTINUED)

As at March 31, 2017 and 2016 cash was denominated in the following currencies:

| In thousands of Tenge | March 31,<br>2017 | March 31,<br>2016 |
|-----------------------|-------------------|-------------------|
| US Dollar             | 232,866           | 66,372            |
| Tenge                 | 12,298            | 39,326            |
|                       | <b>245,164</b>    | <b>105,698</b>    |

11. CHARTER CAPITAL

Charter capital as at March 31, 2017 and 2016 the is presented as follows:

| In thousands of Tenge   | March 31, 2017 |         | March 31, 2016 |         |
|-------------------------|----------------|---------|----------------|---------|
|                         | Share          | Amount  | Share          | Amount  |
| Alkem Laboratories Ltd. | 100%           | 832,162 | 100%           | 547,767 |
|                         | 100%           | 832,162 | 100%           | 547,767 |

During the year ended March 31, 2017 Alkem Laboratories Limited contributed to the charter capital the amount of 284,395 thousand tenge (during the year ended March 31, 2016: 547,605 thousand tenge).

During the year ended March 31, 2017 the Company did not declare and pay dividends (During the year ended March 31, 2016: nil).

12. LOANS PAYABLE

Loans payable as at March 31, 2017 and 2016 are presented below:

| In thousands of Tenge    | Notes | Currency | Interest rate | In thousands of Tenge |                |
|--------------------------|-------|----------|---------------|-----------------------|----------------|
|                          |       |          |               | March 31, 2017        | March 31, 2016 |
| Principle amount payable |       | USD      | 3%-9%         | –                     | 73,758         |
| Accrued interest         |       |          |               | –                     | 7,897          |
|                          | 22    |          |               | –                     | 81,655         |

For the year ended March 31, 2017 the Company recognized finance costs in the amount of 3,445 thousand tenge (for the year ended March 31, 2016: 4,410 thousand tenge).

During the year ended March 31, 2017 the Company fully repaid its loans to the Parent Company.

13. ACCOUNTS PAYABLE

Accounts payable as at March 31, 2017 and 2016 are presented below:

| In thousands of Tenge                     | Notes | March 31,<br>2017 | March 31,<br>2016 |
|---|-------|-------------------|-------------------|
| Trade accounts payable to third parties   |       | 4,329             | 2,139             |
| Trade accounts payable to related parties | 22    | –                 | 171,442           |
|   |       | <b>4,329</b>      | <b>173,581</b>    |

Amounts of accounts payable as at March 31, 2017 and 2016 were denominated in the following currencies:

| In thousands of Tenge | March 31,<br>2017 | March 31,<br>2016 |
|-----------------------|-------------------|-------------------|
| Tenge                 | 4,329             | 2,139             |
| US Dollars            | –                 | 171,442           |
|                       | <b>4,329</b>      | <b>173,581</b>    |

**THE PHARMA NETWORK LLP****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2017 (CONTINUED)****14. OTHER TAXES PAYABLE**

Other taxes as at March 31, 2017 and 2016 are presented below:

| In thousands of Tenge | March 31,<br>2017 | March 31,<br>2016 |
|-----------------------|-------------------|-------------------|
| Individual income tax | 3,788             | 1,353             |
| Social tax            | 3,286             | 1,220             |
| Withholding tax       | 2,746             | —                 |
| Social contribution   | 569               | 411               |
|                       | <b>10,389</b>     | <b>2,984</b>      |

**15. PROVISIONS**

Provisions as at March 31, 2017 and 2016 are presented below:

| In thousands of Tenge           | March 31,<br>2017 | March 31,<br>2016 |
|---------------------------------|-------------------|-------------------|
| Provision for sales commissions | 12,407            | —                 |
| Provision for unused vacation   | 9,356             | 16,285            |
| Provision for audit             | 966               | —                 |
| Other provision                 | 1,529             | 451               |
|                                 | <b>24,258</b>     | <b>16,736</b>     |

