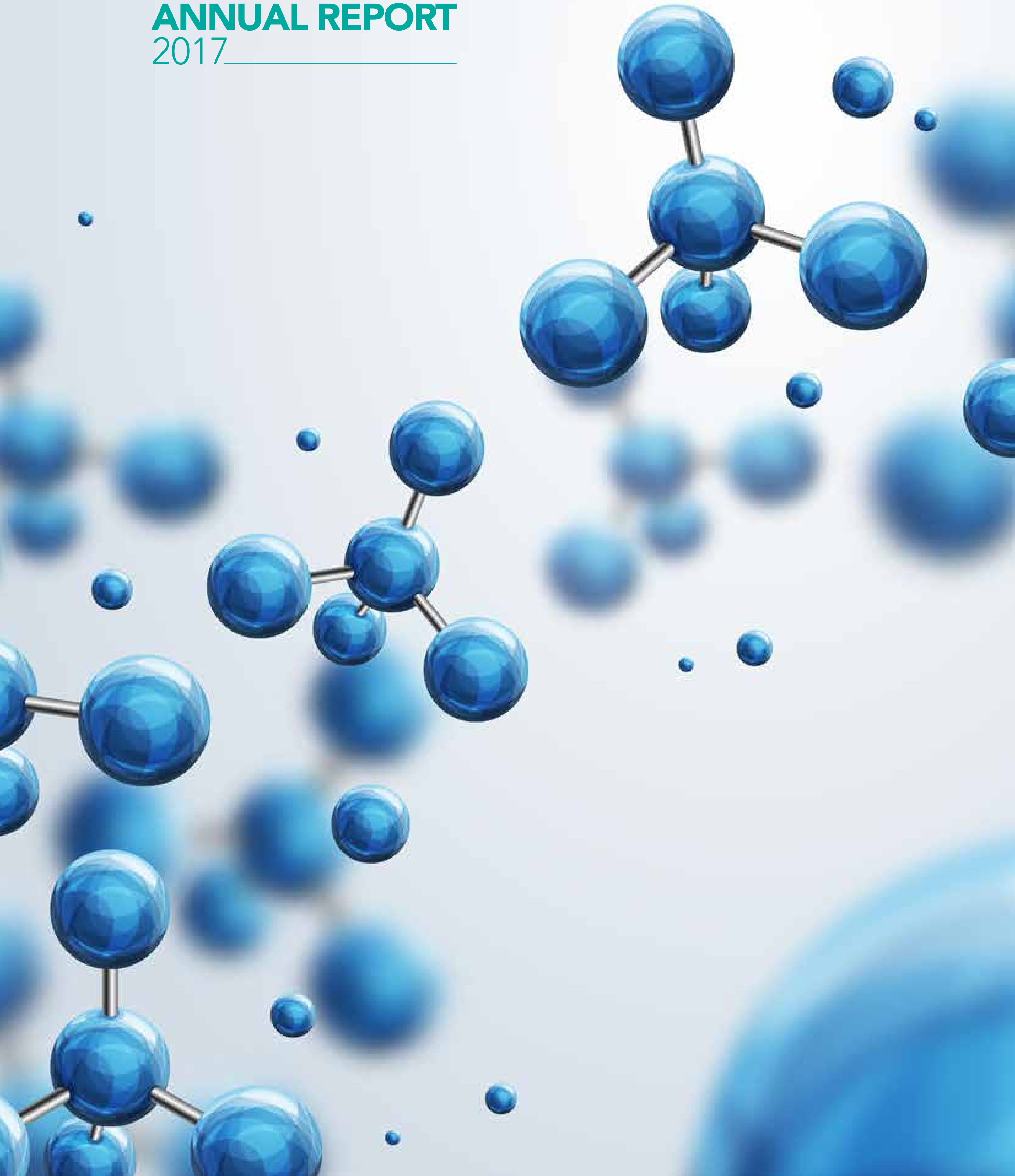
Julphar

ANNUAL REPORT 2017



Julphar

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INTRODUCTION

Chairman's message

Dear shareholders,

On behalf of the Board, I am pleased to present Julphar's Annual Report for 2017.

I am happy to report another year of good performance, some important new product approvals and continued cash returns to shareholders.

Following Jerome Carle's appointment as General Manager on 27 August 2017, the Board conducted a review of the company's strategy with management in terms of the operating environment and industry dynamics. Improving our pipeline is a key focus and early progress has been very encouraging.

The Board was involved with a number of other top executive appointments in 2017, namely our new CFO, Laurent De Chazeaux. We also continue to bring in new skills and capabilities to the Board.

Although the year under review has been challenging, we continued to act with resilience and delivered encouraging outcomes. We remain cautiously optimistic as we enter the financial year 2018-19 as it is an important year for the organization on several fronts.

Transformation

Julphar remains well poised for continuous and sustained growth. In the next decade, we aim to transform the organization into an innovative company with an increasing percentage of our revenues coming from our internal R&D pipeline. Our objective will also be to build on our global leadership position across our core therapeutic areas of Cardio, Diabetes, Gastro, Wound Care and Antibiotics.

Our robust pipeline of products, strong R&D capabilities, strategic manufacturing locations, along with a dynamic global team and a sound governance structure will help us emerge as a promising, integrated, science-led global pharmaceutical company. We will continue to deliver on stakeholder expectations with increased profitability and improved cash flows in the coming years.

Expansion and Growth

As we move towards the next phase of expansion and growth, I would like to thank all of Julphar's employees and partners for their hard work throughout 2017 and our shareholders and customers for their continued support. We are excited with the future potential of new products, new markets and our new direction and look forward to a successful 2018.

We hope this Annual Report will give you a flavor of our journey so far.

Thank you,

His Highness Sheikh Faisal Bin Saqr Al Qasimi
Chairman of Julphar

General Manager's message

I'm delighted to introduce Julphar's 2017 Annual Report, my first as General Manager. Since joining Julphar it has become apparent that while the healthcare industry in the Middle East and Africa remains a very attractive sector, it is entering a period of significant change bringing both challenges and opportunities.

New Road Map

In 2017 we presented a new road map setting out long-term priorities in line with our Vision 2020 objectives. A top priority is to improve performance in the pharmaceuticals business and to seek more growth from R&D. Our renewed focus on innovation will enable Julphar to capitalize on the opportunities in our industry to drive long-term value.

Performance

2017 has been another challenging year for the industry, especially in MENA due to currency devaluation, forex shortage, political instability, price cuts and import restrictions. Despite those headwinds, Julphar has gained momentum and market share thanks to our dedicated teams all across the region.

We have reorganized Julphar around three business units – Julphar General Medicines, Julphar Diabetes Solutions and our CHC- (Consumer Healthcare) division - Julphar Life. Our new product sales have been promising and the performance of these new products is a great demonstration of what we can achieve in the future.

Towards the end of 2017 we received new

approvals for major Diabetes and Cardiovascular products from Health Authorities. We successfully acquired Gulf Inject and we signed new distribution agreements in Africa and Asia. We also moved the organization forward in terms of reach with the opening of a new state-of-the-art manufacturing facility in Saudi Arabia.

