Julphar

2015 Annual Report

الخليج للصناعات الدوائية
Gulf Pharmaceutical Industries

His Highness
Sheikh Saud Bin Saqr Al Qassimi

Ruler of Ras Al Khaimah
Member of Supreme Council
United Arab Emirates

His Highness
Sheikh Khalifa Bin Zayed Al Nahyan

Ruler of Abu Dhabi
President of
United Arab Emirates

His Highness
Sheikh Mohammad Bin Saud Bin Saqr Al Qassimi

Crown Prince
of Ras Al Khaimah

Board of Directors

His Highness Sheikh Faisal Bin Saqr Al Qasimi
Chairman of the Board

Mr Hassan Ahmed Al Alkim
Vice-Chairman of the Board

Members of the Board

Sheikh Abdullah Bin Faisal Al Qasimi
Sheikh Saqr Bin Humaid Al Qasimi
Mr Ahmed Essa Al Naem
Mr Nawaf Ghobash Ahmed Saeed
Dr Ali Hussain Al Zawawi
Mr Jamal Salem Bin Darwish Al Nuaimi
Mr Ahmed Salim Abdullah Salim Al Hosni

Chief Executive Officer

Dr Ayman Sahli

Business core

Business overview

Financial results

Business core

Chairman’s message

Dear Shareholders,

I am pleased to announce that Julphar has closed the year 2015 at AED 1.47 billion, producing overall steady results with a growth of 6% over sales from 2014.

As one of the United Arab Emirates’ most influential and ambitious local businesses, Julphar’s drives are to make an impact on the global stage and to thrive in international markets. These ambitions are at the core of our business decisions. Our priority is to identify market opportunities that will create long-term value for our shareholders, and with the global healthcare market continuing to grow at a tremendous rate I firmly believe that Julphar is greatly positioned to shape the future of the industry.

Julphar staff being our greatest asset, I would like to congratulate the Executive team for their time and talent in leading our organisation, and thank each of our employees whose wholehearted dedication and hard work enable Julphar to prosper and keep on providing high quality, affordable medicines to families across the Middle East and Africa region. We are focusing on developing a talented national workforce, being part of the Emiratisation program and the Absher Initiative Agreement, and we encourage all employees to improve their skills in their chosen vocation.

As we head into a stimulating year, I would like to extend my thanks to the Government, the Board of Directors, our customers, our well-wishers and all our stakeholders for their continued support – which has been contributing to the success of Julphar to what it is today.

His Highness Sheikh Faisal bin Saqr Al Qasimi
Chairman

Executive review

Dear Shareholders,

We close 2015 at AED 1.47 billion, another successful year of achievements, given the geopolitical trends impacting the region. We are well poised to enter 2016 and build upon last year's gains.

In review of 2015 operations, it is true to say that 2015 was a challenging year. Still, we continued to aim for growth opportunities in markets where the investment opportunities were not affected by the geopolitics – particularly around Africa. We also further expanded our global manufacturing capabilities via the acquisition of RAK Pharmaceuticals in Bangladesh, along with the launch of our KSA plant, expected to start its operations mid-2016. I am confident that 2016 will present new opportunities for Julphar to enhance our growth strategy in key markets and solidify our global presence.

On a local level, the GCC will remain a cornerstone of our business. Our ongoing approach is to work in alignment with the GCC authorities to ensure they have a trusted local partner in advancing healthcare throughout the region. With the increased healthcare expenditure from local governments, and the maturity of the health insurance system, we strongly believe this objective is to remain a top priority.

2015 has also been a productive year for Julphar Diabetes. The registration of the real-time continuous glucose monitoring device (CGM) DEXCOM G4 PLATINUM has successfully been completed, and we have now made the device available in UAE, KSA, Kuwait, Qatar, Oman, Bahrain, and Lebanon. We have also concluded Phase I clinical trials of our biosimilar human insulin – demonstrating its similarity compared to the EU-licensed reference product Huminsulin, and reached a new milestone for the recombinant insulin Glargine by producing our first commercial scale batch.

Over the past 12 months, I had the opportunity to meet with our global sales force and stakeholders and from my interactions with them, having overcome the challenges of 2015 with strength and dedication from all, it is evident that Julphar is strongly positioned as a key regional pharmaceutical player in Middle East and Africa; as a company whose ambitions open the doors for steady growth in the years to come.

