The Pharma Network LLP

IFRS Financial Statements and Independent Auditor's Report

For the year ended March 31, 2018

THE PHARMA NETWORK LLP

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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, 2018

Management of The Pharma Network LLP (hereinafter - "the Company") is responsible for the preparation of the financial statements, that fairly present, in all material respects, financial position of the Company as at March 31, 2018, 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, 2018 were approved by management of the Company on May 4, 2018.

General Director ______________________ Parikh V.G.

Chief Accountant ______________________ Uskembayeva A.M.

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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, 2018, and the statement of profit or 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, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (hereinafter – "IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibility 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 IFRSs, 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.

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 conducted in accordance with ISA, 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 Company's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on The Pharma Network LLP'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;

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

- 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.

We communicate with those charged with governance of The Pharma Network LLP 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.

Grant Thornton

Yerzhan Dossymbekov	Zhanbota Bekenov
General Director Grant Thornton LLP	Engagement partner
	Certified Auditor of the Republic of Kazakhstan Certificate #MF-0000047 on February 28, 1994 The Republic of Kazakhstan

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

May 4, 2018
Almaty, the Republic of Kazakhstan

THE PHARMA NETWORK LLP

STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2018

In thousands of tenge	Notes	**March 31, 2018**	March 31, 2017
ASSETS			
Non-current assets			
Property, plant and equipment	5	**42,512**	58,321
Intangible assets		**5**	10
Deferred tax asset	18	**15,378**	40,552
Total non-current assets		**57,895**	**98,883**
Current assets			
Inventories	6	**292,937**	82,045
Accounts receivable	7	**322,655**	288,440
Advances paid	8	**17,594**	7,785
Other current assets		**2,677**	3,279
Cash and cash equivalents	9	**281,820**	245,164
Total current assets		**917,683**	**626,713**
TOTAL ASSETS		**975,578**	**725,596**
EQUITY AND LIABILITIES			
Equity			
Charter capital	10	**832,162**	832,162
Accumulated losses		**(98,892)**	(148,164)
TOTAL EQUITY		**733,270**	**683,998**
Current liabilities			
Accounts payable	11	**187,435**	4,329
Advances received		**140**	329
Taxes payable	12	**9,906**	10,389
Provisions	13	**37,090**	24,258
Other current liabilities	14	**7,737**	2,293
Total current liabilities		**242,308**	**41,598**
TOTAL LIABILITIES		**242,308**	**41,598**
TOTAL EQUITY AND LIABILITIES		**975,578**	**725,596**

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

General Director ________________ Parikh V.G.

Chief Accountant ________________ Uskembayeva A.M.

May 4, 2018
Almaty, the Republic of Kazakhstan

THE PHARMA NETWORK LLP

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED MARCH 31, 2018

In thousands of tenge	Notes	For the year ended March 31, 2018	For the year ended March 31, 2017
Revenue	15	**1,133,473**	1,026,142
Cost of goods sold		**(376,125)**	(368,616)
Gross profit		**757,348**	**657,526**
Selling and general and administrative expenses	16	**(694,881)**	(551,391)
Other operating income	17	**20,002**	4,157
Other operating expenses	17	**(18,128)**	(13,939)
Operating profit		**64,341**	**96,353**
Finance income		**11,888**	4
Finance costs		–	(3,445)
Profit before income tax		**76,229**	**92,912**
Income tax (expense) / benefit	18	**(26,957)**	40,552
Net income for the year		**49,272**	**133,464**
Other comprehensive income		–	–
Total comprehensive income for the year		**49,272**	**133,464**

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

General Director ____________ Parikh V.G.

Chief Accountant ____________ Uskembayeva A.M.

