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الخليج للصناعات الدوائية

Gulf Pharmaceutical Industries

Gulf Pharmaceutical Industries Co. (Julphar)

Governance Report for the year ended 31 December 2018

Gulf Pharmaceutical Industries Co. (Julphar)
Corporate Governance Report for the year ended on 31 December 2018

Table of Contents

1. Introduction. 4
2. Application of Corporate Governance Principles 4
3. Transactions of the members of the Board of Directors and their families during 2018.... 5
4. Board of Directors 5
4.1. Chairman 5
4.2. Current Board of Directors (BOD) 6
4.3. Women's representation in the Board of Directors in 2018 7
4.4. Remuneration paid to Board of Directors for the year 2017 &2018 7
4.5 Allowances for attendance at the meeting of the Board of Directors and its committee 8
4.6. Board of Director meetings held during 2018 9
4.7. Delegation of Authority 9
4.8. Details of transactions made with the related parties 9
5. The organizational structure of the Company 10
5.1. Executive Management Team 11
6. Internal and External Auditor 11
6.1. About Company's External Auditor 11
6.2. Fees or costs for services provided by the internal and external auditor 12
6.3 Opinions made by the company's external auditor 12
7. Audit Committee 13
7.1. Members of the audit committee, and a statement of its functions and the duties .. 13
7.2. Meetings held by the audit committee during the year 2018 13
7.3. Nomination and Remuneration Committee 14
8. Insiders' Trading Follow-Up and Supervision Committee 15
8.1.Formation and duties of the committee..... 14
8.2. Insider committee's activities in 2018.....15
8.3.Any committee or other committee approved by the baord of Directors.....15
9. Internal Control 16
9.1. Internal Control.....16
9.2.The name, qualifications,and date of appointment of the Head of Internal Control Department.....17

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الخليج للصناعات الدوائية
Gulf Pharmaceutical Industries

9.3. The name, qualifications,and date of appointment of the Compliance Officer.....17

9.4. How the Internal control Department handlr any significant issues in the company...17

10. Violations committed during the year 2018.....18

11. Community development and environmental conservation 18

11.1. Local Community Support.....18

11.2. Continuous Training and Support for Community Development.....18

12. General Information.....18

12.1. A statement of the Company share price in the Market.....18

12.2. The Company's share performance compared to the general market index for 2018. 19

12.3. The Company's share performance compared to the industrial sector index for 2018 19

12.4. Shareholding distribution as of 31 December 2018 19

12.5. Shareholders who held 5% or more of the Company's capital as of 31 December 2018 20

12.6. Distribution of shareholders according to the ownership as on 31 December 2018 20

12.7. Control of investor relations with listed companies.....20

12.8. Special resolutions presented to the General Assembly held in 2018 and the procedures taken with respect thereto.....20

12.9. The name of the board secretary and the date of his /her appointment... 20

12.10. Significant events that took place during 2018.....20

12.11. Emiratization percentage in the Company as of 2018.....21

12.12. Innovative projects and initiatives during 2018.....21-22

Julphar
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1. Introduction

Gulf Pharmaceutical Industries (Julphar) has long been inspired by the best models and practices of international standards and we seek to be a part of the vision of the UAE to build a strong and cohesive economy. We have succeeded in leaving a footprint to serve as an example to be followed at various levels and we are still at the forefront of the healthcare sector.

Based on the direction of the Chairman of the Board of Directors of SCA No. (7 R.M) of 2016 on the Standards of Institutional Discipline and Governance of Public Joint Stock Companies, Julphar has committed to applying the provisions thereof because of our belief in the importance of the application that is consistent with the vision and future aspirations. We have also developed a governance system between the company management, shareholders, employees, clients, as well as related companies, and we affirm our commitment to transparency and objectivity. We periodically review the Company's policies, including but not limited to the Code of Business Conduct, related party policies and corporate governance standards, and identify appropriate frameworks for audits of the company and its subsidiaries and the financial and non-financial terms of reference. We also work with external auditors to produce transparent and credible reports by adhering to international standards. We have worked to keep pace with governance developments through our periodic reviews of developments and follow-up of best practices to address the challenges that may arise. We have established several criteria and components to evaluate all elements and have opened channels for communication locally and globally. The disclosures have included all material events, interim financial statements, financial position and final statements.

2. Application of Corporate Governance Principles

Julphar has adopted a corporate governance philosophy that enhances shareholder value, improves customer relations, develop employees and benefits the overall community by doing business in a manner that warrants long-term capital efficiency and growth while providing affordable healthcare options to build a stronger and healthier United Arab Emirates.

Julphar Board of Directors are responsible for ensuring that shareholders' expectations and objectives align with the strategic direction and the vision of the organization. In order to effectively undertake the governance obligations, the Board of Directors has set out the development of the governance framework, its application, and most importantly, the performance of periodic reviews to ensure that the Corporate Governance standards are efficiently engraved throughout corporate hierarchy within Julphar.

During the period of preparation of this report, the Company adopted an update and documentation of key elements of the governance include the set of regulations that define the overall framework for the objectives, responsibilities and framework of the Board and its Committees, which is guided by the Board of Directors Charter, Audit Committee Charter, Nominations and Remunerations Committee Charter, Executive Committee Charter, Code of Business Conduct and the Delegations of Authority.

The Board of Directors has developed and implemented the Delegations of Authority as one of the important elements of governance. The Delegation of Authority is a regulatory tool through which Executive Management are delegated their duties and responsibilities, and which contributes to the creation of an organized working environment. The Delegation of Authority was implemented at its meeting No. 4 held on 18th May 2017.