I would like to thank the Board of Directors and our Executive team for their continued support, and our customers for permitting us to play a leading role in the improvement of healthcare quality worldwide and whom remain at the core of our business decisions.

In closing, I would like to extend my gratitude to our network of 3,000 dedicated employees across all functions and all countries. Their remarkable effort and hard work to deliver high quality, affordable medicines to communities have made it possible for Julphar to become one of the United Arab Emirates' most influential and ambitious healthcare companies that continues to make an impact on the global stage.

Dr Ayman Sahli
CEO

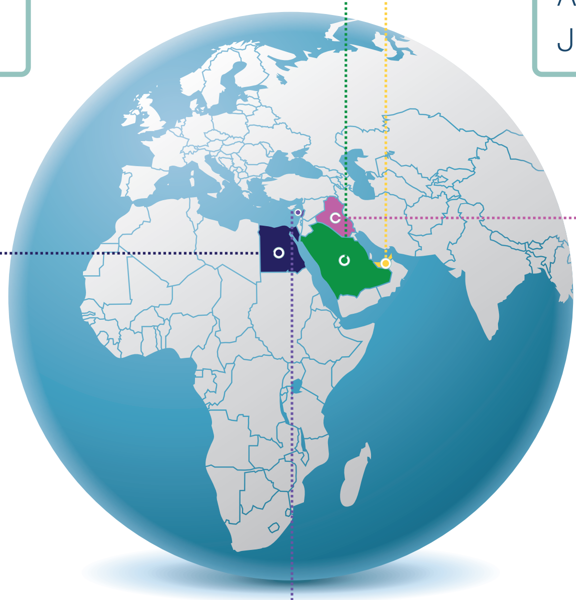
Top performing countries and products

KSA

MEBO	43.8 m
TRIAXONE	27.2 m
ADOL	15.2 m
JULMENTIN	11.6 m
AMYDRAMINE	11.3 m

UAE

RISEK	15.7 m
TRIAXONE	8.5 m
MEBO	7.8 m
ADOL	6.1 m
JULMENTIN	6.0 m



Egypt

MEBO	30.9 m
JULMENTIN	22.9 m
RISEK	15.5 m
ADOL	10.2 m
JUSPRIN	8.7m

Lebanon

EPOTIN	7.4 m
MEBO	5.2 m
PROFINAL	4.9 m
TRIAXONE	3.4 m
ADOL	3.1 m

Iraq

ADOL	12.8 m
MEBO	7.1 m
RISEK	3.4 m
GINSAVIT	2.9 m
NEGAZOLE	2.9 m

CFO's report

2015 has been another great year for Julphar.

In a challenging market environment, the company registered sales revenue of AED 1.47 billion in 2015, achieving a growth of 6% against 2014 sales of AED 1.39 billion. With greater internal controls, we have shown strong operational performance with gross profit of AED 908.9 million – up 11.1% year-on-year, operating profit of AED 249.7 million and net profit of AED 226.6 million.

Our top markets – Saudi Arabia and UAE – continue to outperform other markets in private and tender markets. Saudi Arabia, UAE and Egypt are the top three revenue drivers for the private business; Saudi Arabia, Iraq, UAE, Kuwait and Libya show strong performance in the tender business.

Our investments in international markets is showing growth and I am happy to announce that our new facility in Saudi Arabia shall be operational by the second half of 2016. We have identified virology, ophthalmology and oncology as the areas of focus for this year, along with simultaneous launches of new products across GCC. We are also adding a new range of super generics to our branded generics to enhance the profitability of our product portfolio.

Current population growth in the region coupled with increased insurance penetration will help grow pharmaceutical and generics market in GCC, and we are confident that growth will continue across our markets and set ourselves up for a sustainable future.

G.V.G. Krishna
CFO

Julphar Diabetes

Despite facing solid competitive challenges and although sales being partially affected as a result of the political situation in Middle East and North Africa (MENA) – with health authorities rationalising their investment and with spending power decreasing dramatically, Julphar Diabetes showed horizontal and vertical growth in 2015. The growth was driven by business therapeutic areas inclusive of oral antidiabetics, insulin and recombinant human insulin crystals (API).

Africa has been a one of our main strategic focuses for development and we have expanded our business in the region – having more OADs registered. Complying with international regulations and guidelines, we also have expanded the insulin business to 18 additional markets throughout MENA and thanks to the high quality, accessible qualities of our products, we have been awarded the Government Insulin (tender) business in Ethiopia, which gives companies credit for offering patients and governments increased access to high standard healthcare.