May 4, 2018
Almaty, the Republic of Kazakhstan

THE PHARMA NETWORK LLP

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED MARCH 31, 2018

In thousands of tenge	Notes	Charter capital	Accumulated losses	**Total equity**
As at March 31, 2016		**547,767**	**(281,628)**	**266,139**
Profit for the year		–	*133,464*	***133,464***
Other comprehensive income for the year		–	–	–
Total comprehensive income for the year			**133,464**	**133,464**
Contribution to charter capital		284,395	–	**284,395**
As at March 31, 2017		**832,162**	**(148,164)**	**683,998**
Profit for the year		–	*49,272*	***49,272***
Other comprehensive income for the year		–	–	–
Total comprehensive income for the year		–	**49,272**	**49,272**
As at March 31, 2018		**832,162**	**(98,892)**	**733,270**

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

General Director _____________ Parikh V.G.

Chief Accountant _____________ Uskembayeva A.M.

May 4, 2018
Almaty, the Republic of Kazakhstan

THE PHARMA NETWORK LLP

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2018

In thousands of tenge	Notes	For the year ended March 31, 2018	For the year ended March 31, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		**76,229**	92,912
Adjustments for:			
Depreciation of property, plant and equipment	5	**26,753**	22,282
Amortization of intangible assets		**5**	30
(Gain) / loss on disposal of property, plant and equipment	17	**(2,629)**	244
Finance costs		**–**	3,445
Finance income		**(11,888)**	(4)
Allowance for doubtful accounts	7, 8	**815**	8,917
Provision for obsolete and slow-moving goods	6	**10,370**	10,331
Other provisions		**12,832**	7,522
Foreign exchange (gain) / loss		**1,701**	13,695
Operating income before changes in working capital		**114,188**	**159,374**
Changes in working capital:			
Changes in inventories		**(221,262)**	48,387
Changes in accounts receivable		**(34,816)**	(37,796)
Changes in advances paid		**(10,023)**	(4,963)
Changes in other current assets		**3,457**	(2,508)
Changes in accounts payable		**183,106**	(161,428)
Changes in advances received		**(189)**	(1,007)
Changes in taxes payable		**(483)**	3,876
Changes in other current liabilities		**5,444**	(10,902)
Cash received from / (used in) operating activities		**39,422**	**(6,967)**
Corporate income tax paid		**(1,783)**	–
Interest received		**9,033**	–
Net cash received from / (used in) operating activities		**46,672**	**(6,967)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property, plant and equipment	5	**(11,628)**	(31,834)
Acquisition of intangible assets		**–**	(13)
Proceeds from sale of property, plant and equipment		**3,313**	500
Net cash received from / (used in) investing activities		**(8,315)**	**(31,347)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayments of loans		**–**	(84,538)
Contribution to charter capital		**–**	284,395
Net cash received from / (used in) financing activities		**–**	**199,857**
Net increase in cash and cash equivalents		**38,357**	161,543
The effect of changes in foreign exchange rates		**(1,701)**	(22,077)
Cash and cash equivalents at the beginning of the year	9	**245,164**	105,698
Cash and cash equivalents at the end of the year	9	**281,820**	**245,164**

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

General Director ____________ Parikh V.G.

Chief Accountant ____________ Uskembayeva A.M.

May 4, 2018
Almaty, the Republic of Kazakhstan

1. GENERAL INFORMATION

The Pharma Network LLP (the "Company") was registered on 16th of August 2012, with Almaty department of Ministry of Justice of the Republic of Kazakhstan.

As at March 31, 2018 and 2017 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 pharmaceutical drugs.

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 wholesale of pharmaceutical drugs.

Legal address of the Company is: 21B, Konayev st., Almaty, the Republic of Kazakhstan.

The number of employees of the Company as at March 31, 2018 was 47 people (2017: 54 people)

2. BASIS FOR PREPARATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared on the historical cost basis.

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.

Going concern basis

These financial statements have been prepared in accordance with International Financial Reporting Standards ("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 occur, 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 is presented separately in the financial statements. Items of a dissimilar nature or function are presented separately unless they are immaterial.

Foreign currency translation

In preparing of 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.