Finally, we have completed our Management Team reorganization and recruited several key talents who will bring great experience and know-how in our Company. They include Regional Sales Directors for Africa, GCC, Saudi Arabia and Intercontinental regions, Head of CHC Division, Head of Diabetes Solutions Division, Head of Human Resources, Head of Supply Chain and Communication Manager.

Outlook

We are off to a solid start in 2018. Our focus is to increase our impact in the global pharmaceutical industry. And we have done a lot on many fronts - on the commercial front, on the R&D front and in manufacturing. We are working on new innovations to enrich our portfolio; we are building up a solid pipeline and we are targeting double-digit growth in 2018 with the launch of 25 new products in the UAE.

We are also proud to announce that we have increased our market share in UAE to reach the number 1 position. Our ambition is to drive a high-performance culture, putting science at the heart of Julphar, remaining true to our values and our purpose: to deliver best-in class solutions and real value with compassion and professionalism. We have a rich heritage in the UAE and as leaders in healthcare in the region we have a duty to operate as a responsible business; something that will continue under my leadership.

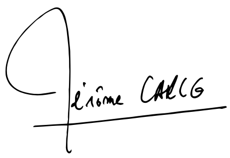
It is clear there are several areas of the company that need to be strengthened and given the momentum we are seeing in our new products and recent launches and the operating performance improvements we are driving, we are increasingly confident in our ability to deliver our 2018 outlook of double digit growth. As we look ahead to 2018, continued investment in our pipeline will keep us on track to return to sustainable growth in line with our targets.

Finally, I would like to confirm that Julphar will continue to identify further business development opportunities and potential acquisitions to expand its product portfolio and pipeline.

I want to say thank you to Julphar's employees, partners and customers for supporting me in my first year as General Manager. I very much look forward to working with them in 2018 and beyond to deliver our long-term priorities and improved performance for Julphar.

Thank you,

Jerome Carle
General Manager of Julphar



CFO's message

I joined Julphar in May 2017 and I have been Acting CFO since September 2017.

2017 has been a challenging and transitional year and, together with the management team, we have continued to take positive steps to adapt to a rapidly changing environment and meet our 2020 goals. Overall, sales revenue declined by 12% to AED 1,273.4 million, mainly due to the situations in Qatar and Yemen as well as the challenging trading environment in Saudi Arabia.

We did, however, experience strong acceleration in sales in the UAE, Iraq, Lebanon and Algeria as well as recovery in Libya and Egypt. Net profit in 2017 was AED 90.3m compared to AED 210.1m in 2016, reflecting mostly a decline in sales. While Selling General and Administrative expenses (SG&A) costs were contained, we invested selectively into key markets and products.

Realizing our Sales and Marketing investments were allocated to a very broad range of products, we conducted a portfolio resource allocation to prioritize resources to the strongest assets and markets. We also reorganized our sales operations into six regional clusters to drive focus and maximize commercial opportunities.

We implemented a new sales Customer Relationship Management (CRM) system and new budgeting tool to focus Julphar on sustainable performance while managing costs and improving cash generation. Trade receivables increased 12% to AED 1,493.7m, mainly due to delayed collections. Net debt stood at 740.9m, compared to AED 627.8m in 2016.

Together with PWC, we initiated Project Ruby to review and optimize our working capital, as well as create and embed a ‘cash culture’ within the organization. We also optimized the number of banking partners and started a debt restructuring process.

Management is mindful of the value that our shareholders attach to dividends and it is our priority to ensure, going forward, that cash dividends are in excess of free cash flow generation. Towards the end of 2017, we took a fresh look at our values and company culture and created a brand identity that reflected the new company we had evolved and grown to be.

We gave our intranet portal a facelift, launched a new corporate video and implemented a new social media strategy. We also strengthened our relationship with the UAE government with the signing of a strategic stock agreement with the UAE Ministry of Health to ensure the availability of critical medical supplies during crisis situations.

Other highlights in 2017 include receiving a nomination for the prestigious Association of Strategic Alliance Professionals (ASAP) award for 2018 along with our alliance partner, MSD. This was the first time a pharmaceutical company from the Middle East and Africa had been nominated for the award and it was a strong confirmation of the value proposition our partnership with MSD offers local patients and the healthcare community.

Outlook

The outlook remains very positive with growth expected to be driven by recent acquisitions, new product launches and growth of our existing products. Julphar is well positioned to continue pursuing its ambitious goals and we are looking forward to further growth in market share and profitability in 2018.

I would like to thank all of our dedicated team at Julphar for their continued commitment and hard work over the last year to deliver our strategic goals. We also are grateful to you, our shareholders, for your continued support. I am confident that Julphar will continue to deliver shareholder value in the future.

Thank you,

Laurent de Chazeaux
Chief Executive Officer

ABOUT JULPHAR

Julphar Management Team. From left to right:

Essam Hamad Biotechnology	**Mohamed Halboni** Julphar Life	**Mervat Musallam** MEBO
Irfan Nabi Sales (Intercontinental Region)	**Fatima Obaid** Tender and Government Business	**Jerome Carle** General Manager
Sherweet Fouad HR	**Talal Zaher** R&D	**Fatema Nayea** Executive Director

Hamdy Al Noor Logistics and Sales Operations	**Shurooq Sultan** Finance Operations	**Ahmed Al Khatib** PR and Communications
Soumah Qotob Quality Assurance	**Assaf Al Arabi** Technical Operations	**Sheikha Khamees** Quality Control
Hosam Badr Marketing	**Laurent De Chazeaux** Chief Finance Officer	

ABOUT JULPHAR

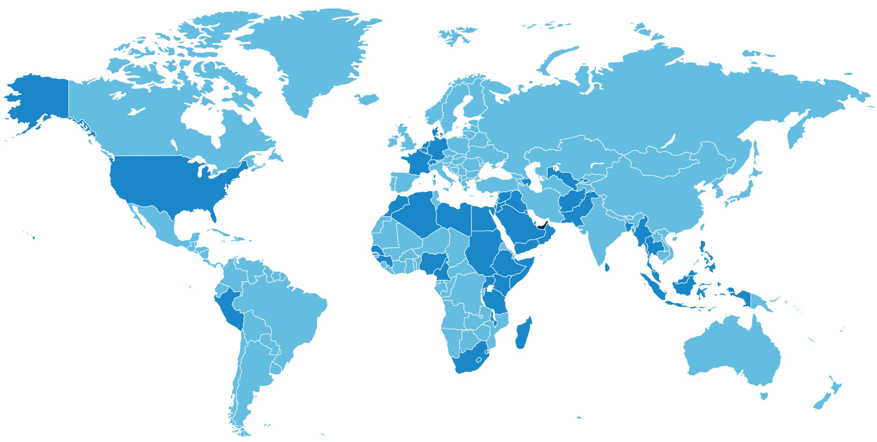
Julphar is one of the largest pharmaceutical manufacturers in the Middle East and Africa and for almost four decades, we have been delivering high quality, innovative and affordable healthcare solutions to families across the globe. We have a global presence and we partner with local, regional and international companies to make a positive impact to the people we serve and the communities in which we operate.