In December 2018, the Board of Directors also engaged an external governance consultant to develop the company's corporate governance framework against international best practices, review and updated committee charters and the governance manual, as well as to overhaul the current Delegations

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الخليج للصناعات الدوائية
Gulf Pharmaceutical Industries

of Authority. The Audit Committee oversees this project and it is expected to be completed by the third quarter of 2019

Through the Audit Committee, the Board of Directors works closely with external auditors to produce transparent and credible reports by adhering to International Financial Reporting Standards (IFRS). In addition, the Board of Directors are also responsible for incorporating internal control systems, risk management tools as well as internal auditing structure to ensure compliance with laws, regulations, and Julphar policies.

During the year 2017, Julphar Code of Professional Conduct was issued and circulated to all employees of the Company for compliance.

3. Transactions of the members of the Board of Directors and their families during 2018

The Board of Directors recognizes the importance of compliance with the rules and regulations governing the transactions and trading in the share and securities of Julphar.

There were no known trading or transaction made by the members of the Board of Directors, their spouses or children in Julphar's securities during 2018.

4. Board of Directors

The Board of Directors shall have all the powers necessary to carry out the work of the Company, except those falling under the Law or the Articles of Association of the Company within the terms of reference of the General Assembly. The Articles of Association of the Company stipulate the provisions of the mechanism of forming the Board of Directors as well as the duties and obligations entrusted to it.

The Board of Directors is responsible for monitoring the effectiveness of the governance framework and oversight of management as well as controls applied in Julphar. The Board of Directors has also delegated tasks of the day-to-day management of the organization to the General Manager on 18th May 2017. These mandates are documented in the Delegations of Authority, which is subject to review every three years.

The Board of Directors has harnessed all its expertise to raise the level of performance of the company to comply with the expectations of shareholders and stakeholders and to keep up with the governance frameworks to ensure the effectiveness of the Board of Directors and the rehabilitation of its members to carry out their responsibilities with regard to key issue. The Board of Directors has engaged its committees to assign to them certain duties and responsibilities by periodically submitting reports and recommendations to the Board of Directors to enhance accountability and transparency.

4.1. Chairman

The current nine members of the Board of Directors of the Company were elected in the General Assembly meeting held on 16 April 2017 for the three years from 2017 to 2019. The information of the members of the Board of Directors is as follows:

Sheikh Faisal bin Saqr bin Mohammed Al Qasimi, a UAE National, Chairman of the Board of Directors, holds a BSc of Business Administration, University of Eastern University. He is the Chairman of the Board of Directors for twelve years and earlier, was a member of the Board of Directors for thirteen years. The Chairman does not hold any memberships or positions in other joint stock companies. The Chairman is an independent non-executive Director.

The Chairman is responsible for the leadership of the Board of Directors of the organization and for ensuring the effective performance of the responsibilities and duties thereof. In addition, the Chairman

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Gulf Pharmaceutical Industries

is a key link between the Board of Directors and the Executive Management. He continuously works with the Executive Management of the organization and has the following responsibilities:

- Ensuring that the Board works effectively and fulfills its responsibilities and discusses all key and proper issues on time
- Development and adoption of agendas of all meetings of the Board of Directors, taking into accounts any issues highlighted by the Directors, Executive Management, or Compliance Officer
- Encouraging all Directors to fully and effectively communicate with the shareholders and Board of Directors.

4.2. Current Board of Directors (BOD)

- Sheikh Abdullah bin Faisal bin Saqr Al Qasimi, a UAE National, Vice Chairman of the Board of Directors, holds a BSc in Management and Financial Management from the American University of Sharjah in 2009, graduated from the Royal Military Academy Sandhurst in the UK in 2011, a member of the Board of Directors since 2014. He does not hold any memberships or positions in other joint stock companies. He is an independent non-executive Director.
- Sheikh Saqr bin Humaid bin Abdullah Al Qasimi, a UAE National, a member of the Board of Directors, holds a BSc in Finance, a chairman of private companies, and a member of the Board of Directors since 2005. He does not hold any memberships or positions in other joint stock companies. He is an independent non-executive Director.
- Mr. Hassan Ahmed Al-AlAlkeem Al-Zaabi, a UAE National, a member of the Directors, holds a BSc in Administrative Sciences from the United Arab Emirates University in 1983. He is currently Deputy Minister, Director General of the Medical Office, Ministry of Presidential Affairs, and former Undersecretary of the Ministry of Health, Assistant Undersecretary for Financial and Administrative Affairs, Al Jazira Hospital. He has been a Board member since 2005 and does not hold any memberships or positions in other joint stock companies. He is an independent non-executive Director.
- Mr. Abdul Aziz Abdullah Al-Zaabi, a UAE National, a member of the Board of Directors, holds a BSc of Business Administration / International Business in 1987, University of San Jose, California, United States of America. He has been a Deputy Chairman of the National Council of Abu Dhabi from 2015 to date, Chairman of the Board of Directors of Gulf Investment from 2012 to date, and he is a Vice Chairman of the Board of Directors of RAK properties, member of the Founders Committee, a Chairman of the Executive Committee and a Chairman of the Investment Committee, and a Chairman of the Board of Directors of Ras Al Khaimah Charity Foundation from 2012 to date. He has many experiences in other institutions and is a board member since April 2017. He is an independent non-executive Director.
- Mr. Yousef Ali Mohammed, a UAE National, a member of the Board of Directors, holds a BSc in Accounting from the United Arab Emirates University. He is the General Manager of the Finance Department, the Government of Ras Al Khaimah. He has more than 22 years of experience in finance and auditing and held several positions in several institutions such as Emirates Telecommunications Corporation (Etisalat), companies of oil, investments, real estate and auditing, and Ras Al Khaimah National Hotels Co. Ltd., a member of the Board of Directors since April 2017. He does not hold any memberships or positions in other joint stock companies. He is an independent non-executive Director.