2. BASIS FOR PREPARATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation (continued)

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.

Exchange differences on monetary items, which arise as a result of changes in the exchange rates, are recognized as profit or loss in the periods when they arise.

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

As at March 31, 2018 currency exchange rates of KASE used by the Company in preparing the financial statements are as follows: 1 US dollar was equal to 318.31 tenge, (March 31, 2017: 314.79 tenge per 1 USD dollar).

Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the acquisition cost including import duties and non-recoverable taxes and borrowing costs for long-term construction projects if the recognition criteria are met, so as direct costs related to bringing the asset to working condition and delivery to the place of the 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 accumulated depreciation and impairment losses, if any.

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.

2. BASIS FOR PREPARATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

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.

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 inventory is 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 fair value, 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.

2. BASIS FOR PREPARATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification and subsequent measurement of financial assets (continued)

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 selling, general and administrative expenses.

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 allowance for doubtful accounts.

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.

2. BASIS FOR PREPARATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Impairment of financial assets (continued)

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.

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 accounts. The Company accrues the allowance for doubtful accounts in case of nonpayment of receivables within terms specified in a contract.

Allowance for doubtful accounts 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. Doubtful accounts are written off as it is defined at the expense of the allowance.

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.

Accounts payable

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

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.

2. BASIS FOR PREPARATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value of financial instruments (continued)

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.

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, 9.5% from the year started January 1, 2018.

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.

Active from the 1st of July 2017, the employers must contribute 1% as part of the "Obligatory Social Medical Insurance". From the beginning of the 2018, the contribution has increased to 1.5%, as a compensation for the equivalent decrease in the social tax payments.

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.

2. BASIS FOR PREPARATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recognition of revenue and expenses (continued)

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.

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.

4. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Standards and Interpretations, adopted in current year

The Company adopted the following new and revised standards during the reporting year which are effective on January 1, 2017:

- Annual Improvements to IFRS Standards 2012–2014;
- Amendments to IAS 7 "Statement of Cash Flows" — "Disclosure Initiative";
- Amendments to IAS 12 "Income taxes" — "Recognition of deferred tax assets for unrealized losses".

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, revenues 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 are not yet effective

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

IFRS 15 "Revenue from Contracts with Customers" [1];
IFRS 16 "Leases"[2];
IFRS 9 "Financial instruments"[1].

[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.*

IFRS 16 Leases was issued in January 2016. IFRS 16 will replace IAS 17 Leases and its related interpretations. IFRS 16 is applicable from the period beginning on or after January 1, 2019, with the possibility of early application in case IFRS 15 Revenue from Contracts with Customers. The new standard combines the accounting of lessees into a single accounting model and eliminates the differences between financial and operating leases. The accounting for lessors remains largely unchanged and keeps the differences between financial and operating leases.

The Company's management believes that the application of IFRS 16 "Leases" in the future will not have a significant effect on the amounts recognized as assets and liabilities of the Company.

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Early application is permitted. The Company plans to adopt the new standard on the required effective date. During 2017, the Company has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information, including perspective one. The Company does not expect a significant effect on its financial position or equity, except for application of requirement of IFRS 9 on recognition of impairment.

IFRS 15 was issued in May 2014 and amended in April 2016. IFRS 15 will replace the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

4. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

New and revised IFRS – issued but are not yet effective (continued)

5-step model includes the following:

- identify the contract with the customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to performance obligations in the contracts;
- recognize revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognizes revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios, the accounting for variable compensation, costs associated with the conclusion and execution of contracts and other. Furthermore, extensive disclosures are required by IFRS 15.

The Company's management believes that the application of IFRS 15 "Revenue from Contracts with Customers" in the future will not have a significant impact on the amount and timing of revenue recognition.