Established under the guidance of His Highness Sheikh Saqr Bin Mohammed Al Qasimi in 1980, Julphar's business is centered on three core business units: Julphar Diabetes Solutions, General Medicines & Branded Generics and our consumer division, Julphar Life. Our medicines target major therapeutic segments including Cardiology, GIT, Pulmonary, Dermatology, Pain, Wound and Scar, and Anti-infectives.

Julphar has 16 internationally accredited facilities in Africa, the Middle East and Asia that produce more than a million boxes of medicines a day including tablets, syrups, suspensions, creams and injectables. In 2012, we became one of the largest producers of Insulin with our state-of-the-art UAE-based Biotechnology facility.

OUR INTERNATIONAL FOOTPRINT

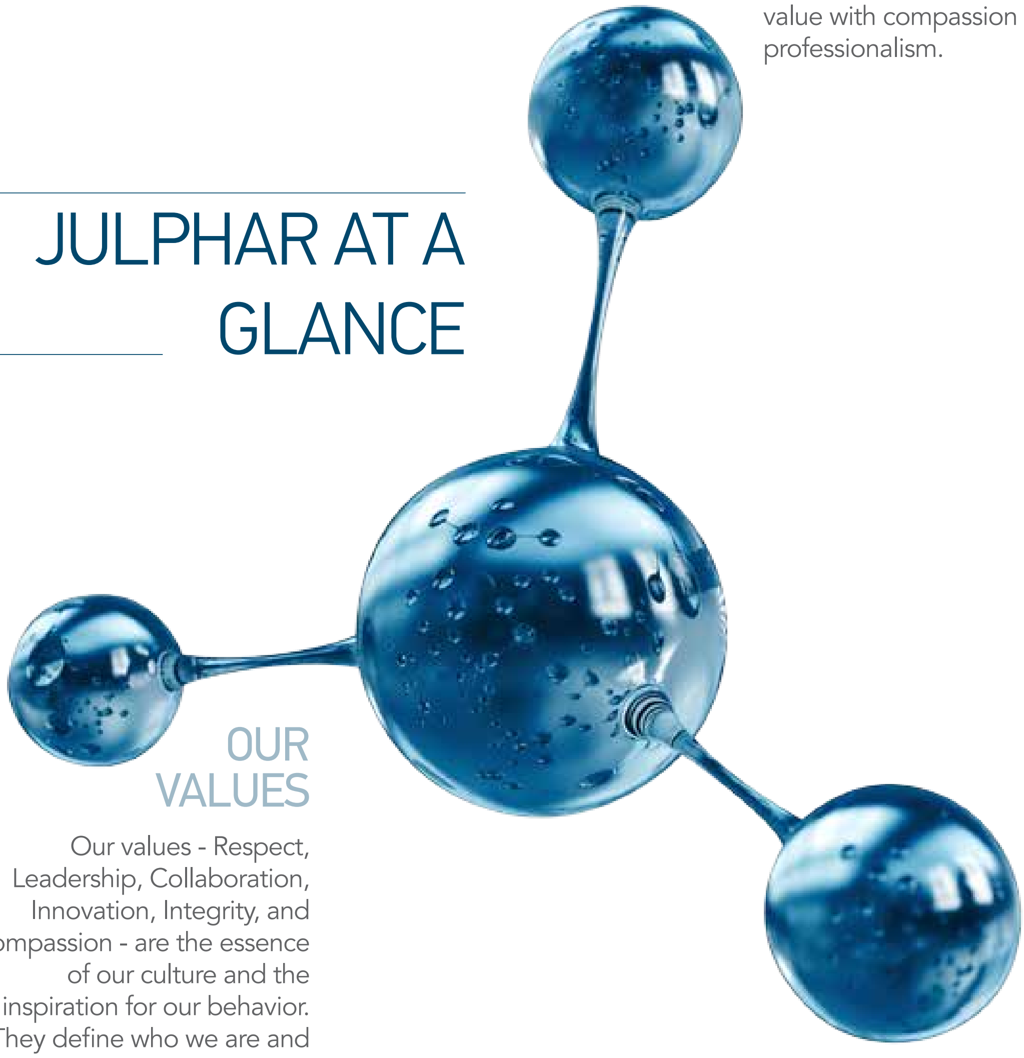
Julphar employs more than 5,000 people and distributes a wide range of biopharmaceutical products to more than 50 countries on five continents across the globe.



JULPHAR AT A GLANCE

OUR PURPOSE

Julphar strives to provide a better quality of life for the entire family, by delivering best-in class solutions and real value with compassion and professionalism.

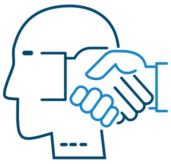


OUR VALUES

Our values - Respect, Leadership, Collaboration, Innovation, Integrity, and Compassion - are the essence of our culture and the inspiration for our behavior. They define who we are and how we work.

OUR GOAL

To become a leading pharmaceutical company, recognized internationally for innovation.

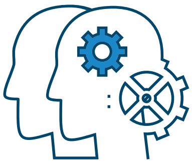


RESPECT

We embrace a culture of professionalism with respect for people, honoring the unique contributions provided by a diversity of perspectives and cultures.

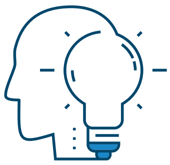
LEADERSHIP

We are committed to excellence in everything we do in our role as leaders in global healthcare.



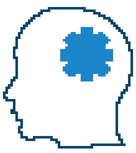
COLLABORATION

We act as one team to achieve a shared goal and forge strong relationships that enable us to maximize the impact of our work and grow as an organization.



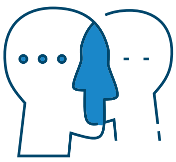
INNOVATION

We believe that high quality research and development (R&D) is crucial to drive innovation and ensure the long-term success of the pharmaceutical industry.



INTEGRITY

We act transparently and with honesty and integrity at all times with the highest of ethical standards.



COMPASSION

Compassion is the cornerstone of our values and we see it as a long-term investment in people. We celebrate our role in serving people and patients and believe in being truly compassionate and understanding, feeling and identifying with their needs.

Julphar is governed by its Board, which is ultimately responsible for the strategic direction and conduct of the organization. The Board and Julphar recognize good governance is a vital contributor to the effectiveness of the corporate mission and an important safeguard for accountability to the public and other stakeholders.