**16. OTHER CURRENT LIABILITIES**

Other current liabilities as at March 31, 2017 and 2016 are presented below:

| In thousands of Tenge | March 31,<br>2017 | March 31,<br>2016 |
|-----------------------|-------------------|-------------------|
| Pension contribution  | 2,293             | 1,098             |
| Salaries payable      | —                 | 12,097            |
|                       | <b>2,293</b>      | <b>13,195</b>     |

**17. REVENUE**

The revenue for the years ended March 31, 2017 and 2016 is presented below:

| In thousands of Tenge      | For the year<br>ended March 31,<br>2017 | For the year<br>ended March 31,<br>2016 |
|----------------------------|---|---|
| Revenue from sale of goods | 1,026,142                               | 771,965                                 |
|                            | <b>1,026,142</b>                        | <b>771,965</b>                          |

For the year ended March 31, 2017 revenue from 3 major customers amounted to 36% from total revenue (for the year ended March 31, 2016: 34%). The Company's revenue is generated in the territory of the Republic of Kazakhstan.



**THE PHARMA NETWORK LLP**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2017 (CONTINUED)**

**18. SELLING EXPENSES**

Selling expenses for the years ended March 31, 2017 and 2016 are presented below:

| In thousands of Tenge           | For the year<br>ended March 31,<br>2017 | For the year<br>ended March 31,<br>2016 |
|---------------------------------|---|---|
| Payroll and related taxes       | 307,696                                 | 171,152                                 |
| Marketing expenses              | 51,622                                  | 48,599                                  |
| Depreciation                    | 21,214                                  | 16,624                                  |
| Transportation expenses         | 17,181                                  | 9,991                                   |
| Business trips                  | 14,756                                  | 10,466                                  |
| Legal and professional services | 6,241                                   | 4,913                                   |
| Rent                            | 68                                      | 46                                      |
| Other expenses                  | 12,240                                  | 10,049                                  |
|                                 | <b>431,018</b>                          | <b>271,840</b>                          |

**19. GENERAL AND ADMINISTRATIVE EXPENSES**

General and administrative expenses for the years ended March 31, 2017 and 2016 are presented below:

| In thousands of Tenge                                    | Notes | For the year<br>ended March 31,<br>2017 | For the year<br>ended March 31,<br>2016 |
|--|-------|---|---|
| Payroll and related taxes                                |       | 53,919                                  | 7,901                                   |
| Rent   |       | 19,434                                  | 15,971                                  |
| Accrual for allowance for obsolete and slow-moving goods | 7     | 10,331                                  | 2,810                                   |
| Accrual for allowance for doubtful debts                 | 8,9   | 8,917                                   | 1,330                                   |
| Legal and professional services                          |       | 7,074                                   | 3,765                                   |
| Communication  |       | 2,511                                   | 1,895                                   |
| Representation expenses                                  |       | 1,979                                   | —                                       |
| Transportation expenses                                  |       | 1,561                                   | 1,229                                   |
| Depreciation   |       | 1,098                                   | 769                                     |
| Insurance  |       | 583                                     | 146                                     |
| Business trips   |       | 535                                     | —                                       |
| Other expenses   |       | 12,431                                  | 15,304                                  |
|  |       | <b>120,373</b>                          | <b>51,120</b>                           |

**20. OTHER OPERATING INCOME/ EXPENSES**

Other operating income for the years ended March 31, 2017 and 2016 are presented below:

| In thousands of Tenge      | For the year<br>ended March 31,<br>2017 | For the year<br>ended March 31,<br>2016 |
|----------------------------|---|---|
| Other income, net          | 4,157                                   | 592                                     |
| Gain on disposal of assets | —                                       | 7                                       |
| Insurance reimbursement    | —                                       | 433                                     |
|                            | <b>4,157</b>                            | <b>1,032</b>                            |