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Gulf Pharmaceutical Industries

- Mr. Ahmed Salem Abdullah Al Hosani, a UAE National, a member of the Board of Directors, representative of Al Salem Co. Ltd., holds a BSc of Business Administration, and Director of Real Estate Department of Al Salem Co. Ltd. He is a member of the Board of Directors since 2011, the managing director in Sharjah Insurance Co., and a member of the Board of Directors of Sharjah Cement & Industrial Development Co. Ltd. and Gulf Investment. He is an independent non-executive Director.
- Mr. Jamal Salem bin Darwish Al Nuaimi, a UAE National, a member of the Board of Directors and holds a BSc of Business Administration / Accounting from Beirut Arab University. He has been a Board member since 2014 and does not hold any memberships or positions in other joint stock companies. He is an independent non-executive Director.
- Mr. Ali Hussain Ali Al-Zawawi, a Saudi national, a member of the Board of Directors, and holds a BSc of Pharmacy, King Saud University, Riyadh as well as Diploma of Inspection of Pharmaceutical Industries. He has 20 years of experience in government and private positions, is a member of the Board of Directors of Arab Co. for Drugs Industries & Medical Appliances (2005), a joint Arab government company. He has been a Board member since 2014 and does not hold any memberships or positions in other joint stock companies. He is an independent non-executive Director.

4.3. Women's representation in the Board of Directors in 2018

Currently, there is no representation of women in the current membership of the Board of Directors. There are no reasons to prevent candidacy for membership of the Board of Directors and Julphar always encourages the participation of women in the Board of Directors in the belief of the importance of diversity of experiences. Candidacy for membership of the Board of Directors was open in 2017, but no female representative was nominated in the new formation. Julphar Board of Directors certainly encourage qualified female candidates to submit their candidacy for consideration.

4.4. Remuneration paid to Board of Directors for the year 2017 & 2018

On April 2018, the General Assembly approved the remuneration of the Board of Directors for the year 2017 in amount of (AED 5,100,000) five million and one hundred thousand dirhams distributed to all members of the Board of Directors in accordance with the adopted policy as a remuneration for prior year 2017.

In 2018 and due to exceptional circumstances, mainly in the UAE market and the Saudi market and consequent losses for the year ended December 2018, the remuneration of the Board of Directors for 2018 will be withheld except for the prepaid remuneration as stipulated in Article (38) of the Articles of Association of the Company, which stipulates "Each member of the Board of Directors shall be directly and severally subject to deduction of AED 20,000 from the annual remuneration determined by the General Assembly for the previous financial year for each meeting of the Board of Directors in which he/she has been absent as long as he/she has been called for such meeting in accordance with the Law and the Articles of Association of the Company. If a member of the Board of Directors has assigned other members of the Board to vote on his/her behalf at the Board of Directors meeting, such assignment shall not be considered as a personal presence such member".

The item will be on the agenda of the General Assembly for voting at its meeting to be held during 2019.

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4.5. Allowances for attendance at the meeting of the Board of Directors and its committee

SN	Name	Allowances for attending the BOD Committees		
		Name of Committee	Allowance Amount	Number of Meetings
1	Sh. Saqr bin Humaid Al Qasimi – Committee Member	Nomination and Remuneration Committee	15,000	3
2	Mr. Jamal Salem Al Nuaimi - Former Chairman of the Committee	Nomination and Remuneration Committee	20,000	2
3	Mr. Ahmed Salem Al Hosani - Committee Member	Nomination and Remuneration Committee	15,000	3
4	Mr. Hassan Al AlAlkim Al Zaabi - Chairman of the Committee	Nomination and Remuneration Committee	10,000	1
5	Mr. Yousef Ali Mohammed - Chairman of the Committee	Audit Committee	90,000	9
6	Mr. Ahmed Salem Al Hosani - Committee Member	Audit Committee	45,000	9

- Regarding the accounting expert, Mr. Ahmad Mansour who is a member of the Audit Committee from outside the Board of Directors, an amount of AED 45,000 was paid to him during the year 2018 as allowances attending of nine audit committee meetings (who resigned in 27 December 2018).

The Nomination and Remuneration Committee was reconstituted at the Board of Directors meeting No. 6 of 2018 on 18th October 2018 in which Mr. Hassan Ahmed Al Alkim replaced Mr. Jamal Salem bin Darwish as Chairman of the Committee.

An executive committee was formed from the Board of Directors at the meeting of the Board of Directors No. 6 of 2018 on 18 October 2018 with the membership of:

1) Dr. Ali Hussein Al Zawawi – Chairman
2) Sheikh Abdullah bin Faisal Al Qasimi – Member
3) Sheikh Saqr bin Humaid Al Qasimi – Member
4) Mr. Abdul Aziz Abdullah Al-Zaabi – Member
5) Mr. Jamal Salem Al Nuaimi – Member

The attendance allowance for the Committee's meetings was as follows:

SN	Name	Allowances for attending the Executive Committee's meetings		
		Name of Committee	Allowance Amount	Number of Meetings
1	Dr. Ali Hussein Al Zawawi – Chairman of the committee	Executive Committee	30,000	3
2	Sheikh Abdullah bin Faisal Al Qasimi - Member of the committee	Executive Committee	15,000	3
3	Sheikh Saqr bin Humaid Al Qasimi - Member of the committee	Executive Committee	15,000	3
4	Mr. Abdul Aziz Abdullah Al Zaabi - Member of the committee	Executive Committee	15,000	3
5	Mr. Jamal Salem bin Darwish Al Nuaimi - Member of the committee	Executive Committee	15,000	3

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4.6. Board of Director meetings held during 2018

Board of Directors' meetings are held in the presence of the majority of members. In the fiscal year ended 31 December 2018, eight Board of Directors' meetings were held. The following are the dates of Board of Directors' meetings and the number of times of personal attendance of all members of the Board of Directors:

SN	Date of Meeting	Number of Attendants	Number of Attendants by Proxy	Names of Absent Members
1	21/02/2018	8	--	Mr. Hassan Ahmed Al AlkeemAl-Zaabi
2	28/03/2018	9	--	--
3	13/05/2018	9	--	--
4	02/06/2018	8	--	Mr. Ahmed Salem Al Hosani
5	06/09/2018	8	Mr. Ahmed Al Hosani delegated Mr. Yousef Ali	Mr. Ahmed Salem Al Hosani
6	18/10/2018	9	--	--
7	08/11/2018	7	Mr. Abdul Aziz Al-Zaabi delegated Mr. Yousef Ali	Mr. Abdul Aziz Al-Zaabi and Mr. Ahmed Al Hosani
8	20/12/2018	9	--	--

4.7. Delegation of Authority

A statement of the BOD's tasks and functions which were performed by the Executive Management pursuant to an authorization by the BOD to the Management, stating the period and validity of the delegation.