JULPHAR'S ANNUAL MANUFACTURING CAPABILITIES

PRODUCTION AREAS

UNITED ARAB EMIRATES

Tablets	3bn
Capsules	945m
PPS	4bn
Syrups	51m
Suspensions	17m
Drops	68m
Vials	9m
Ampoules	68m
Creams + Ointments	40m
Suppositories	150m

GULF INJECT LLC

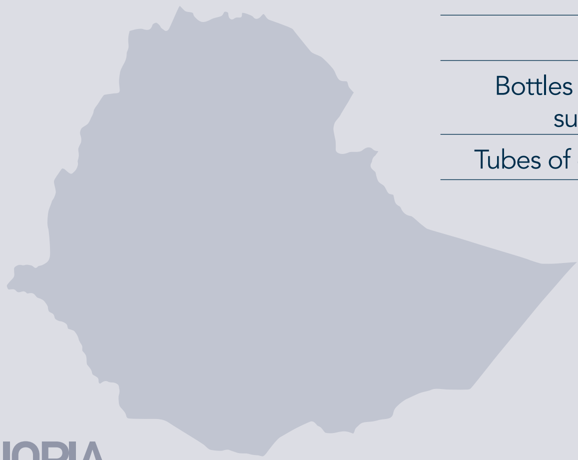
Ampoules	35m
IV Bottles	7.2m
Secondary packaging of tablets + capsules	35m

Tablets	1bn
Capsules	300m
Bottles of syrups/ suspensions	30m

SAUDI ARABIA

PRODUCTION AREAS

ETHIOPIA



Tablets	500m
Capsules	100m
Bottles of syrups/ suspensions	15m
Tubes of ointments	2m

BANGLADESH

Tablets	300m
Capsules	150m
Bottles of syrups/ suspensions	2m
Tubes of ointments	2m

OUR BOARD

His Highness
Sheikh Faisal Bin Saqr Al Qasimi
CHAIRMAN OF THE BOARD

Sheikh Abdullah Bin Faisal Al Qasimi
VICE-CHAIRMAN OF THE BOARD

Hassan Ahmed Al Alkim

Sheikh Saqer Bin Humaid Al Qasimi

Yousef Ali Mohammed

Jamal Salem Bin Darwish Al Nuaimi

Ali Hussain Al Zawawi

Ahmed Salem Al Hosani

Abdul Aziz Al Zaabi

OUR LEADERSHIP TEAM

Jerome Carle
GENERAL MANAGER

Fatema Nayea
EXECUTIVE DIRECTOR

Laurent De Chazeaux
CHIEF FINANCE OFFICER

Hosam Badr
MARKETING DIRECTOR

Maged Mina
REGULATORY AFFAIRS DIRECTOR

REGIONAL OUTLOOK


My-Calm

THE GLOBAL HEALTHCARE MARKET

The global healthcare market is growing, driven by a number of factors such as an increase in disposable income, increasing international tourism and aging populations. The industry is entering a period of significant change bringing opportunities and challenges.

As life expectancy increases, demographic changes are both supporting market growth and contributing to pressures in the healthcare sector, particularly on pricing and access. Cost is the biggest healthcare issue facing most countries as they try to align supply to demand.

Technological advances are improving patient care but they are also increasing costs. The global regulatory landscape is complex and evolving, which is being driven mainly by concerns over patient health and safety. Patients are increasingly choosing cheaper options and are beginning to have a say in healthcare decisions.

Julphar is well-positioned to respond to the market opportunities, with a strong presence in Africa and the Middle East – the regions that are expected to experience the highest growth levels.

SNAPSHOT OF THE MEA REGION

- The MEA region is among the fastest growing pharmaceutical markets globally
- The region is expected to reach $50 billion in the next 5 years
- The region continues to evolve and present increasingly interesting opportunities for the pharmaceutical industry
- MEA is one of the fastest growing areas for Julphar's global operations
- A number of factors help make the region a hub for the healthcare sector, chief among them, demographics
- A growing population coupled with GDP growth is fueling the demand for quality and cost-effective healthcare solutions
- Added to this is the surge in the level of cardiovascular diseases as well as the growing prevalence of diabetes, which makes the pharmaceutical sector vitally important
- Governments are encouraging the local manufacture of pharmaceutical products across the region, which is why Julphar is focused on building alliances and partnerships in the MEA
- In the UAE, the key drivers of growth are favorable demographic trends such as a continually growing population, with those aged over 65 years projected to increase by a CAGR of 19.6% by 2020 (Euromonitor International)
- A significant incidence of lifestyle diseases such as diabetes and heart disease, heightened levels of government spending on healthcare services and broad penetration of private healthcare coverage make the UAE an attractive market
- Although the UAE currently accounts for 26% of government spending on healthcare in the Gulf Cooperation Council (Alpen Capital), investment in healthcare could decline as a result of the lower oil price
- However, this could benefit the private healthcare industry in the future as the government increasingly looks to the private sector for assistance to build a world-class healthcare system

INDUSTRY TRENDS

The healthcare industry is going through a transformative period marked by diverging trends. Below are some of the key opportunities and challenges which influence our new long-term priorities.


Julphar

PRICING AND ACCESS

Aging populations are set to lead to an increase in the cost of care due to the rise in non-communicable diseases. Furthermore, increasing demand for healthcare, partly led by demographic change, continues to put pressure on government and payer budgets. This is impacting both developing and developed markets, including the MEA region, where health authorities are constantly looking for new ways to address the affordability of medicines.

CHANGES IN CONSUMER HABITS

Every market is becoming more complex and sophisticated. The patient is beginning to play a bigger role because they have better access to information. Manufacturers need a plan and strategy to address the questions, concerns and thinking processes. The market is shifting in two clear categories: prescription medicine and the consumer segment. A company like Julphar, with a large portfolio focusing on general medicines, diabetes solutions and consumer healthcare, has to navigate this complexity and adapt and propose a value proposition for all our stakeholders to be successful in this market.

INNOVATION

Research and development (R&D) is a core part of our strategy at Julphar. We have a strong track record of innovation and it is going to be more important than ever to our future success. We can expect the environment for innovation to get tougher, with healthcare systems sharpening their focus on treatments that produce the most value for patients and society.

SHIFT IN PERCEPTION OF GENERICS

As more trust builds up, consumers have come to realize the savings they can make by buying generics. They do not have to compromise on the quality of care. The perception of generics is changing and we can see it in the market share. There is still room for improvement for building trust in the minds of consumers and patients. However, competition remains fierce between generics producers and originators so it is vital that we stay competitive. The push for more affordable products is driving a change that we have seen in many markets, where governments are leaning toward generics usage.

SUPPORTING THE VOICE OF THE CONSUMER

As patents expire or challenges are upheld by competition authorities, patients and payers gain access to generic alternatives, which cost less. by forming a different mindset focused on creating opportunity as opposed to trying to beat the competition, value is inevitably delivered to the customer. In 2018, we expect more companies to apply this approach to effectively guide business models that support the voice of the customer, speed to treatment and quality of service.

SOCIETAL EXPECTATIONS

Companies are expected to behave with greater integrity, fairness and transparency and to make a positive contribution to society. For companies to be sustainable they must create long-term value for all of their stakeholders, including shareholders, employees, customers and communities.

POSITIVE DEMOGRAPHICS

Demographic change such as increasing life expectancy and an expanding global population is driving demand for healthcare products. Growing prosperity and changing diets and lifestyles are also fueling demand for healthcare products – especially for chronic conditions such as respiratory diseases.