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2017 (CONTINUED)**

**20. OTHER OPERATING INCOME/ EXPENSES (CONTINUED)**

Other operating expenses for the years ended March 31, 2017 and 2016 are presented below:

| In thousands of Tenge      | For the year<br>ended March 31,<br>2017 | For the year<br>ended March 31,<br>2016 |
|----------------------------|---|---|
| Foreign exchange loss, net | (13,695)                                | (359,242)                               |
| Other expenses             | —                                       | (8,558)                                 |
| Loss on disposal of assets | (244)                                   | —                                       |
|                            | <b>(13,939)</b>                         | <b>(367,800)</b>                        |

**21. INCOME TAX**

The Company is subject to payment corporate income tax at the prevailing statutory rate of 20%. The income tax benefit/expenses is presented below:

| In thousands of Tenge               | For the year<br>ended March 31,<br>2017 | For the year<br>ended March 31,<br>2016 |
|-------------------------------------|---|---|
| Current income tax expense          | —                                       | 3,907                                   |
| Deferred income tax benefit         | (40,552)                                | —                                       |
| <b>Income tax (benefit)/expense</b> | <b>(40,552)</b>                         | <b>3,907</b>                            |

Reconciliation of theoretical income tax expense applicable to profit before income tax at the statutory income tax rate to actual income tax expense is presented below:

| In thousands of Tenge  | For the year<br>ended March 31,<br>2017 | For the year<br>ended March 31,<br>2016 |
|--|---|---|
| Profit /(loss) before income tax                               | 92,912                                  | (187,379)                               |
| Statutory tax rate   | 20%                                     | 20%                                     |
| <b>Income tax at statutory rate</b>                            | <b>18,582</b>                           | <b>(37,476)</b>                         |
| <b>Tax effect of permanent differences</b>                     |   |   |
| Permanent differences  | 5,074                                   | 4,237                                   |
| Change in provision for unrecognized deferred income tax asset | (64,208)                                | 37,146                                  |
| <b>Income tax (benefit)/expense</b>                            | <b>(40,552)</b>                         | <b>3,907</b>                            |

Balances of deferred taxes, calculated by applying the statutory tax rates prevailing at the date of statement of financial position to the temporary differences between tax base of assets and liabilities and the amounts presented in the financial statements include the following as at March 31, 2017 and 2016:

| In thousands of Tenge                              | For the year<br>ended March 31,<br>2017 | For the year<br>ended March 31,<br>2016 |
|--|---|---|
| <b>Deferred income tax assets</b>                  |   |   |
| Tax loss carried forward                           | 31,970                                  | 60,916                                  |
| Allowance for obsolete and slow-moving inventories | 2,628                                   | 562                                     |
| Provision for sales commission                     | 2,481                                   | —                                       |
| Unused vacation reserve                            | 1,871                                   | 3,257                                   |
| Other provisions                                   | 925                                     | 90                                      |
| Tax liabilities                                    | 657                                     | 244                                     |
| Provision for audit                                | 193                                     | —                                       |
| <b>Total deferred income tax assets</b>            | <b>40,725</b>                           | <b>65,069</b>                           |



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2017 (CONTINUED)**

**21. INCOME TAX (CONTINUED)**

| In thousands of Tenge                                | For the year<br>ended March 31,<br>2017 | For the year<br>ended March 31,<br>2016 |
|--|---|---|
| <b>Deferred income tax liabilities</b>               |   |   |
| Property plant and equipment                         | (173)                                   | (861)                                   |
| <b>Total deferred income tax liabilities</b>         | <b>(173)</b>                            | <b>(861)</b>                            |
| Net deferred income tax assets/(liabilities)         | <b>40,552</b>                           | <b>64,208</b>                           |
| Provision for unrecognized deferred income tax asset | –                                       | (64,208)                                |
| <b>Net deferred income tax assets</b>                | <b>40,552</b>                           | <b>–</b>                                |

**22. RELATED PARTY TRANSACTIONS**

Related parties include the owners, entities under common control, key management personnel of the Company and entities in which a significant share is directly or indirectly owned by key management personnel and/or the owners of the Company.