SN	Name of the authorized person/s	Delegation authority	Duration of Delegation
1	Mr. Yousef Ali and Mr. Jerome Carle	Follow up and sign the agreement of separation from Global and acquisition of the associate company Planet	Since 13 May 2018 to 02 June 2018
2	Sheikh Faisal bin Saqr Al Qasimi and Mr. Jerome Carle	Follow up and sign the agreement of separation from Global and acquisition of the associate company Planet	Since 02 June 2018 until the completion of the transaction

4.8. Details of transactions made with the related parties

The transactions of the related parties are the transactions in which a party has control or the ability to control, directly or indirectly, or exercise any material influence on the other party in making the financial and operating decisions. The transactions of the related parties create potential or actual conflicts of interest for the Company and can give the impression that the business decisions depend on considerations contrary to the interests of the Company and

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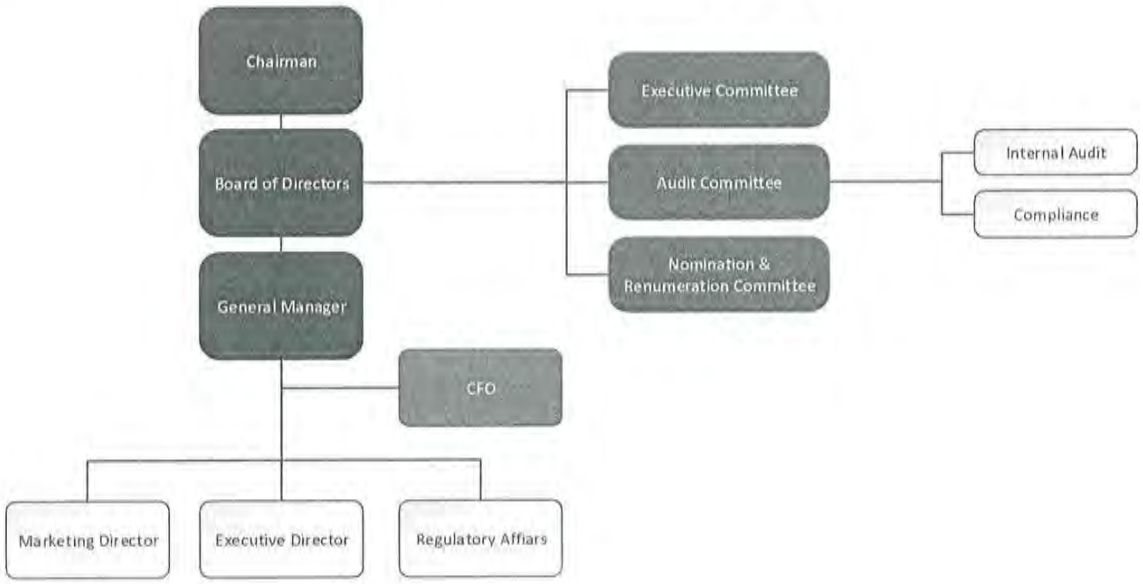
shareholders. However, there are certain cases in which the transactions of the related parties may be in the interest of the Company and its shareholders. Accordingly, our Company adopted a policy for the transactions of the related parties to provide a proper framework for reviewing and approving the transactions of related parties.

The Julphar's management reviews the related parties' policy, which includes founding shareholders, members of the Board of Directors, members of Executive Management and the necessary disclosures in this regard. In cases of transactions with related parties, the approval of the Board of Directors shall be considered, and the related party shall abstain from voting on the decision of the Board of Directors which is related to him as related party if he is a member of the Board of Directors and of the General Assembly if he is a shareholder.

The transactions of related parties with Julphar as of 31 December 2018 were the transactions with subsidiaries and associates as shown in the following table:

Name of Company	Sales as at the end of 2018	Purchases as at the end of 2018
Planet Pharmacies LLC	171,395,932	-
Julphar Egypt	59,770,352	3,596,176
Julphar Ethiopia	7,519,008	-
Julphar Bangladesh	532,839	-
Julphar Saudi Arabia	155,509	-
Gulf Inject	-	7,304,013
Majan for Printing & Packaging	-	9,482,654

5. The organizational structure of the Company



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Gulf Pharmaceutical Industries

5.1. Executive Management Team

The Executive Management of Julphar is responsible for its day-to-day operation in accordance with the responsibilities and tasks assigned to it within the framework of the rules of governance, the provisions of the Articles of Association and powers vested in it by the Board of Directors of the Company, and carries out its duties according to the mechanism of achieving distinguished performance and ambitious goals. The organization is headed by the General Manager, Mr. Jerome Carle, who is responsible for the organization's key business activities, administrative functions as well as the periodic and effective contribution and guidance to develop performance in-line with the approved Strategic plan. He is also supported by the Executive Management, for implementing the strategies and policies adopted to achieve the objectives of the organization. He is further responsible towards the Board of Directors for managing and implementing an effective internal control system and applying all recommendations related thereto submitted by the auditors and the external control bodies as well as by the Board of Directors and its committees.