In 2015, we continued to support patients as part of our Corporate Social Responsibility commitment, sponsoring The Middle-East Kids Camp held in March and offering diabetic children from across the region a week of social activities in Ras Al Khaimah. We also kept on spreading educational awareness around diabetes, proudly participating in the Endocrine and Diabetes Lebanese Society Congress and in the 5th Saudi Diabetes Symposium event, sponsoring healthcare professionals to take part in lectures and scientific sessions on how to better manage diabetes.

To maintain our solid presence in the market, we expanded our business to a new sophisticated area of medical devices, with the launch of the revolutionary real-time continuous glucose monitoring device (CGM) DEXCOM G4 PLATINUM in the GCC. Following our agreement with Dexcom Inc., it has been agreed that Julphar will commercialise the device and get the distribution rights throughout the region, allowing

diabetic patients to easily and conveniently monitor their glucose level around the clock and take control of their diabetes.

A robust regional Ramadan campaign was conducted last year in collaboration with the Dubai Health Authorities (DHA) and Education Centre. The Ramadan The Healthier, The sweeter campaign was promoting safe fasting during the period of Ramadan – including meal planning, exercising, blood glucose monitoring, and recognising and managing complications. Promoted via Social Media, the program was available in Arabic, English and French, maximizing the reach and the impact in the UAE, KSA, Iraq, Lebanon and Tunisia markets.

We added a major and strategic upside to our business when we established partnership with the USA-based global pharmaceutical leader MSD, getting the exclusive rights to commercialise and distribute the MSD second brands Xelevia and Velmetia (DPP4 inhibitors) in the region.

Dr Aly Mousa
Vice President, Sales and Marketing

For over 30 years we have been delivering high quality, affordable medicines to our communities

Sustaining health

Julphar Gulf Pharmaceutical Industries is one of the largest pharmaceutical manufacturers in Middle East and North Africa (MENA). Established in 1980 in the United Arab Emirates under the guidance of His Highness Sheikh Saqr Bin Mohammed Al Qasimi, Julphar's first stand-alone facility produced only five products. Over three decades later, the company operates fifteen internationally certified manufacturing facilities globally, produces over a million boxes of medicines daily and holds 3,957 product registration certificates.

Thirteen of its facilities are based in the UAE and cover production areas including tablets, syrups and suspensions. It has also launched manufacturing facilities in Ethiopia and in Bangladesh as part of its ongoing international expansion strategy, and its Saudi Arabia facility is expected to begin its operations in 2016.

In 2012 Julphar launched a 150 million-dollar Active Pharmaceutical Ingredient (API) manufacturing facility – Julphar Diabetes – entirely dedicated to producing raw material needed for insulin formulation. Julphar Diabetes has the capacity to produce 1500 kg of recombinant human insulin and insulin analogues crystals (rDNA), equivalent to 40 million vials of insulin per year. This positions Julphar among the largest manufacturers of insulin in the world, and the only one of its kind in the Middle East.

Julphar subsidiaries also include MenaCool, the transportation and shipping division of Julphar, part of a cold supply chain which runs a 24/7 service to ensure all products are delivered in a timely manner and retain their high quality, even in the face of adverse weather conditions. This 12,000 square foot facility has the capabilities of dispatching medicines within the required period.

Julphar maintains a diverse product portfolio which targets major therapeutic segments. It includes the following categories: Wound, Anemia and Women Care, Adult Primary Care, Pediatric Primary Care, Gastro Care and Pain Management, Cardiopulmonary Care, and Consumer Care.

As part of its on-going responsibility, the company partners with local and global companies to make a positive impact across all healthcare sectors by dedicating 2.5% of its annual profits to Corporate Social Responsibility (CSR). This goes towards funding of scholarships for educational facilities and sponsorship of various health campaigns across MENA.

Julphar employs approximately 3,000 people around the world and registered sales revenue of AED 1.47 billion in the year ending 2015, with a growth of 6 per cent against 2014 sales of 1.39 billion. Emerging markets remain a key priority for sustainable growth, as Julphar's Middle Eastern roots allow us to reach difficult markets in a timely manner.