**Terms and conditions of related party transactions**

Transactions with related parties were conducted on terms agreed between the parties, which were not necessarily carried out at market terms. Outstanding balances at year end are unsecured, interest bearing, and payments are made in cash. For the year ended March 31, 2017, the Company did not recognize any impairment of accounts receivable attributable to debts from related parties (2016: nil). Such assessment is made at the end of each reporting period by means of examining the financial position of the related party and the market, in which it operates.

Significant related parties' balances and transactions for the year ended March 31, 2017 and 2016 are presented below:

**Purchases**

| In thousands of Tenge      | For the year<br>ended March 31,<br>2017 | For the year<br>ended March 31,<br>2016 |
|----------------------------|---|---|
| Alkem Laboratories Limited | 269,590                                 | 799,948                                 |
|                            | <b>269,590</b>                          | <b>799,948</b>                          |

**Finance costs**

| In thousands of Tenge      | For the year<br>ended March 31,<br>2017 | For the year<br>ended March 31,<br>2016 |
|----------------------------|---|---|
| Alkem Laboratories Limited | 3,445                                   | 4,410                                   |
|                            | <b>3,445</b>                            | <b>4,410</b>                            |

**Accounts payable**

| In thousands of Tenge      | Notes | For the year<br>ended March 31,<br>2017 | For the year<br>ended March 31,<br>2016 |
|----------------------------|-------|---|---|
| Alkem Laboratories Limited | 13    | –                                       | 171,442                                 |
|                            |       | <b>–</b>                                | <b>171,442</b>                          |

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2017 (CONTINUED)**

**22. RELATED PARTY TRANSACTIONS**

**Loans and interest payable**

| In thousands of Tenge                       | Notes | For the year<br>ended March 31,<br>2017 | For the year<br>ended March 31,<br>2016 |
|---|-------|---|---|
| Loans payable to Alkem Laboratories Limited | 12    | –                                       | 73,758                                  |
| Interest payable                            | 12    | –                                       | 7,897                                   |
|   |       | –                                       | <b>81,655</b>                           |

*Compensation to Key Management Personnel*

Key management personnel include General Director, Deputy General Director, Commercial Director, Chief Accountant, a total of 4 people as at March 31, 2017 (2016: 3 people). Total compensation to key management personnel included in general and administrative expenses of the statement of profit or loss and other comprehensive income amounted to 136,005 thousand Tenge for the year ended March 31, 2017 (2016: 35,413 thousand Tenge). Compensation to key management personnel consist of salaries and other benefits in accordance with the Company's policy.

**23. COMMITMENTS AND CONTINGENCIES**

**Operating environment**

Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government.

The Kazakhstan economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Kazakhstan. While the Kazakhstan government has introduced a range of stabilization measures aimed at providing liquidity and supporting debt refinancing for Kazakhstan banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Company and its counterparties, which could affect the Company's financial position, results of operations and business prospects.

Considering that the economy of Kazakhstan largely depends on exports of oil and other mineral resources, the world prices for which have fallen significantly in recent years, especially for hydrocarbons, there is a currently observable decline in the economic development of the country. In addition, the currently ongoing economic sanctions against Russia indirectly affect the economy of Kazakhstan, given the large economic relations between these countries. As a consequence of these negative impacts, on August 20, 2015, the National Bank and the Government of the Republic of Kazakhstan decided to move to a free floating exchange rate, after that the national currency tenge significantly devalued against major world currencies.

While management of the Company believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances. However, unexpected further deterioration in the areas described above could negatively affect the results and financial position of the Company. It is currently impossible to determine what the exact effect will be.