The following table shows the names of Executive Management members, the dates of their appointment, their current positions and the remuneration paid to them during 2018 for the performance of 2017:

Position	Date of Appointment	Total Salaries and Allowances paid in 2018 (AED)	Total Bonuses paid in 2018 (AED) for 2017 performance	Other Cash/in-kind benefits for 2018 or payable in the future
General Manager	08/01/2017	1,542,480	515,000	--
Executive Director	28/05/2003	1,030,145	300,000	--
Chief Financial Officer	29/05/2017	945,000	56,000	--
Regulatory Affairs Director	01/04/2015	748,000	43,200	--
Marketing Director	27/06/2010	606,690	35,952	--

The remunerations and incentives associated with the performance of the Company are calculated according to the individual performance appraisal mechanism within the framework approved by the Nomination and Remuneration Committee. This appraisal is currently being carried out and approved for all members of the Executive Management team. The remunerations and incentives to be paid for 2018, if any, will be disclosed immediately upon completion of their calculation and the approval thereon by the Nomination and Remuneration Committee.

6. Internal and External Auditors

6.1. About Company's External Auditors

PricewaterhouseCoopers was appointed as External Auditors for 2018. PricewaterhouseCoopers is one of the global leading auditing firms, with operations in 154 countries. They have been in the Middle East for nearly 43 years.

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Gulf Pharmaceutical Industries

PricewaterhouseCoopers has been in the UAE for more than 27 years and specializes in auditing, business advisory services and taxes. PricewaterhouseCoopers has been hired for the first time in 2015.

PricewaterhouseCoopers had other professional services that were provided to the Company during 2018, other than auditing through the Advisory Services Department; however, we emphasize that these services do not contradict the independence and impartiality of the Audit Department.

6.2. Fees or costs for services provided by the internal and external auditors

The Board of Directors utilizes Julphar's governance framework to determine the nomination process, scope and powers of the external auditors while ensuring full independence for the exercise of their assigned duties, before submitting its recommendations to the General Assembly for approval of the engagement and the annual fees of the auditors.

The Audit Committee oversees the tender for the appointment of the Company's external auditors, followed by an interview with the Partner of the auditing company in order to ascertain his experience and knowledge of the tasks assigned to him. The Committee then submits its recommendations to the Board of Directors, which in turn submits the proposal for appointment to the General Assembly for approval or rejection.

Below are details of transactions with external auditors.

Name of External Auditing Office:	PricewaterhouseCoopers
Number of years served as an external auditor for the Company:	Four (4) years
Total fees for auditing the financial statements of 2018 (in AED):	AED 375,000
The fees and costs of the special services other than the auditing of the financial statements in 2018 (in AED):	AED 311,025
The details and nature of other services provided	Working Capital optimization Accounting scheme for Planet acquisition
Name of the Internal Auditing Office:	KPMG
The services performed The fees	Internal Audit AED 379,230

6.3. Opinions made by the company's external auditor

The External Auditors made a reservation in his report on the interim financial statements for the third quarter of 2018 as follows:

Basis of the Reserved Conclusion

As explained in Note (1) of the financial information, in September 2018 the Saudi Food and Drug Authority (SFDA) imposed a temporary suspension on the export of the Company's products to Saudi Arabia. The Company deals with only one distributor in Saudi Arabia, and accordingly all products exported to Saudi Arabia are shipped to this distributor. The Company's trade receivables from this distributor as at September 30, 2018 amounted AED 579 million, which is included in the Company's interim summarized consolidated statement of financial position. The balance of trade receivables amounts AED 243 million, which was outstanding for over two years. The Management did not provide us with a full assessment of whether these trade receivables could be recovered or an estimate of the present value of expected future

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Gulf Pharmaceutical Industries

cash flows from the distributor in Saudi Arabia (discounted at an appropriate effective interest rate). Therefore, we were not able to perform the actions that in our opinion were necessary to ensure the timing of collection and recovery of this balance. If we were able to complete our audit of these trade receivables, our attention would have been drawn by other issues that might require amendments to the interim summarized consolidated financial information.

Reserved Conclusion

Except for the amendments to the interim summarized consolidated financial information of which we would have been aware unless had not been for the situation described above and based on our audit, nothing had come to our attention that caused us to believe that the enclosed summarized consolidated interim financial information was not prepared, in all material aspects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

At the date of this report, the financial statements for the year ended 31 December 2018 were not issued, therefore, it was not possible to confirm the continued existence of these reservations. In general, the executive management is working hard to implement the necessary requirements in order to ensure the removal of these external auditor's reservations.

7. Audit Committee

7.1. Members of the audit committee, and a statement of its functions and the duties

The Audit Committee carries out its work in accordance with the provisions of Article (49) of Resolution No. (7 R.M) of 2016 on the Standards Of Institutional Discipline And Governance Of Public Joint Stock Companies where the main duties, responsibilities and powers of the Audit Committee are to monitor and review financial statements and oversight of the internal control systems and risk management of the Company and make the necessary recommendations to the Board of Directors on any changes in the internal administrative and financial control systems of the Company. The Committee is also responsible for supervising organizing the contracting and dealing with the external auditors of the Company, as well as its main role in ensuring the Company's compliance with all legal and regulatory rules and rules of governance.

The Audit Committee consists of the following members:

- Mr. Yousef Ali Mohammed - Chairman of the Committee and Board Member
- Mr. Ahmed Salem Al Hosani - Member of the Committee and Board Member
- Mr. Ahmed Mansour - Member of the Committee from outside the Board of Directors (who resigned in 27 December 2018).