The company demonstrated a steady operational performance during 2015, posting 11.1 per cent year-on-year rise in its gross profits for the year ending 2015, which was AED 908.9 million. Julphar's net profit for the period was AED 226.6 million, up 12.2 per cent year-on-year.

With 204 registered products sold in over 40 countries, Julphar is a stellar example of one of the UAE's local businesses making an impact on the global stage.

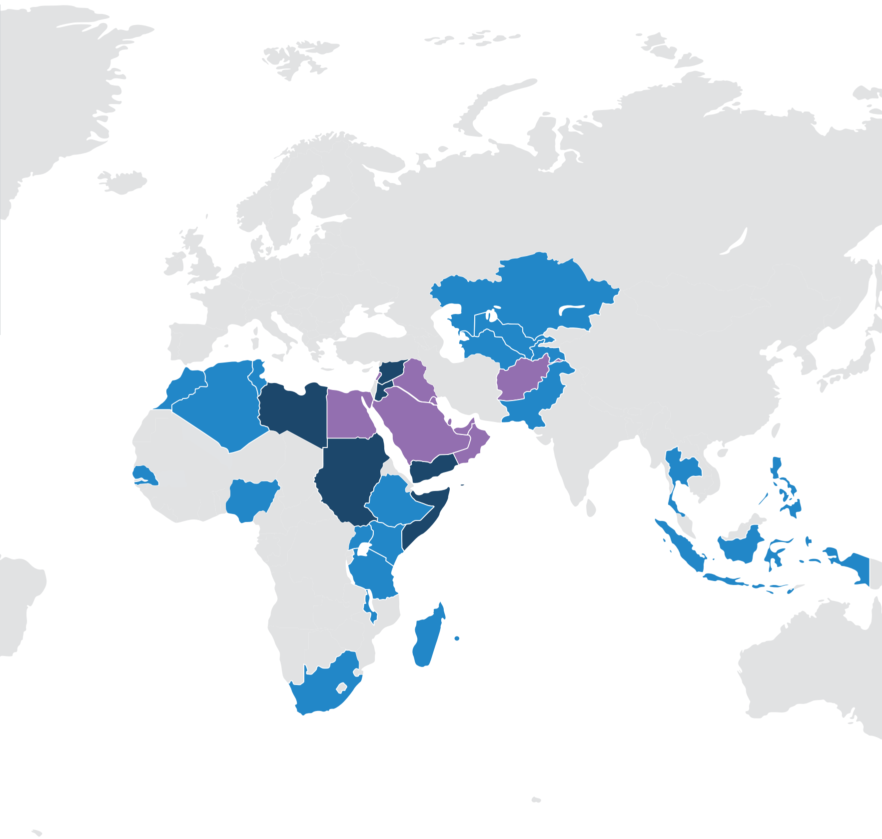
Julphar is cGMP compliant and has gained ISO9001 and ISO 14001 accreditations, as well as the EU Good Manufacturing Practices (GMP) and Good Laboratory Practices (GLP) certifications. We work closely with regulatory bodies, such as the UAE Ministry of Health (MOH) and the US Food and Drug Administration (FDA) to ensure all our practices are aligned with the international requirements.

Julphar in essence is Sustaining Health across the globe.

2015 in numbers

Total sales (AED)

1.47 bn



Top markets

Saudi Arabia
UAE
Kuwait
Qatar
Bahrain
Oman
Iraq
Egypt
Lebanon
Afghanistan

Established markets

Jordan
Yemen
Sudan
Libya
South Sudan
Syria
Somalia

Emerging markets

Algeria
Morocco
Tunisia
South Africa
Ethiopia
Nigeria
Kenya
Tanzania
Uganda
Senegal
Ecuador
Peru
Mexico
Panama
Argentina
Colombia
Venezuela
Guatemala
Philippines
Pakistan
Indonesia
Tajikistan
Thailand
Turkmenistan
Uzbekistan
Kazakhstan
Madagascar
Malawi
Mauritius

6
Quality audits

27
Global offices

40
MenaCool trucks

51 Countries
products are sold in

188
Branded products

204
Products registered

2,952
Employees

3,957 Product
registration certificates

84,000
Pallets loaded

Annual manufacturing capacities

JI - Solid Dosage Forms Plant
5,000 million tablets
500 million capsules
5 million powder pro-suspensions