**Taxation**

The Government of the Republic of Kazakhstan continues to reform the business and commercial infrastructure in its transition to a market economy. As a result, laws and regulations regulating the Company's operations continue to change rapidly. These changes are characterized by insufficient drafting, availability of different interpretations and arbitrary application by the authorities.



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2017 (CONTINUED)**

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**23. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**Taxation (continued)**

Taxes are reviewed by several bodies that are legally entitled to impose fines and penalties. The absence of reference to the regulations in Kazakhstan results in a lack of clarity and integrity of regulations. Frequent contradictions in legal interpretations in government bodies and between companies and government bodies create uncertainties and conflicts. These facts create tax risks in Kazakhstan which are much more significant in comparison with such in countries with more developed tax systems.

The tax authorities have the right to examine tax records for five years after period end in which the tax base is determined and the taxes amount is accrued. Consequently, the Company may be assessed additional tax liabilities because of tax audits. The Company believes that it had adequately reflected all tax liabilities based on its interpretations of tax laws.

**Environmental protection**

The application of environmental laws in the Republic of Kazakhstan evolves, and the position of regulatory agencies with respect to ensuring compliance with it is revised constantly. The Company periodically assesses its liabilities related to environmental pollution. These liabilities are immediately disclosed in the financial statements as they are identified. Potential liabilities, which may arise as a result of changes in the current laws and regulations, or as a result of judicial practices, cannot be estimated reliably, although may be material.

The Company's management believes that due to the existing internal controls over compliance with the current environmental laws the Company does not have significant liabilities related to environmental damages.

**Legal issues**

In the ordinary course of business, the Company may be subject to various legal actions and claims. The Company assesses the probability of incurring of material liabilities arising under specific circumstances and recognizes corresponding provision in the financial statements only when it is probable that an outflow of resources will be necessary to settle the liability and the amount of the liability can be reliably measured.

The Company's management believes that the actual liabilities, if any, will not materially impact the current financial position and financial results of the Company. Therefore, no provision has been recognized in these financial statements.

**Insurance**

The insurance market in Kazakhstan is emerging and many forms of insurance, which are widespread in other countries, are unavailable in Kazakhstan. In the meantime, the Company insures the civil responsibility of the employer, and Company's vehicles in accordance with the requirements of the legislation of the Republic of Kazakhstan. The Company bears the risk of loss with respect to the uninsured or partially insured assets and operations.

**Operating lease agreements**

As at March 31, 2017 and 2016 the Company has no non-cancellable operating lease agreements.

**Investment related agreements**

As at March 31, 2017 and 2016 the Company has no investment related agreements.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2017 (CONTINUED)**

**24. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT**

**Financial risk management objectives and policies**

The Company is exposed to various risks associated with financial instruments. Financial assets and liabilities are divided into categories in accordance with the accounting policy of the Company. The main financial instruments of the Company consist of cash and cash equivalents, accounts receivable, loans payable and accounts payable. Main risks associated with the Company's financial instruments are the risks associated with fluctuations in exchange rates. The Company also manages the liquidity risk arising from financial liabilities.

The Company's risk management is coordinated by the Company's management in close cooperation with the owners and is focused on providing short-term and medium-term cash flows to minimize exposure to volatility of the financial markets. The Company is not actively involved in trading operations of financial instruments for speculative purposes. The most significant financial risks the Company might be exposed to are presented below.

**Interest rate risk**

The Company is not subject to interest rate risk as its loans were at fixed interest rate.

**Currency risk**

The Company is exposed to currency risk on purchases denominated in currencies other than tenge. These operations are mainly denominated in US dollars. The Company does not hedge its foreign exchange risk. In respect of monetary assets and liabilities denominated in foreign currencies, the Company holds a net exposure within acceptable limits by buying or selling foreign currency at exchange rates "spot" where necessary to address short-term imbalances. As at March 31, 2017 and 2016 the Company has monetary assets and liabilities denominated in foreign currencies.