7.2. Meetings held by the audit committee during the year 2018

During 2018, the Committee held nine meetings; the dates of the meetings of the Audit Committee and the number of times of personal attendance of all members of the Committee are set out below:

SN	Date	Attendants	Absent	Purpose of Meetings
1	25/02/2018	All members of the Committee	--	Discussion of internal auditors reports & other issues
2	18/03/2018	All members of the Committee	--	Discussion of external auditor's report related to financial statements & other issues

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Gulf Pharmaceutical Industries

3	24/04/2018	All members of the Committee	--	Discussion of matters of the associate company (Planet) & other issues
4	13/05/2018	All members of the Committee	--	Discussion of external auditor report related to financial statements & other issues
5	24/05/2018	All members of the Committee	--	Discussion of internal auditors reports & other issues
6	07/08/2018	All members of the Committee	--	Discussion of external auditor's report related to financial statements & other issues
7	04/10/2018	All members of the Committee	--	Discussion of internal auditors reports & other issues
8	06/11/2018	All members of the Committee	--	Discussion of external auditor report related to financial statements & other issues
9	19/12/2018	All members of the Committee	--	Discussion of external auditor report related to financial statements & other issues

7.3. Nomination and Remuneration Committee

The Nomination and Remuneration Committee carries out its work in accordance with the provisions of Article (47) of Resolution No. (7 R.M) of 2016 on the Standards Of Institutional Discipline And Governance Of Public Joint Stock Companies where its main duties, responsibilities and powers are to determine the group of individual and total remuneration for the members of the Board of Directors in accordance with the framework adopted by the shareholders, and develop the remuneration policy for the Executive Management associated with the performance of the Company. The Committee is also responsible for the preparation and review of human resources policies in accordance with relevant laws and regulations and supervises the procedures for nomination of members of the Board of Directors and the bases of their nomination.

The Nomination and Remuneration Committee consists of the following members:

- Mr. Hassan Ahmed Al-AlAlkeemAl Zaabi - Chairman of the Committee and Board Member
- Sheikh Saqr bin Humaid Al Qasimi - Member of the Committee and Board Member
- Mr. Ahmed Salem Al Hosani - Member of the Committee and Board Member

The Nomination and Remuneration Committee was reconstituted at the Board of Directors' Meeting No. 6 of 2018, which was held on Thursday 18 October 2018

7.4. Nomination & Remuneration Committee meetings during the year 2018

Dates of the meetings of the Nomination and Remuneration Committee and the number of times of personal attendance of all members of the Committee are as follows:

SN	Date	Attendants	Absents
1	20/02/2018	All members of the Committee	--
2	13/05/2018	All members of the Committee	--
3	28/10/2018	All members of the Committee	--

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8. Insiders' Trading Follow-Up and Supervision Committee

8.1. Formation and duties of the Committee

Follow-up and Supervision Committee on Insiders' Transactions was formed as in August 2017 from the following members of management:

- Mohammed Ahmed Odeh, Internal Control Manager – Chairman of Committee
- Ayham Abdullah Othman, Sr. Legal Affairs Manager – Member of the Committee
- Hassa Ali Al Shehhi, Stock Management Asst. Manager - Member of the Committee

The duties of Follow-up and Supervision Committee on Insiders' Transactions are as follows:

- Adherence to the resolutions of the Securities and Commodities Authority and the Abu Dhabi Securities Exchange and the amendments thereto.
- Responsibility for supervising the transactions of insiders and their property, keeping the register and submitting the periodic statements and reports to the Exchange.
- Updating the list of insiders in case of change thereto and informing the concerned authorities.

8.2. Insider Committee's activities in 2018

The Insider Committee held one meeting during 2018 on 20 November 2018 with the presence of all its members. Accordingly, Abu Dhabi Securities Exchange was provided with the latest list of the insiders, which was kept updated. The Committee also followed up insiders' transactions in the Company's shares, kept the register of transactions of the financial year of 2018 and adhered to the resolutions of the Securities and Commodities Authority and the Abu Dhabi Securities Exchange, which will be issued in the future and the consequent amendments.

8.3. Any committee or other committees approved by the Board of Directors

The Board's Supporting Committee was formed at the meeting of the Board of Directors No. 2017/04 held on 18 May 2017 with the following members:

- Mr. Abdul Aziz Abdullah Al-Zaabi – Chairman of the Committee
- Dr. Ali Hussein Al Zawawi – Member

The mission of this Committee is to develop a strategy to support the business of the Company, work with government agencies in the UAE to support the local pharmaceutical industries and thus support Julphar as the largest and most important national company in this field locally, work on supporting the Company's share in governmental tenders within the UAE and engage the parties it deems appropriate to support the Board of Directors of the Company in making appropriate decisions to develop the business of the Company.

The Committee held its first meeting on 20 February 2018 in the presence of all its members. On 18 October 2018, the Board's Supporting Committee was dissolved at the meeting of the Board of Directors No. 6 of 2018 and an alternative committee, the Executive Committee, was formed to follow up the implementation of the decisions of the Board of Directors and follow up the work of the organization.

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Executive Committee consists of the following members:

- Dr. Ali Hussein Al Zawawi – Chairman
- Sheikh Abdullah bin Faisal bin Saqr Al Qasimi – Member
- Sheikh Saqr bin Humaid bin Abdullah Al Qasimi – Member
- Mr. Abdul Aziz Abdullah Al-Zaabi – Member
- Mr. Jamal Salem bin Darwish Al Nuaimi – Member

A statement of the number of the Committee's meetings during 2018:

SN	Date	Attendants	Absents
1	24/10/2018	All members of the Committee	--
2	17/11/2018	All members of the Committee	--
3	13/12/2018	All members of the Committee	--

9. Internal Control

9.1. The Board of Director's acknowledges its responsibility for monitoring and oversight of the Internal Control System in Julphar and its review of the functioning mechanism of internal control and ensuring its effectiveness

The Internal Control Department of Gulf Pharmaceutical Industries (Julphar) regulates the policies of internal audit and control that help the Company to implement an effective internal control system as well as implement a comprehensive governance system. Accordingly, the Board of Directors has entrusted the Internal Control Department and the Audit Committee with the following duties:

- Ensure the validity and integrity of work procedures in all administrative and financial departments
- Ensure the effectiveness and efficiency of financial, administrative and technical performance
- Follow up and address problems and correct errors discovered during work
- Evaluate the risk management tools and procedures of the Company and apply the governance rules properly
- Ensure the commitment of the Company and its employees to the provisions of the laws, regulations and decisions in force that regulate its work
- Work on the financial and administrative development by providing recommendations and suggestions to the stakeholders in the Company
- Ensure the implementation of internal policies and procedures
- Review the financial data presented to the Company's senior management, which are used in preparing the financial statements

In general, the Board of Directors are responsible for the monitoring the internal control system and reviewing its effectiveness by maintaining company's assets, maintaining correct financial statements and disclosing errors and irregularities. The Board of Directors are required to review the Audit Committee's report on the results of internal control activities and the periodic reports on oversight activities. Internal controls also include the Company's organizational structure, policies and guidelines, and the identification of the authorities, delegations and performance

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Gulf Pharmaceutical Industries

monitoring mechanisms established to monitor the Company's operations efficiently and regularly.

9.2. The name, qualifications, and date of appointment of the Head of Internal Control Department

Mohamed Odeh is Company's Internal Control Manager since 2011. He holds a BSc of accounting in 1998. He is a qualified accountant since 2002 and is a member of the Arab Society of Certified Public Accountants (ACPA). He has extensive experience in auditing and financial management.

9.3. The name, qualifications, and date of appointment of the Compliance Officer

During 2016, Mr. Mohamed Mahmoud Shaaban was appointed a Compliance Officer. He holds a BSc of Accounting and compliance training courses and has good experience in the field of compliance and auditing. He resigned on May 2018 and the Internal Control Manager was appointed as a temporary Compliance Officer until a full-time Compliance Officer was appointed.

9.4. How the Internal Control Department handle any significant issues in the company

In the event of problems or irregularities, the internal control policy requires the immediate reporting to the Audit Committee and the Executive Management of such problems and how to address them and effect the procedures and controls against the occurrence of such problems again in the future.

The problems encountered by the Company and disclosed in the financial statements during the year are as follows:

- During the year 2018 one of the partners in the two subsidiaries of Planet Pharmacies LLC (Planet) in the Kingdom of Saudi Arabia which is an associate company in which the Company (Julphar) is a 40% shareholder, has taken control of the two companies in Saudi Arabia by appointing himself as a general manager and taking actions that are not authorized under the agreement of the designated partner in force. Accordingly, Planet filed several lawsuits against the designated partner for such actions.
- In September 2018, the Saudi Food and Drug Authority (SFDA) imposed a temporary suspension on the export of the Company's products to Saudi Arabia. The risks that may be affected by the company is a decrease in sales in general, where the Saudi market represents 25-30% of company total sales. The company also may face the risk of collection of the outstanding balance in the Saudi market of AED 526 million as at the end of 2018.
- During the year 2018 several products of the company were withdrawn from the local markets due to various deviations versus applicable standards and regulations.

Procedures implemented:

The company has put in place several action plans to implement all the recommendations related to observations of regulatory bodies under the direct guidance of Directors through the Committees of the Board until the underlying issues have been resolved and implementation of the required action plan is completed.

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Gulf Pharmaceutical Industries

10. Violations committed during the year 2018

In December 2018, the company received an alert from the Securities and Commodities Authority (SCA) for its delay in disclosing its financial statements for the third quarter of 2018. This was due to exceptionally long discussions between the external auditors, the audit committee and the board of directors regarding the qualifications of auditor's opinion. To avoid any delay in disclosing the financial statement in the future, the company has taken it upon itself to improve coordination process with the External Auditors, Audit Committee and Board of Directors in order to disclose the financial statements on time.

11. Community development and environmental conservation

11.1. Local Community Support

The support and development of the local community is one of Julphar's main objectives. Julphar always supports scientific, charitable and community-based institutions of public interest and sponsors many events, conferences and scientific gatherings, especially in the public health sector. Julphar's contributions to universities, local institutions and community members during 2018 amounted to AED 1,344,207.

11.2. Continuous Training and Support for Community Development

The Julphar Training Center conducts long-term training programs on Good Manufacturing Practices (GMP) to enable staff to perform and develop work related to quality more effectively through preventive and corrective action plans on an annual basis. The Julphar Training Center conducts training courses necessary to develop staff knowledge.

In support of local community development, Julphar in 2018 received approximately 432 visiting students and 305 trainees in various departments of the Company, including technical training, good manufacturing practices, laboratory practices, documentation practices and others.

On the other hand, 566 employees of the Company have been enrolled in training courses in several areas such as leadership, skills enhancement, innovation and total quality management.

12. General Information

12.1. A statement of the Company share price in the Market

Month	Highest Price	Lowest Price	Closing Price
01	2.44	2.21	2.35
02	2.40	2.10	2.20
03	2.40	2.10	2.30
04	2.45	2.06	2.40
05	2.35	2.04	2.10
06	2.30	2.02	2.15
07	2.30	2.15	2.15
08	2.15	2.00	2.00
09	2.20	2.00	2.00
10	2.20	2.00	2.01
11	2.19	2.01	2.10
12	2.09	1.90	1.95

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Gulf Pharmaceutical Industries

12.2. The Company's share performance compared to the general market index for 2018

Month	Share Price	General Index - ADX
01	2.44	4643.69
02	2.40	4597.66
03	2.40	4585.40
04	2.45	4669.52
05	2.35	4605.04
06	2.30	4560.03
07	2.30	4859.45
08	2.15	4986.88
09	2.20	4935.36
10	2.20	4901.87
11	2.19	4770.08
12	2.09	4915.07