5. PROPERTY, PLANT AND EQUIPMENT

The movement in property, plant and equipment for the years ended March 31, 2018 and 2017 are presented below:

In thousands of tenge	Furniture and fixtures	Vehicles	Office equipment	**Total**
Cost:				
As at March 31, 2016	**1,543**	**70,891**	**3,017**	**75,451**
Additions	816	29,940	1,078	**31,834**
Disposals	–	(1,019)	–	**(1,019)**
As at March 31, 2017	**2,359**	**99,812**	**4,095**	**106,266**
Additions	100	8,340	3,188	**11,628**
Internal movement	(53)	875	(822)	–
Disposals	–	(3,047)	(214)	**(3,261)**
As at March 31, 2018	**2,406**	**105,980**	**6,247**	**114,633**
Accumulated depreciation:				
As at March 31, 2016	**(189)**	**(24,653)**	**(1,096)**	**(25,938)**
Charge for the year (Note 16)	(405)	(21,214)	(663)	**(22,282)**
Depreciation on disposal	–	275	–	**275**
As at March 31, 2017	**(594)**	**(45,592)**	**(1,759)**	**(47,945)**
Charge for the year (Note 16)	(395)	(25,482)	(876)	**(26,753)**
Internal movement	105	(182)	77	–
Depreciation on disposal	–	2,691	(114)	**2,577**
As at March 31, 2018	**(884)**	**(68,565)**	**(2,672)**	**(72,121)**
Net book value:				
As at March 31, 2017	**1,765**	**54,220**	**2,336**	**58,321**
As at March 31, 2018	**1,522**	**37,415**	**3,575**	**42,512**

As at March 31, 2018 and 2017 the Company did not have any property, plant and equipment pledged as collateral.

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As at March 31, 2018 the amount of fully depreciated but still in use property, plant and equipment was 4,260 thousand tenge (March 31, 2017: 1,733 thousand tenge).

6. INVENTORIES

Inventories as at March 31, 2018 and 2017 are presented below:

In thousands of tenge	**March 31, 2018**	March 31, 2017
Goods for sale (pharmaceutical drugs)	**301,115**	94,224
Other inventories	**5,281**	962
Less: provision for obsolete and slow-moving inventories	**(13,459)**	(13,141)
	292,937	**82,045**

The movement of provision for obsolete inventories for the years ended March 31, 2018 and 2017 is presented below:

In thousands of tenge	**For the year ended March 31, 2018**	For the year ended March 31, 2017
As at April 1	**13,141**	2,810
Accrued for the year (Note 16)	**10,370**	10,331
Write-off	**(10,052)**	–
As at March 31	**13,459**	**13,141**

7. ACCOUNTS RECEIVABLE

Accounts receivable as at March 31, 2018 and 2017 are presented below:

In thousands of tenge	**March 31, 2018**	March 31, 2017
Trade accounts receivable	**328,329**	294,064
Other accounts receivable	**2,427**	1,876
Less: allowance for doubtful accounts	**(8,101)**	(7,500)
	322,655	**288,440**

As at March 31, 2018 and 2017 accounts receivable were denominated in tenge.

As at March 31, 2018 and 2017 accounts receivable that were not impaired were as follows:

In thousands of tenge	**March 31, 2018**	March 31, 2017
Neither past due nor impaired	**236,396**	122,877
Past due 1-180 days	**83,353**	165,776
Past due more than 180 days	**479**	5,411
	320,228	**294,064**

7. ACCOUNTS RECEIVABLE (CONTINUED)

The movement of allowance for doubtful accounts for the years ended March 31, 2018 and 2017 are presented below:

In thousands of tenge	**For the year ended March 31, 2018**	For the year ended March 31, 2017
As at April 1	**7,500**	–
Accrued for the year (Note 16)	**601**	7,500
As at March 31	**8,101**	**7,500**

8. ADVANCES PAID

Advances paid as at March 31, 2018 and 2017 are presented below:

In thousands of tenge	**March 31, 2018**	March 31, 2017
Advances paid for services	**15,692**	5,922
Advances paid for goods	**1,902**	1,863
	17,594	**7,785**