REGULATORY AND POLITICAL ENVIRONMENT

Healthcare is a highly regulated industry reflecting public expectations that products comply to stringent levels of quality, safety and efficacy. Globally, changing national politics are impacting the operating environment particularly as governments are often making healthcare a priority.

DEVELOPMENT HIGHLIGHTS AND REGIONAL EXPANSION

Officially Opened And Inaugurated State-Of-The-Art Pharmaceutical Manufacturing Facility Julphar Saudi Arabia

Gulf Inject signed a distribution agreement with the UAE-based healthcare leader Zulekha

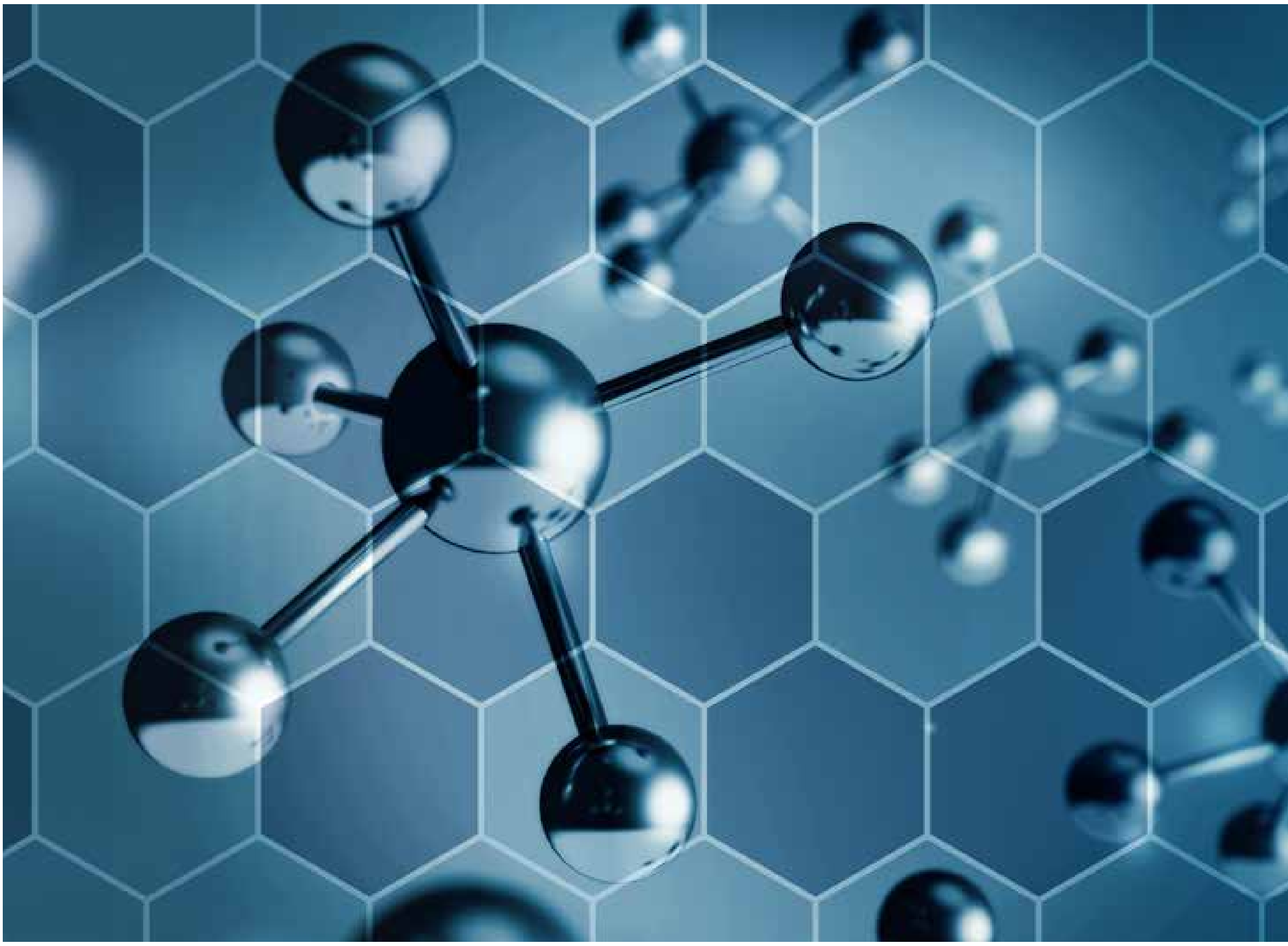
Julphar KSA Granted cGMP Certification

Signed key agreements in Asia and Africa

Won the ASAP award along with partner MSD - the first time for a pharmaceutical company from MEA

Acquired Gulf Inject

OUR PERFORMANCE



FINANCIAL SUMMARY

Julphar delivered good performance in 2017. Despite the challenging and rapidly changing market environment, the company recorded sales of AED 1,273 million versus AED 1,454 million in 2016. Julphar's operating profit stood at AED 111 million and the net profit for the period was AED 90 million.

JULPHAR GROWTH

Among Top 5 pharma in KSA (IMS data)

Among Top 10 pharma in Levant

Double Digit Growth of Profit & Dividend

Market Leader in UAE

(1)E = estimate

DIRECTORS' REPORT

The Board of Directors of Gulf Pharmaceutical Industries P.S.C. (the "Company") and its subsidiaries (the "Group" or "Julphar") is pleased to present their report along with the audited consolidates financial statements of the Group for the year ended 31 December 2017.

FINANCIAL PERFORMANCE

Julphar recorded sales of AED 1.27 billion, a decline of 13.1% against 2016 sales of AED 1.46 billion.

The net profit is AED 90.3 million for the year ended 31 December 2017 as compared to AED 210.1 million in the previous year, down by 57%

OUTLOOK 2018

Julphar's strategy for 2018 is to further consolidate its strong position in the major markets like GCC and be a market leader in generics by introducing several new products. Julphar would like to focus on its overseas manufacturing facility in Saudi Arabia.

PROPOSED DIVIDEND

The Board has recommended a cash dividend of 10% and 3% bonus shares to the shareholders of the Company.

AUDITORS

M/s PricewaterhouseCoopers have been appointed by the Board of directors as auditors for the period under report.

ACKNOWLEDGEMENTS

The Boards of Directors would like to express their gratitude & appreciation to all its shareholders, clients and business partners, government agencies, banks & financial institutions and its employees, whose continued support has been a great strength & encouragement

On Behalf of the Board

Sh Faisal Bin Saqer Al Qasimi
Chairman
28th March 2018

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF GULF PHARMACEUTICAL INDUSTRIES P.S.C

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

OUR OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Gulf Pharmaceutical Industries P.S.C (the "Company") and its subsidiaries (together, the "Group" or "Julphar") as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- The consolidated statement of financial position as at 31 December 2017;
- The consolidated statement of income for the year then ended;
- The consolidated statement of other comprehensive income for the year then ended;
- The consolidated statement of changes in equity for the year then ended;
- The consolidated statement of cash flows for the year then ended; and
- The notes to the consolidated financial statements, which include a summary of significant accounting policies.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF GULF PHARMACEUTICAL INDUSTRIES P.S.C (CONTINUED)

OUR AUDIT APPROACH

Overview

• Key Audit Matter	• Adequacy of allowance for doubtful trade receivables

As part of designing our audit, we determined materiality and assessed the risk of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

Adequacy of allowance for doubtful trade receivables

Refer to Note 11 of the consolidated financial statements for details of trade receivables included within trade and other receivables. We considered trade receivables to be a key audit matter because management exercises significant judgement regarding both the recoverability of the balances and in estimating the extent of any provision for impairment required in respect of such balances. The magnitude of any resultant impairment against the outstanding amounts could be material to the consolidated financial statements.