JII - Ampoules and Vials Plant
30 million ampoules
5 million lyophilized vials

JIII - Penicillin Plant for Oral Dosage Forms
600 million tablets and capsules
5 million antibiotic powder pro-suspensions

JIV - Cephalosporin Plant for Oral Dosage Forms
300 million tablets and capsules
5 million antibiotic powder pro-suspensions

JV – Packaging Plant
offline packaging facility

JVI - Liquid Orals Plant
94 million bottles of syrup, suspensions and drops

JVII - Biotech EPO Plant
200 grams of erythropoietin, equivalent 10 million vials

JVIII - Liquid and Lyophilized Plant
45 million ampoules, 5 million vials

JIX - Cephalosporin Sterile Powder Filling Plant
30 million units

JX - Semi Solid Dosage Forms Plant
60 million tubes of creams and ointments
200 million suppositories

JXI - Julphar Insulin Plant
1,500 kg recombinant human insulin and insulin analogues crystals (rDNA)
40 million vials of insulin

JXII - Insulin Cartridge Filling Plant
15 million insulin cartridge pens

Gulf Inject Plant (Jebel Ali Free Zone) with BFS Technology
35 million ampoules
7.2 million IV bottles
35 million secondary packaging of tablets and capsules

Julphar Ethiopia Oral and Topical Preparations
500 million tablets
100 million capsules
15 million bottles of syrups and suspensions
2 million tubes of ointments

Julphar Bangladesh Oral and Topical Preparations
300 million tablets
150 million capsules
2 million bottles of dry powder
2 million tubes of ointments

Julphar Saudi Arabia Oral Preparations
1 billion tablets, 300 million capsules, 30 million bottles of syrups and suspensions

Highlights of the year

Every year Julphar aims to provide Education Programs, CME's Initiatives and Medical Updating Symposiums for Physicians across our markets. Our initiatives are intrinsically linked with our CSR strategy, where we partner with local authorities to improve the health and wellbeing of staff and communities. Below is just some of our achievements for 2015.

February

Julphar acquires a majority stake in Bangladesh-based RAK Pharmaceuticals, for a consideration of $9.5 million. The deal marks Julphar's entry into the Bangladeshi market and is part of its expansion into Asia. Julphar and RAK Pharmaceuticals (now Julphar Bangladesh) also have a joint partnership around technology transfer and commercial marketing agreement for advanced pharmaceutical products.

March
Julphar participates at DUPHAT 2015, the Dubai International Pharmaceuticals and Technologies Conference and Exhibition held in Dubai. The exhibition is the opportunity for Julphar to update pharmaceutical stakeholders on new trends and latest technologies. Julphar's stand was a meeting point for doctors and pharmacists from the region to address current issues and opportunities in the industry.

" The size of the Bangladesh market provides huge investment opportunities, which can enhance the growing role of Julphar in the global healthcare industry. Healthcare plays a major role in the expanding economy for Bangladesh and with this comes a clear need for increased manufacturing.

Dr Ayman Sahli
CEO

April
Julphar concludes Phase I clinical trial of its biosimilar human insulin, which demonstrated similarity of its investigational biosimilar human insulin compared to the EU-licensed reference product, Eli Lilly HUMINSULIN®. Julphar's trial showed comparative and equivalent pharmacokinetics and pharmacodynamics for the reference product, and no difference in safety.

" Approval of this study makes Julphar the first company in the Middle East to have clinical trial filing accepted under the EMA biosimilar guidelines. We are committed to building on our success with biosimilars by making affordable, safe and effective products available to GCC/MENA patients and healthcare providers.

Dr Ayman Sahli,
CEO

May

Julphar reaches a new milestone for the recombinant insulin Glargine by producing its first commercial scale batch in Julphar Diabetes, succeeding in developing a qualified and well-characterized cell line for the production of Glargine. This was followed by further process development and optimisation at pilot scale.

October

Thirty medical representatives and sales team members from the UAE office of the healthcare leader MSD visits Julphar head office for a three-hour tour of its facilities. It was the opportunity for the MSD team to see the latest technology of Julphar and get to know more about the way Julphar operates as a key pharmaceutical manufacturer in the region. The visit's aim is to increase the relationship between the two parties, and is set on the occasion of the MSD/Julphar products launch.