12.3. The Company's share performance compared to the industrial sector index for 2018

Month	Share Price	General Index
01	2.44	2156.88
02	2.40	2130.28
03	2.40	2058.3
04	2.45	2074.18
05	2.35	1950.38
06	2.30	1974.05
07	2.30	1965.06
08	2.15	1864.53
09	2.20	1830.77
10	2.20	1746.14
11	2.19	1714.11
12	2.09	1629.81

12.4. Shareholding distribution as of 31 December 2018 (individuals, companies, governments) classified as follows: local, GCC, Arab, foreign using the table below

SN	Classification of Shareholder	Percentage of Owned Shares			
		Individual	Companies	Government	Total
1	Local	35.65	8.59	21.58	65.82
2	Gulf	14.77	0.78	0	15.55
3	Arabian	1.15	12.92	0	14.07
4	Foreign	0.71	3.85	0	4.56
Total		52.28	26.14	21.58	100

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Gulf Pharmaceutical Industries

12.5. Shareholders who held 5% or more of the Company's capital as of 31 December 2018

SN	Name	Number of Owned Shares	Percentage of Owned Shares in the Company's Capital
1	Government of Ras Al Khaimah	250,008,546	21.58
2	Arab Co. for Drugs Industries & Medical Appliances (ACDIMA)	106,013,466	9.15
3	Yasser bin Yousef Mohammed Naghi	103,573,732	8.94
4	Sheikh Faisal bin Saqr Al Qasimi	92,499,365	7.98
5	Salem Abdullah Salem Al Hosani	81,427,322	7.03
6	Mohammed Abdul Aziz Rabi Al Muhairi	78,426,430	6.77
	Total	711,948,861	61.45

12.6. Distribution of shareholders according to the ownership as on 31 December 2018

SN	Ownership of Shares	Number of Shareholders	Number of Owned Shares	Percentage of Owned Shares in the Company's Capital
1	Less than 50,000	1,220	7,604,680	0.65
2	From 50,000 to less than 500,000	190	35,741,541	3.09
3	From 500,000 to less than 5,000,000	84	123,963,875	10.7
4	More than 5,000,000	23	991,192,704	85.56
	Total	1,517	1,158,502,800	100

12.7. Control of investor relations with listed companies

The Company has an Investor Relations Department to provide all necessary facilities, services and information required by investors. Below is the information of Investor Relations Department:

- Name of Investor Relations Officer: Hassa Al Shehhi
  Telephone Number: 0097172045273
  Email: investors@julphar.net
  Investor Relations Web page at http://www.julphar.net/en/investors

12.8. Special resolutions presented to the General Assembly held in 2018 and the procedures taken with respect thereto

No special item was included in the agenda of the Assembly held on 26 April 2018.

12.9. The name of the board secretary and the date of his/her appointment

Ms. Hanan Ibrahim Al-Hourani acts as Rapporteur of Julphar Meetings, who was appointed a rapporteur and secretary of the Board of Directors on 30 October 2014.

12.10. Significant events that took place during 2018

- 31 January 2018: The Company was awarded the Sharjah Economic Excellence Award and was honored as one of the top 10 companies in the GCC at a ceremony held at the Sharjah Expo Center

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- 07 February 2018: The Company signed with the Ministry of Health and Prevention an agreement to ensure the provision of important medical supplies during crises, which will contribute to the readiness of all sectors of the state in emergencies
- 26 February 2018: Julphar received the annual health award at its second session, which is a landmark achievement in the field of healthcare. This event brought together stakeholders from the public and private sectors and was attended by 17 prominent industry and healthcare professionals in the region.
- On July 2018 one of the partners in the two subsidiaries of Planet Pharmacies LLC (Planet) in the Kingdom of Saudi Arabia which is an associate company in which the Company (Julphar) is a 40% shareholder, has taken control of the two companies in Saudi Arabia by appointing himself as a general manager and taking actions that are not authorized under the agreement of the designated partner in force. Accordingly, Planet filed several lawsuits against the designated partner for such actions.
- 17 September 2018: The Saudi Food and Drug Authority (SFDA) issued a circular for the temporary suspension of the export of Julphar products to Saudi Arabia and the withdrawal and suspension of certain products from the market
- 07 October 2018 Julphar has announced its entry into the oncology market through a license and supply agreement with Russia's leading biotechnology company, BIOCAD. Julphar will be partnering with BIOCAD and Health Authorities to register three leading specialized products to the UAE, which are used to treat breast cancer, B-cell non-Hodgkin's lymphoma, chronic lymphocytic leukemia, colon cancer, lung cancer and glioblastoma
- 29 November 2018: In line with the UAE National Day celebrations and the Year of Zayed, the Company was honored by His Highness Sheikh Mohammed bin Rashid Al Maktoum as one of the first UAE Awards in Abu Dhabi
- 27 December 2018: Julphar entered into a transaction with Dutch pharmaceutical company PharmaMatch BV to launch a new combination for high blood cholesterol, which is currently not available in the UAE market

12.11. Emiratization percentage in the Company as of 2018

The company has a staff amounting 180 employees of UAE nationals and a percentage of Emiratization of 6.4% by the end of 2018.

12.12. Innovative projects and initiatives during 2018

Through its employees, Julphar has manufactured comprehensive lines known as Cross Air Locks, or Transport Rooms or Ports to simplify the transport of pollution-free materials inside and outside designated areas for the manufacture of highly-sensitivity drugs that requires the highest level of sterilization. Such devices cannot be easily manufactured or procured within Middle Eastern region, requiring significant amount of time and effort to assemble. In addition, installation and operation of these devices also require high cost price and specialized technical staff.

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Building a policy to reuse resources, recycle old equipment and devices, while finding new uses with the adoption of modern technologies in addition to paying attention to energy conservation.

Signing a partnership agreement with Masdar Renewable Energy Company to conduct feasibility studies for the installation of solar panel systems, and to benefit from the clean energy of the sun and reduce the carbon footprint.

Signature of Chairman

Company Official Seal

Date: 28-05-2019

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