How our audit addressed the key audit matter

We discussed with management their assessment of the recoverability of individual balances within trade receivables and the basis of their assessment.

We reviewed the ageing of trade receivables and general collection period using the days sales outstanding ratio.

We considered all trade receivables overdue for more than 6 months for recoverability. For these trade receivables, we corroborated management's assessment through our analysis of the sales and collection activity during the year, subsequent collections, relationship with the customers and customer's financial stability. We obtained independent confirmations from the major customers covering a majority of the total overdue balances.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF GULF PHARMACEUTICAL INDUSTRIES P.S.C (CONTINUED)

OTHER INFORMATION

Management is responsible for the other information. The other information comprises Directors' report but does not include the consolidated financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report.

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

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

If, based on the work we have performed, on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards; and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF GULF PHARMACEUTICAL INDUSTRIES P.S.C (CONTINUED)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF GULF PHARMACEUTICAL INDUSTRIES P.S.C (CONTINUED)

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Further, as required by the UAE Federal Law No.(2) of 2015, we report that:

- We have obtained all the information we considered necessary for the purposes of our audit;
- The consolidated financial statements have been prepared out and comply, in all materials respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015
- The Group has maintained proper books of account;
- The financial information included in the report of Directors' is consistent with the books of account of the Group;
- Notes 8 and 10 to the consolidated financial statements disclose the investment in shares during the financial year ended 31 December 2017, if any;
- Note 28 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted;
- Based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened, during the year ended 31 December 2017, any of the applicable provisions of the UAE Federal Law No. (2) of 2015, or in respect of the Company, its Memorandum of Association, which would materially affect its activities or its financial position as at 31 December 2017; and
- Note 21 to the consolidated financial statements discloses the social contributions made during the year ended 31 December 2017.

PricewaterhouseCoopers
29th March 2018

Jacques Fakhoury
Registered Auditor Number 379
Abu Dhabi, United Arab Emirates

GULF PHARMACEUTICAL INDUSTRIES P.S.C.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Year ending 31 December	
		2017	2016
	Note	AED m	AED m
ASSETS			
Non-current assets			
Property, plant and equipment	5	1,156.9	1,162.8
Intangible assets	6	46.5	49.9
Investment in an associate	7	268.4	263.7
Available-for-sale-financial assets	8	11.5	47.2
		1,483.3	**1,523.6**
Current Assets			
Inventories	9	328.0	387.2
Financial assets at fair value through profit and loss	10	0.3	19.0
Trade and other receivables	11	1,547.6	1,379.6
Cash and bank balances	12	168.5	164.0
		2,044.4	**1,949.8**
Total Assets		**3,527.7**	**3,473.4**

EQUITY AND LIABILITIES EQUITY			
EQUITY			
Share Capital	13	1,124.8	1,092.0
Statutory reserve	14	562.4	546.0
Voluntary reserve	15	184.8	184.8
Foreign currency translation reserve		(136.6)	(120.0)
Fair value reserve		2.0	2.7
Retained earnings		328.3	462.1
Capital and reserve attributable to owners of the Company		**2,065.7**	**2,167.6**
Non-controlling interest		144.6	138.6
Total equity		**2,210.3**	**2,306.2**

The notes on pages 54 to 63 form an integral part of these consolidated financial statements.

	Note	Year ending 31 December	
		2017	2016
		AED m	AED m
LIABILITIES **Non-current liabilities**			
Provision for employees' end of service indemnity	16	46.7	44.3
Bank borrowings	17	409.9	304.0
		456.6	**348.3**
Current Liabilities			
Bank borrowings	17	499.5	487.7
Trade payables and other accruals	18	361.3	331.2
		860.8	**818.9**
Total liabilities		**1,317.4**	**1,167.2**
Total equity and liabilities		**3,527.7**	**3,473.4**

There consolidated financial statements were approved by the Board of Directors on 28th March 2018 and signed on its be half by:

H.H. Faisal Bin Saqr Al Qasimi
Chairman

Jerome Carle
General Manager

The notes on pages 54 to 63 form an integral part of these consolidated financial statements.

GULF PHARMACEUTICAL INDUSTRIES P.S.C.

CONSOLIDATED STATEMENT OF INCOME

		Year ending 31 December	
		2017	2016
	Note	AED m	AED m
Sales	19	1,273.4	1,454.5
Cost of sales	20	(626.6)	(703.8)
Gross profit		646.8	750.7
General and administrative expenses	21	(108.6)	(110.6)
Selling and distribution expenses	22	(465.2)	(463.7)
Other income	23	14.1	8.1
(Loss)/gain from investments	24	(0.9)	22.6
Share of profit from investment accounted for using the equity method	7	24.7	22.1
Operating profit		**110.9**	**229.2**
Finance income		5.1	8.9
Finance costs		(25.7)	(28.0)
Finance costs – net		(20.6)	(19.1)
Profit for the year		**90.3**	**210.1**
Profit attributable to:			
Owners of the company		94.9	212.1
Non-controlling interests		(4.6)	(2.0)
		90.3	210.1
Basic and diluted earnings per share (in UAE fils)	**25**	**8.2**	**18.9**

The notes on pages 54 to 63 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

		Year ending 31 December	
		2017	2016
	Note	AED m	AED m
Profit for the year		**90.3**	**210.1**
Other comprehensive income: *Items that may be reclassified to profit or loss* Change in the fair value of available-for-sale			
Finance Assets		(0.1)	(5.6)
Reclassification adjustment on disposal of available for sale financial assets		(0.6)	(8.3)
		(0.7)	(13.9)
Currency translation differences		(16.6)	(116.7)
Total other comprehensive loss		**(17.3)**	**(130.6)**
Total comprehensive income for the year		**73.0**	**79.5**
Attributable to:			
Owners of the company		77.6	81.5
Non-controlling interests		(4.6)	(2.0)
		73.0	**79.5**

The notes on pages 54 to 63 form an integral part of these consolidated financial statements.