> “ To start business and to collaborate with a big pharmaceutical company such as MSD is a very important step for Julphar. It portrays Julphar as one of the key manufacturers of high quality medicines in Middle East, and a partner of trust.
>
> **Dr Hosam Badr**
> Marketing Director at Julphar

November

Julphar has been honored twice by the RAK Educational Excellence Award 2015. The company received the Best Supporting Foundation for Education and the Best Strategic Sponsor Awards, in recognition of its excellent role for the community, as the company yearly dedicates 2.5% of its profits to the community – including students, by providing them with scholarships fund – and launches sponsorship projects to serve educational purposes.

December

The real-time continuous glucose monitoring device (CGM), DEXCOM G4 PLATINUM is available in UAE, KSA, Kuwait and Oman through Julphar, and will soon be available in Qatar, Bahrain and Lebanon. The novel device's registration process has successfully been completed and diabetic patients can now conveniently monitor their glucose level around the clock. DEXCOM G4 PLATINUM is considered to be the most accurate glucose monitoring technology available in the market, and the easiest one to use.


Dialon

Overall positioning statement

Company objective

What do we do?

Make medicine more affordable and more accessible

Delivering value:

What will this do?

- Produce high quality medicines
- Create sustainable growth for shareholders
- Provide medicines to regions which need it the most
- Staff development and leadership

Business strategy

How do we do this?

- Global expansion of facilities
- Strategic partnership
- Leading in biotechnology


UVEX

Business overview

The global healthcare market
Overview of the MENA pharmaceutical market

The global healthcare market

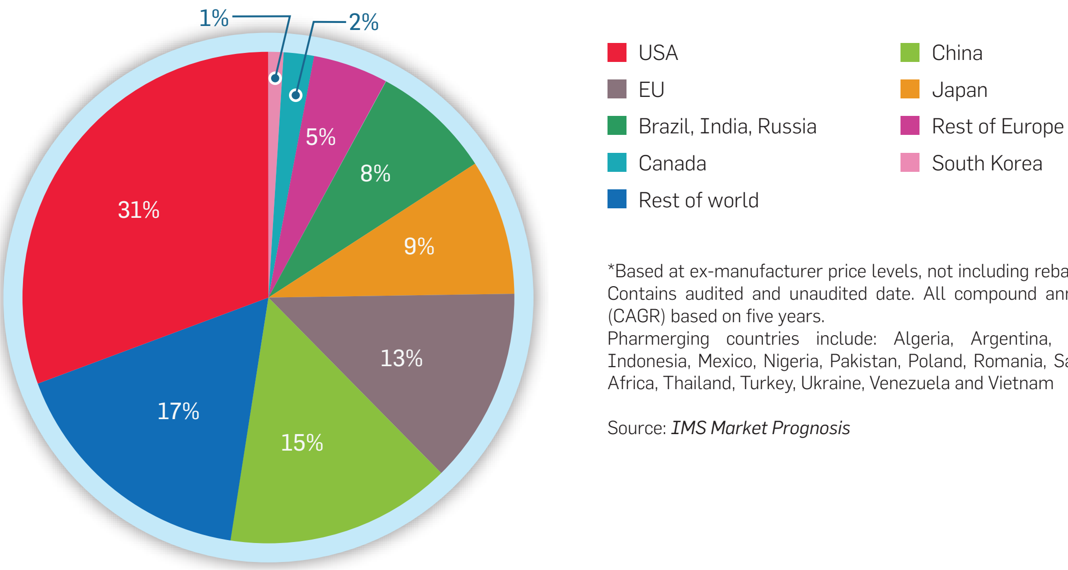
The healthcare industry is growing continually as new and emerging technologies are developed to improve and extend lives.

Health spending is expected to accelerate, rising an average of 5.2% a year in 2015-2018, to USD 9.3 trillion. This increase will be driven by the health needs of aging and growing populations, the rising prevalence of chronic diseases, emerging-market expansion, infrastructure improvements, and treatment and technology advances.

The forecasts shows that the global pharmaceutical market will reach between USD 1.135 trillion and USD 1.235 trillion by 2017 (see Figure 1). IMS projects a compound annual growth rate (CAGR) for the global pharmaceutical market of 3-6% in the forecast period of 2013-2017.

The Middle East and Africa (MEA) region is projecting a long-term growth. Knowing that the Middle East is the largest sub-region, by 2018 the sales in this region are forecast to reach around USD 27.1 billion, followed by North Africa – which is the second largest sub-region with USD 11.2 billion value by 2018.