Below is the effect of the impact of potential changes in exchange rates:

| In thousands of Tenge                    | Increase<br>/decrease in<br>US Dollar<br>rate | Effect on profit<br>before tax | Effect on Equity |
|--|---|--------------------------------|------------------|
| <b>For the year ended March 31, 2017</b> | <b>+20%</b>                                   | <b>46,573</b>                  | <b>46,573</b>    |
|  | <b>-20%</b>                                   | <b>(46,573)</b>                | <b>(46,573)</b>  |
| For the year ended March 31, 2016        | +20%  | (35,766)                       | (35,766)         |
|  | -20%  | 35,766                         | 35,766           |

**Liquidity risk**

Liquidity risk is the risk that the Company will have difficulties in receiving funds for repayment of obligations related to financial instruments. Liquidity risk may result from inability to sell a financial asset quickly at the price close to its fair value.

The Company regularly monitors the need for liquid funds, and the management ensures the availability of funds in the amount sufficient for execution of any upcoming obligations.

The following table presents financial liabilities of the Company as at March 31, 2017 in the context of time left until maturity, based on undiscounted cash flows payable:

| In thousands of Tenge     | On demand      | Less than 3<br>month | 3 to 12<br>months | 1 to 5 years | More than 5<br>years | Total          |
|---------------------------|----------------|----------------------|-------------------|--------------|----------------------|----------------|
| <b>March 31, 2017</b>     |                |                      |                   |              |                      |                |
| Cash and cash equivalents | 245,164        | —                    | —                 | —            | —                    | <b>245,164</b> |
| Accounts receivable       | —              | 221,399              | 72,665            | —            | —                    | <b>294,064</b> |
|                           | <b>245,164</b> | <b>221,399</b>       | <b>72,665</b>     | <b>—</b>     | <b>—</b>             | <b>539,228</b> |



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2017 (CONTINUED)**

**24. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)**

**Liquidity risk (continued)**

| In thousands of Tenge<br><b>March 31, 2017</b> | On demand | Less than 3<br>month | 3 to 12<br>months | 1 to 5 years | More than 5<br>years | <b>Total</b> |
|--|-----------|----------------------|-------------------|--------------|----------------------|--------------|
| Accounts payable                               | –         | 4,329                | –                 | –            | –                    | <b>4,329</b> |
| Other current liabilities                      | –         | 2,293                | –                 | –            | –                    | <b>2,293</b> |
|  | –         | <b>6,622</b>         | –                 | –            | –                    | <b>6,622</b> |

The following table presents financial liabilities of the Company as at March 31, 2016 in the context of time left until maturity, based on undiscounted cash flows payable:

| In thousands of Tenge<br><b>March 31, 2016</b> | On demand      | Less than 3<br>month | 3 to 12<br>months | 1 to 5 years | More than 5<br>years | <b>Total</b>   |
|--|----------------|----------------------|-------------------|--------------|----------------------|----------------|
| Cash and cash equivalents                      | 105,698        | –                    | –                 | –            | –                    | <b>105,698</b> |
| Accounts receivable                            | –              | 257,724              | –                 | –            | –                    | <b>257,724</b> |
|  | <b>105,698</b> | <b>257,724</b>       | –                 | –            | –                    | <b>363,422</b> |

| In thousands of Tenge<br><b>March 31, 2016</b> | On demand | Less than 3<br>month | 3 to 12<br>months | 1 to 5 years    | More than 5<br>years | <b>Total</b>     |
|--|-----------|----------------------|-------------------|-----------------|----------------------|------------------|
| Accounts payable                               | –         | (173,581)            | –                 | –               | –                    | <b>(173,581)</b> |
| Loans and interest payable                     | –         | –                    | –                 | (81,655)        | –                    | <b>(81,655)</b>  |
| Other current liabilities                      | –         | (13,195)             | –                 | –               | –                    | <b>(13,195)</b>  |
|  | –         | <b>(186,776)</b>     | –                 | <b>(81,655)</b> | –                    | <b>(268,431)</b> |

**Credit risk**

Credit risk is the risk that one party on financial instrument fails to meet an obligation and will cause the other party to incur financial loss. The Company is exposed to credit risk because of its operating activities and certain investing activities. Regarding investing activities, the Company allocates cash in Kazakhstani banks in particular, Subsidiary of Sberbank JSC and Tengri Bank JSC. Management of the Company periodically reviews the credit ratings of these banks, to avoid extreme credit risks.