The movement of allowance for doubtful accounts for the years ended March 31, 2018 and 2017 are presented below:

In thousands of tenge	**For the year ended March 31, 2018**	For the year ended March 31, 2017
As at April 1	–	1,330
Accrued for the year (Note 16)	**214**	1,417
Write off	**(214)**	(2,747)
As at March 31	–	–

9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at March 31, 2018 and 2017 are presented below:

In thousands of tenge	**March 31, 2018**	March 31, 2017
Cash in savings accounts	**272,824**	–
Cash on current bank accounts	**8,677**	11,940
Cash on hand	**319**	358
Cash in transit	–	232,866
	281,820	**245,164**

As at March 31, 2018, cash in savings accounts is represented by cash on a deposit account denominated in US dollars, opened in Tengri Bank JSC with an interest rate of 5% per annum with a maturity date of April 14, 2018.

As at March 31, 2018 and 2017 cash and cash equivalents was denominated in the following currencies:

In thousands of tenge	**March 31, 2018**	March 31, 2017
US Dollar	**272,854**	232,866
Tenge	**8,966**	12,298
	281,820	**245,164**

10. CHARTER CAPITAL

Charter capital as at March 31, 2018 and 2017 the is presented as follows:

In thousands of tenge	March 31, 2018		March 31, 2017	
	Share	**Amount**	Share	Amount
Alkem Laboratories Ltd.	**100%**	**832,162**	100%	832,162
	100%	**832,162**	100%	**832,162**

No changes in the charter capital for the year ended March 31, 2018

11. ACCOUNTS PAYABLE

Accounts payable as at March 31, 2018 and 2017 are presented below:

In thousands of tenge	Notes	**March 31, 2018**	March 31, 2017
Trade accounts payable due to related parties	19	**180,385**	–
Trade accounts payable due to third parties		**7,050**	4,329
		187,435	**4,329**

Amounts of accounts payable as at March 31, 2018 and 2017 were denominated in the following currencies:

In thousands of tenge	**March 31, 2018**	March 31, 2017
US Dollars	**180,385**	4,329
Tenge	**7,050**	–
	187,435	**4,329**

12. TAXES PAYABLE

Taxes payable as at March 31, 2018 and 2017 are presented below:

In thousands of tenge	**March 31, 2018**	March 31, 2017
Individual income tax	**3,999**	3,788
Social tax	**2,705**	3,286
Withholding tax	**2,413**	2,746
Social contribution	**402**	569
Other social taxes	**302**	–
Other taxes	**85**	–
	9,906	**10,389**

13. PROVISIONS

Provisions as at March 31, 2018 and 2017 are presented below:

In thousands of tenge	**March 31, 2018**	March 31, 2017
Provision for unused vacation	**13,628**	9,356
Provision for sales commissions	**12,191**	12,407
Provision for audit services	**5,000**	966
Other provision	**6,271**	1,529
	37,090	**24,258**

14. OTHER CURRENT LIABILITIES

Other current liabilities as at March 31, 2018 and 2017 are presented below:

In thousands of tenge	**March 31, 2018**	March 31, 2017
Salaries payable	**5,825**	–
Pension contribution	**1,912**	2,293
	7,737	**2,293**

15. REVENUE

The revenue for the years ended March 31, 2018 and 2017 is presented below:

In thousands of tenge	**For the year ended March 31, 2018**	For the year ended March 31, 2017
Revenue from sale of goods	**1,133,473**	1,026,142
	1,133,473	**1,026,142**

For the year ended March 31, 2018 revenue from 3 major customers amounted to 41% of total revenue (for the year ended March 31, 2017: 36%). The Company's revenue is generated on the territory of the Republic of Kazakhstan.

16. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended March 31, 2018 and 2017 are presented below:

In thousands of tenge	Notes	**For the year ended March 31, 2018**	For the year ended March 31, 2017
Salary and related taxes		**462,414**	361,615
Marketing		**73,077**	53,601
Depreciation of property, plant and equipment	5	**26,753**	22,282
Legal and professional services		**22,588**	13,315
Transportation expenses		**19,558**	18,742
Business trips		**14,363**	15,291
Provision for obsolete inventories	6	**10,370**	10,331
Rent		**10,269**	19,502
Insurance		**4,583**	583
Communication		**2,865**	2,511
Allowance for doubtful accounts	7, 8	**815**	8,917
Amortization of intangible assets		**5**	30
Other expenses		**47,221**	24,671
		694,881	**551,391**

17. OTHER OPERATING INCOME/ EXPENSES

Other operating income for the years ended March 31, 2018 and 2017 is presented below:

In thousands of tenge	**For the year ended March 31, 2018**	For the year ended March 31, 2017
Foreign exchange gain, net	**16,194**	–
Gain on disposal of property, plant and equipment	**2,629**	–
Other income, net	**1,179**	4,157
	20,002	**4,157**

17. OTHER OPERATING INCOME/ EXPENSES (CONTINUED)

Other operating expenses for the years ended March 31, 2018 and 2017 are presented below:

In thousands of tenge	**For the year ended March 31, 2018**	For the year ended March 31, 2017
Foreign exchange loss, net	–	(13,695)
Other expenses	**(18,128)**	–
Loss on disposal of property, plant and equipment	–	(244)
	(18,128)	**(13,939)**

18. INCOME TAX

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

In thousands of tenge	**For the year ended March 31, 2018**	For the year ended March 31, 2017
Current income tax expense	**1,783**	–
Deferred income tax	**25,174**	(40,552)
Income tax expense / (benefit)	**26,957**	**(40,552)**

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 ended March 31, 2018**	For the year ended March 31, 2017
Profit before income tax	**76,229**	92,912
Statutory tax rate	**20%**	20%
Income tax at statutory rate	**15,246**	**18,582**
Tax effect of permanent differences		
Non-deductible expenses	**11,711**	5,074
Change in provision for unrecognized deferred income tax asset	–	(64,208)
Income tax expense / (benefit)	**26,957**	**(40,552)**

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, 2018 and 2017:

In thousands of tenge	**As at March 31, 2018**	As at March 31, 2017
Deferred income tax assets		
Tax loss carried forward	**3,870**	31,970
Provision for obsolete and slow-moving inventories	**2,692**	2,628
Provision for sales commission	**2,438**	2,481
Unused vacation reserve	**2,726**	1,871
Allowance for doubtful accounts	**1,620**	–
Other provisions	**1,254**	925
Provision for audit services	**1,000**	193
Tax liabilities	**425**	657
Total deferred income tax assets	**16,025**	**40,725**
Deferred income tax liabilities		
Property plant and equipment	**(647)**	(173)
Total deferred income tax liabilities	**(647)**	**(173)**
Net deferred income tax assets	**15,378**	**40,552**

19. 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, 2018, the Company did not recognize any impairment of accounts receivable attributable to debts from related parties (2017: 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, 2018 and 2017 are presented below:

Purchases of goods

In thousands of tenge	**For the year ended March 31, 2018**	For the year ended March 31, 2017
Alkem Laboratories Limited, The Parent	**558,207**	297,406
	558,207	**297,406**

Finance costs

In thousands of tenge	**For the year ended March 31, 2018**	For the year ended March 31, 2017
Alkem Laboratories Limited, The Parent	–	3,445
	–	**3,445**

Accounts payable

In thousands of tenge	Notes	**For the year ended March 31, 2018**	For the year ended March 31, 2017
Alkem Laboratories Limited, The Parent	11	**180,385**	–
		180,385	–

Compensation to Key Management Personnel

Key management personnel include General Director, Deputy General Director, Commercial Director and the Chief Accountant - a total of 4 people as at March 31, 2018 (March 31, 2017: 3 people). Total compensation to key management personnel included in selling, general and administrative expenses of the statement of profit or loss and other comprehensive income amounted to 177,467 thousand tenge for the year ended March 31, 2018 (2017: 136,005 thousand tenge). Compensation to key management personnel consists of salaries and other benefits in accordance with the Company's policy.