Figure 1: **Global pharmaceutical market, regional market share forecast, 2017**

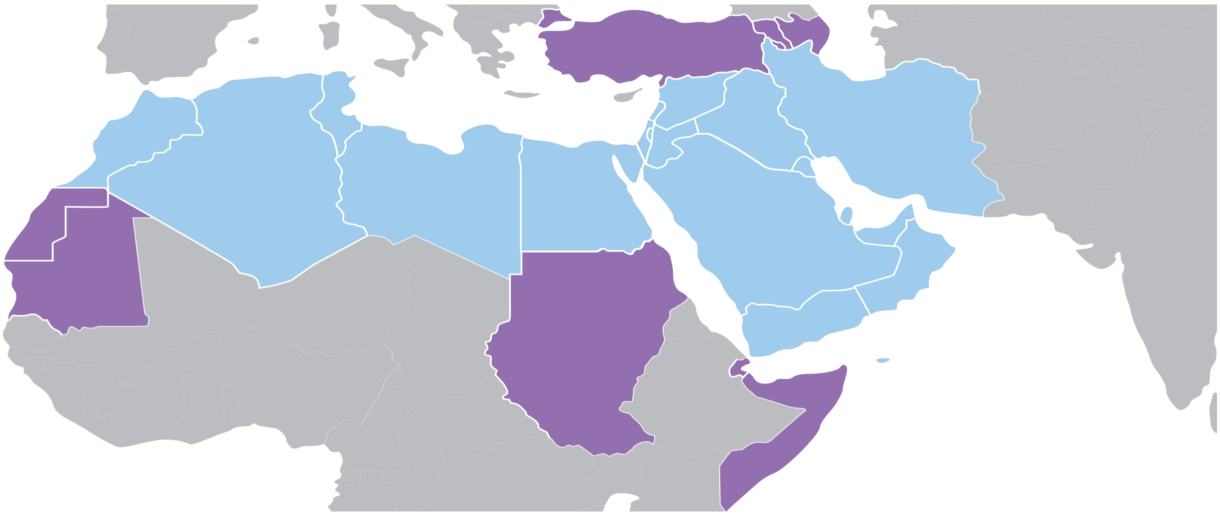


*Based at ex-manufacturer price levels, not including rebates and discounts. Contains audited and unaudited date. All compound annual growth rates (CAGR) based on five years.
Pharmerging countries include: Algeria, Argentina, Colombia, Egypt, Indonesia, Mexico, Nigeria, Pakistan, Poland, Romania, Saudi Arabia, South Africa, Thailand, Turkey, Ukraine, Venezuela and Vietnam

Source: *IMS Market Prognosis*

Overview of the MENA pharmaceutical market

Julphar's reach in the MENA region



The Middle East and North Africa (MENA) region is expected to experience sustainable growth in medium to long term. Julphar is expecting to increase its regional growth compared to 2015, as the pharmaceutical sales in the MENA region is highly growing for the next 5 years.

Middle East and Africa pharmaceutical market (USDbn)

Source: BMI

f = BMI forecast.

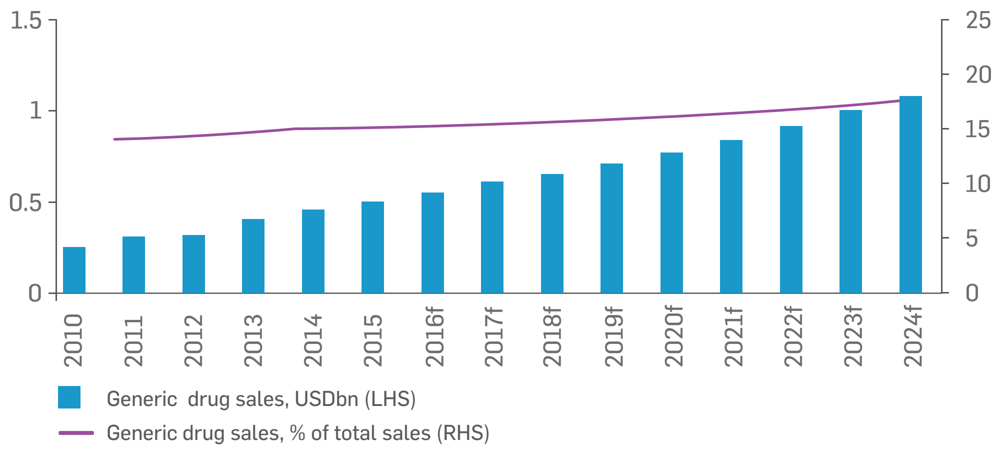
Generic drug market forecast

In order to reduce costs of medicine's importation, the UAE government will continue promoting the local production of generic drugs. This approach will help Julphar grow in terms of local production.