GULF PHARMACEUTICAL INDUSTRIES P.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Statutory reserve
	AED m	AED m
At 1 January 2016	1,050.0	532.0
Profit for the year	-	-
Other comprehensive loss for the year	-	-
Total comprehensive income for the year	-	-
Issuance of bonus shares (Note 13 & 26)	42.0	-
Cash dividends for 2015 (Notes 13 & 26)	-	-
Transfer to statutory reserve	-	14.0
Movement in non-controlling interest	-	-
	42.0	**14.0**
Balance at 31 December 2016	1,092.0	546.0
Profit for the year	-	-
Other comprehensive loss for the year	-	-
Total comprehensive income for the year	-	-
Issuance of bonus shares (Note 13 & 26)	32.8	-
Cash dividends for 2016 (Note 13 & 26)	-	-
Acquisition of non-controlling interest	-	-
Transfer to statutory reserve	-	16.4
Movement in non-controlling interest	-	-
	32.8	16.4
Balance at 31 December 2017	**1,124.8**	**562.4**

The notes on pages 54 to 63 form an integral part of these consolidated financial statements.

	Voluntary reserve	Foreign currency translation reserve	Fair value reserve	Retained earnings	Attributable to owners of the company	Non-controlling interest	Total
	AED m	AED m	AED m	AED m	AED m	AED m	AED m
	184.8	(3.3)	16.6	421.5	2,201.6	91.2	2,292.8
	-	-	-	212.1	212.1	(2.0)	210.1
	-	(116.7)	(13.9)	-	(130.6)	-	130.6)
	-	**(116.7)**	**(13.9)**	**212.1**	**81.5**	**(2.0)**	**79.5**
	-	-	-	(42.0)	-	-	-
	-	-	-	(115.5)	(115.5)	-	(115.5)
	-	-	-	(14.0)	-	-	-
	-	-	-	-	-	49.4	49.4
	-	**(116.7)**	**(13.9)**	**40.6**	**(34.0)**	**47.4**	**13.4**
	184.8	(120.0)	2.7	462.1	2,167.6	138.6	2,306.2
	-	-	-	94.9	94.9	(4.6)	90.3
	-	(16.6)	(0.7)	-	(17.3)	-	(17.3)
	-	**(16.6**	**(0.7)**	**94.9**	**77.6**	**(4.6)**	**73.0**
	-	-	-	(32.8)	-	-	-
	-	-	-	(174.7)	(174.7)	-	(174.7)
	-	-	-	(4.8)	(4.8)	(19.7)	(24.5)
	-	-	-	(16.4)	-	-	-
	-	-	-	-	-	30.3	30.3
	-	-	-	(228.7)	(179.5)	10.6	(168.9)
	184.8	**(136.6)**	**2.0**	**328.3**	**2,065.7**	**144.6**	**2,210.3**

The notes on pages 54 to 63 form an integral part of these consolidated financial statements.

GULF PHARMACEUTICAL INDUSTRIES P.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS

		Year ending 31 December	
		2017	2016
	Note	AED m	AED m
Cash flow from operating activities:			
Profit for the year		90.3	210.1
Adjustments for:			
Depreciation of property, plant and equipment	5	88.3	89.5
Amortisation of intangible asset	6	5.6	3.8
Share of profit from investment in associate	7	(24.7)	(22.1)
Net (reversal)/allowance for slow-moving inventories	9	(14.6)	3.1
Allowance for doubtful debts	11	9.1	16.5
Loss on sale of property, plant and equipment		0.1	0.2
Loss/(gain) on sale of financial asset at FVTPL	24	1.0	(3.7)
Loss/(gain) on revaluation of financial asset at FVTPL	24	4.9	(8.0)
Gain on sale of available-for-sale investments	24	(3.0)	-
Recycled gain on available-for-sale investments	24	(0.6)	(8.3)
Available for sale investment written off	8	0.5	-
Provision for employees' end of service indemnity	16	8.0	7.8
Finance income		(5.1)	(9.1)
Finance costs		25.7	28.0
Operating cash flow before payment of end of service benefits and changes in working capital		**185.5**	**307.8**
Employees end of service benefits paid	16	(5.6)	(5.9)
Changes in working capital:			
Trade and other receivables		(201.6)	(156.4)
Inventories		73.6	101.1
Trade payables and accruals		30.5	21.0
Net cash generated from operating activities		82.4	267.6

The notes on pages 54 to 63 form an integral part of these consolidated financial statements.

	Note	Year ending 31 December	
		2017	2016
	Note	AED m	AED m
Cash flows from investing activities:			
Additions to property, plant and equipment and intangible assets	5,6	(87.5)	(103.1)
Sales proceeds from disposal of available-for-sale financial assets		38.8	20.6
Sales proceeds from sale of financial asset at FVTPL		12.8	15.0
Proceeds from sale of property, plant and equipment and intangible assets	5,6	-	3.0
Dividends received from investment accounted for using the equity method	7	20.0	-
Net cash used in investing activities		(15.9)	(64.5)
Cash flows from financing activities:			
Proceeds from bank borrowings		750.4	456.9
Repayment of loans		(638.4)	(474.1)
Dividends paid		(175.4)	(116.2)
Increase in non-controlling interest		30.3	47.4
Finance income received		5.1	9.1
Interest paid		25.7)	(28.0)
Net cash used in financing activities		(53.7)	(104.9)
Net increase in cash and cash equivalents		**12.8**	**98.2**
Currency translation differences		(8.3)	(85.7)
Cash and cash equivalents, at the beginning of the year	12	164.0	151.5
Net cash used in investing activities	**12**	168.5	164.0

For significant non-cash transactions, refer to Note 32, 'Non-cash transactions'

The notes on pages 54 to 63 form an integral part of these consolidated financial statements.

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

1. Establishment and operations

Gulf Pharmaceutical Industries is a public shareholding company ("the Company") domiciled in Digdaga - Ras Al Khaimah. It was incorporated by the Emiri decree No.5/80 issued by H.H. The Ruler of the Emirate of Ras Al Khaimah and its dependencies on March 30, 1980 and the Emiri decree No.9/80 on May 4, 1980. The Company's registered office address is P.O. Box. 997 Ras Al Khaimah, United Arab Emirates. The Company commenced its commercial activities effective from November 1984. The Company's ordinary shares are listed on the Abu Dhabi Securities Exchange.

The main activities of the Company and its subsidiaries ("the Group") are manufacturing and selling of medicines, drugs and various other types of pharmaceutical and medical compounds in addition to cosmetic compounds.

The Company holds investments in subsidiaries as disclosed under Note 2.3.

2. Summary of significant accounting policies

The significant accounting policies applied in the preparation of these consolidated financial statements are as set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

A. Compliance with IFRS

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee ("IFRS IC") applicable to the companies reporting under IFRS. These consolidated financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

B. Historical cost convention

These consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of available-for-sale investments and financial assets at fair value through profit or loss. The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates, which by definition, will seldom equal the actual results. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

C. New standards and interpretations not yet adopted by the Group

I. Certain new accounting standards and interpretations have been published that are not mandatory for reporting periods ended 31 December 2017 and have not been early adopted by the Group. None of these are expected to have a significant effect on these consolidated financial statements of the Group except the following set out below.

II. IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018: financial instruments that are currently classified as available-for-sale will satisfy the conditions for classification as at fair value through profit and loss of AED 11.5 million, will have to be reclassified to financial assets at fair value through profit or loss (FVPL). Related fair value gains of AED 2.0 million will have to be transferred from the available-for-sale financial assets reserve to retained earnings on 1 January 2018.

III. The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. The Group is currently assessing the quantitative impact of the above mentioned impairment model on its financial instruments. These are expected to change the nature and extent of the group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IV. IFRS 15 "Revenue from contracts with customers", provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

IV. Identify the contract with the customer
V. Identify the performance obligations in the contract
VI. Determine the transaction price
VII. Allocate the transaction price to the performance obligations in the contracts
VIII. Recognise revenue when (or as) the entity satisfies a performance obligation.

The standard is effective for accounting periods beginning on or after 1 January 2018. The group is currently assessing the quantitative impact of the above mentioned items on its revenue recognition

- IFRS 16 "Leases", sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The standard is effective for accounting periods beginning on or after 1 January 2019. The Group is currently assessing the quantitative impact of IFRS 16.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Foreign currency translation

A. Functional and presentation currency

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in United Arab Emirates Dirhams ("AED"), which is the Company's functional and Group's presentation.

B. Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income. They are deferred in equity if they are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of income within 'finance income or costs'. All other foreign exchange gain and losses are presented in the consolidated statement of income within 'other income' or 'other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as availablefor- sale financial assets are recognised in other comprehensive income.

C. Group entities

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

I. Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

II. Income and expenses for each statement of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

III. All resulting exchange differences are recognised in other comprehensive income in the consolidated statement of comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, are recognised in other comprehensive income. When a foreign operation is disposed of partially or in full, exchange differences that were recorded in equity are recognised in the consolidated statement of income as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Principles of consolidation and equity accounting

I. Subsidiaries

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the group (refer to Note 2.27).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

II. Associates

Associates are all entities over which the group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see (iii) below), after initially being recognised at cost.

III. Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.6.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
2.3 BASIS OF CONSOLIDATION (CONTINUED)

IV. Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Company.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in or an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

			Year ended 31 December		
Serial No.	Name of subsidiary	Place of incorporation and operation	2017	2016	Principle activity
1	Mena Cool F.Z.E	Ras Al Khaimah - UAE	100%	100%	Transportation
2	Julphar Pharmaceuticals P.L.C	Ethiopia	55%	55%	Manufacturing of medicines, wrapping and packing materials
3	Julphar Pharma GMBH	Germany	100%	100%	Manufacturing of medical supplies Discontinued
4	Gulf Inject L.L.C.	Dubai - UAE	100%	51%	Manufacturing of medical supplies
5	RAK Pharmaceuticals Pvt. Ltd.	Dhaka Bangladesh	50.5%	50.5%	Manufacturing of medicines
6	Julphar Saudi Arabia L.L.C.	Rabigh - Saudi Arabia	51%	51%	Manufacturing of medicines
7	Julphar Egypt Company L.L.C.	Cairo – Egypt	100%	100%	Distributors of Julphar's products in Egypt
8	Julphar Diabetes L.L.C.	Ras Al Khaimah - UAE	100%	100%	Manufacturer of insulin products
9	Julphar General Trading L.L.C.	Ras Al Khaimah - UAE	100%	100%	General Trading
10	Mena Cool Machinery Trading	Ras Al Khaimah - UAE	100%	100%	General Trading

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Property, plant and equipment

Property, plant and equipment comprise land and buildings, plant and machinery, installations, furniture and fixtures, motor vehicles, tools and equipments, leasehold improvements and capital work-in-progress.

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the purchase of the assets. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial year in which they are incurred.

Depreciation of assets is calculated using the straight-line method at rates calculated to allocate the cost of assets to their estimated residual values over their estimated useful lives.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

The estimated useful lives for the current and comparative years of significant items of property and equipment are as follows:

Assets	Life (years)
Buildings	10-50
Plant and machinery	3-17
Installations	4-25
Motor vehicles	3-10
Furniture and fixtures	4-10
Tools and equipments	3-10
Land improvements	10-25

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal are determined by comparing proceeds with carrying amount and included in the consolidated statement of income.

Capital work in progress is stated at cost. When ready for intended use, capital work in progress is transferred to an appropriate category of property, plant and equipment and depreciated in accordance with the Group's policy.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Intangible assets

A. Developed Products

Currently marketed products represent the composite value of acquired intellectual property, patents and distribution rights and product trade names that have been acquired as part of a business combination and are recognised at fair value at the acquisition date. They have a finite useful lives and are carried at cost less accumulated amortization and impairment if any. These are amortised using the straight-line basis over the useful life ranging from the 15 to 20 years.

B. Licenses and permits

Licenses, registrations and permits comprise of rights to distribute Julphar's products in certain countries that have been acquired as part of a business combination and are recognised at fair value at the acquisition date. The amount is arrived at by calculating the present value of the expected future economic benefits to arise from these licenses and permits. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment, if any. Amortisation is calculated using the straight-line method to allocate the costs over its estimated useful life of 5 to 20 years.

2.6 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Financial assets

2.7.1 Classification

The Group classifies its financial assets as loans and receivables (Note 11), available-for-sale investments (Note 8) and financial assets at fair value through profit and loss (Note 10). The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

A. Financial assets at fair value through profit and loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short to medium term.

B. Licenses and permits

Licenses, registrations and permits comprise of rights to distribute Julphar's products in certain countries that have been acquired as part of a business combination and are recognised at fair value at the acquisition date. The amount is arrived at by calculating the present value of the expected future economic benefits to arise from these licenses and permits. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment, if any. Amortisation is calculated using the straight-line method to allocate the costs over its estimated useful life of 5 to 20 years.

C. Available-for-sale financial asset

Available-for-sale financial asset are non-derivative financial assets that are designated in this category and are not classified in any other categories. They are included in non-current assets unless management intends to dispose off the investment within 12 months after the balance sheet date.

2.7.2 Recognition, de-recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit and loss. Financial assets carried at fair value through profit and loss are initially recognised at fair value, and transaction costs are expensed in the consolidated statement of income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables are initially measured at fair value and subsequently carried at amortised cost using the effective interest method. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated statement of income as 'Gains and losses from investment securities'. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit and loss' category are presented in the consolidated income statement within 'other income/(loss) from investments' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss and available for sale are recognised in consolidated statement of income within 'other Group's right to receive payment is established.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

2.9 Impairment of financial assets

A. Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. For loans and receivable category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an extent occurring after the impairment was recognised (such as an impairment in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of income.

B. Assets classified as available-for-sale

The Group assess at the end of each reporting period whether there is any objective evidence that a financial asset or a Group of financial assets is impaired.

its cost is also evidence that the assets are impaired. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss – is removed from equity and recognised in profit and loss. Impairment losses recognised in the consolidated statement of income on equity instruments are not reversed through the consolidated statement of income.

2.10 Inventories

Raw materials and stores, spare parts and consumables, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Trade receivables

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment (if any). See Note 11 for further information about the Group's accounting for trade receivables.

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