The Company's management believes that the international credit crisis and subsequent changes in the credit ratings of local banks is not an extreme credit risk. Accordingly, impairment on cash balances in bank accounts is not required.

The following table represents the amounts in current bank accounts at reporting date using Moody's agency credit ratings:

| In thousands of Tenge      | Location   | <b>March 31,<br/>2017</b> | March 31, 2016 | <b>March 31,<br/>2017</b> | March 31,<br>2016 |
|----------------------------|------------|---------------------------|----------------|---------------------------|-------------------|
| Subsidiary of Sberbank JSC | Kazakhstan | <b>BA3(negative)</b>      | BA3(negative)  | <b>40,161</b>             | 105,254           |
| Tengri Bank JSC            | Kazakhstan | <b>B+(negative)</b>       | B+(negative)   | <b>204,645</b>            | –                 |
|                            |            |                           |                | <b>244,806</b>            | <b>105,254</b>    |

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2017 (CONTINUED)**

**25. CAPITAL MANAGEMENT**

Capital includes charter capital and accumulated loss. The main objective of the Company's capital management is to ensure stable credit rating and adequate level of capital to support its business and maximization of shareholders' value.

The Company manages its capital in order to continue to adhere to the principle of going concern together with the maximization of profit for stakeholders by optimizing the balance of debt and equity.

As at March 31, 2017 the Company does not have any debts. As at March 31, 2016 debt-to-equity ratio is presented as follows:

| In thousands of Tenge       | March 31,<br>2017 | March 31,<br>2016 |
|-----------------------------|-------------------|-------------------|
| Loans payable               | –                 | 73,758            |
| Equity                      | 679,907           | 266,139           |
| <b>Debt-to-equity ratio</b> | <b>–</b>          | <b>0.28</b>       |

**26. FAIR VALUE OF FINANCIAL INSTRUMENTS**

**Fair value of financial instruments**

Fair value is determined as the amount at which the instrument could be exchanged between knowledgeable parties on a commercial basis, except for situations with forced or liquidation sale. Since there are no significant available market mechanisms to determine fair value, for most of the Company's financial instruments, in assessing fair value, assumptions based on current economic conditions and specific risks inherent in the instruments are used. The Company believes that as at March 31, 2017 and 2016 the present value of cash, accounts receivable, loans payable and accounts payable is approximately equal to their fair value.

The Company uses the following hierarchic structure of valuation methods to determine and disclose information about the fair value of financial instruments:

- Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities;
- Level 2: valuation models for which all inputs which have significant effect on the recorded in the financial statements fair value are observable in the market, either directly or indirectly;
- Level 3: valuation models which use inputs that have significant effect on the recorded in the financial statements fair value that are not based on observable market data.

Fair value of financial instruments as at March 31, 2016 are presented below:

| In thousands of Tenge                               | Level 1 | Level 2 | Level 3 | Total<br>As at March 31,<br>2016 |
|---|---------|---------|---------|----------------------------------|
| <b>Liabilities fair value of which is disclosed</b> |         |         |         |                                  |
| Loans payable                                       | –       | 73,758  | –       | 73,758                           |
|   | –       | 73,758  | –       | 73,758                           |

**27. EVENTS AFTER REPORTING PERIOD**

There were no events after reporting period that could have a significant impact on the financial statements of the Company as at and for the year ended March 31, 2017.