20. 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 Kazakhstani economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government.

The Kazakhstani 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 in Kazakhstan. While the Kazakhstani government has introduced a range of stabilization measures aimed at providing liquidity and supporting debt refinancing for Kazakhstani banks and companies. The uncertainty exists 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, 2016, 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.

Management of the Company believes that 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 of operations and financial position of the Company. It is currently impossible to determine what the exact effect might 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.

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.

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.

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 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.

20. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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, 2018 and 2017 the Company has no non-cancellable operating lease agreements.

Investment related agreements

As at March 31, 2018 and 2017 the Company has no investment related agreements.

21. 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 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.

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, 2018 and 2017 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/decrease in US Dollar rate	Effect on profit before tax	Effect on Equity
For the year ended March 31, 2018	**+10%**	**9,247**	**9,247**
	-10%	**(9,247)**	**(9,247)**
For the year ended March 31, 2017	+20%	46,573	46,573
	-20%	(46,573)	(46,573)

21. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

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 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, 2018 in the context of time left until maturity, based on undiscounted cash flows payable:

In thousands of tenge **March 31, 2018**	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	**Total**
Cash and cash equivalents	281,820	–	–	–	–	**281,820**
Accounts receivable	–	236,284	86,084	287	–	**322,655**
	281,820	**236,284**	**86,084**	**287**	**–**	**604,475**

In thousands of tenge **March 31, 2018**	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	**Total**
Accounts payable	–	187,435	–	–	–	**187,435**
Other current liabilities	–	7,737	–	–	–	**7,737**
	–	**195,172**	**–**	**–**	**–**	**195,172**

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 **March 31, 2017**	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	**Total**
Cash and cash equivalents	245,164	–	–	–	–	**245,164**
Accounts receivable	–	213,899	74,541	–	–	**288,440**
	245,164	**213,899**	**74,541**	**–**	**–**	**533,604**

In thousands of tenge **March 31, 2017**	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	**Total**
Accounts payable	–	4,329	–	–	–	**4,329**
Other current liabilities	–	2,293	–	–	–	**2,293**
	–	**6,622**	**–**	**–**	**–**	**6,622**

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.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk of the industry and country in which customers operate. The Company establishes an allowance for impairment that represents its estimate of expected losses in respect of trade and other receivables.

21. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

As at March 31, 2018 and 2017 accounts receivable had exposure to only one type of counter party. Customers with ending balance more than 10% of total receivables were as follows:

In thousands of tenge	**March 31, 2018**	March 31, 2017
INKAR	**77,051**	64,675
Emiti International	**52,927**	29,739
MEDIX	**46,640**	47,680
Medservice plus Kazakh Pharmaceutical Comp LLC	**39,015**	35,265
	215,633	177,359

Regarding investing activities, the Company allocates cash in Kazakhstani banks. 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 Fitch and S&P agency credit ratings:

In thousands of tenge	Location	**March 31, 2018**	March 31, 2017	**March 31, 2018**	March 31, 2017
Tengri Bank JSC	Kazakhstan	**B+(negative)**	B+(negative)	**274,306**	204,645
Subsidiary of Sberbank JSC	Kazakhstan	**BB+(positive)**	BA3(negative)	**7,195**	40,161
				281,501	244,806

22. 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.

23. 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 to the instruments are used. The Company believes that as at March 31, 2018 and 2017 the present value of cash and cash equivalents, accounts receivable 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.

24. 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, 2018.

25. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements for the year ended March 31, 2018 were authorized for issue by management of the Company on May 4, 2018.