Generic drug spending is expected to grow by 9.4% year-over-year by 2019, and the sub-sector is expected to reach a value of AED 2.66 billion (USD 726 million), equating to a compound annual growth rate (CAGR) of 9.2% in both local currency and US dollar terms.

Generic drugs represent 18.2% of the total drug market by 2019, and it is expected to reach 19.1%. By 2024, generic medicine sales will reach AED 4.03 billion (USD 1.10 billion), equating to 8.9% 10-year CAGR, and accounting for 21.3% of all drug spending and 24% of prescription drug spending.

UAE generic drug market forecast, 2010-2024 (USDbn)



Julphar's regions: overview and forecast

GCC

BMI forecasts that Saudi Arabia market will grow at CAGR of 7.6%. This will take the market value to USD 3.0 billion, equal to USD 93 per capita by 2019.

Saudi Arabia is the largest MEA market in pharmaceutical and healthcare combined markets. Julphar is expecting to grow the sales in 2016 compared to the previous year, as the country was facing some governmental restrictions, which had a negative impact in Julphar's development in the Saudi Arabia market.

UAE's pharmaceutical market is expending as population is growing, and fiscal expenditure is rising. This development is likely to help Julphar expand its market share in the region.

In 2015, the UAE pharmaceutical market reached a value of AED 10.32 billion (USD 2.81 billion). By 2019, the drug expenditure will reach a value of AED 13.97 billion (USD 3.81 billion), equating to a compound annual growth rate (CAGR) of 8.1% in both local currency and US dollar terms. By that time, per capita drug spending will rise to USD 393.

Africa

North African's pharmaceutical market has grown significantly these last years. Algeria, Morocco and Tunisia managed in few years to develop the pharmaceutical market in this region, which represents a great opportunity for Julphar.

Julphar is expending the business in order to benefit from the region development. At the meantime Algeria is Julphar's first interest in the region, as it is the largest pharmaceutical market in Africa. Algeria's pharmaceutical expenditure reached DZD 411.62 billion (USD 4.12 billion), with per capita drug spending at USD 104.

Financial results

Business and financial overview

Operational performance overview

Revenues from sales

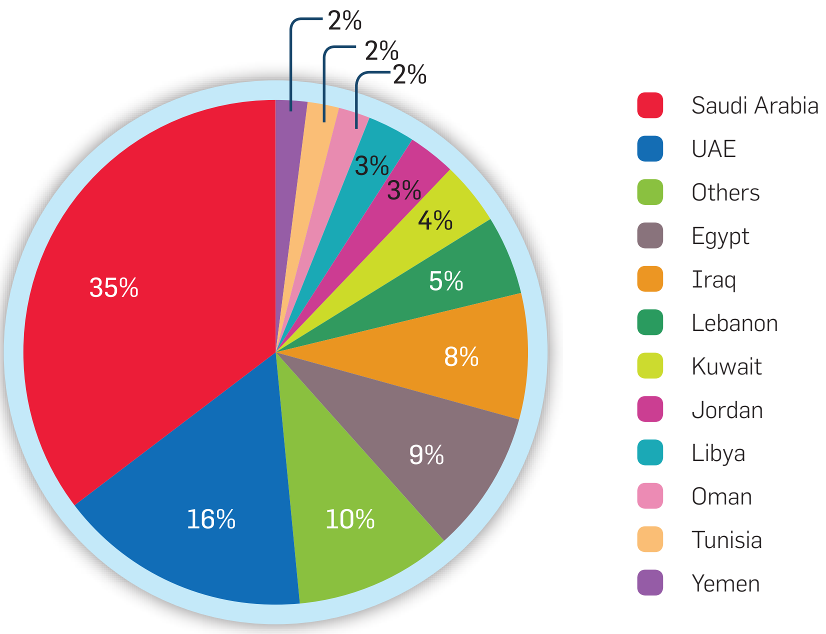
Julphar and its subsidiaries recorded sales of AED 1.47 billion during the year 2015 achieving a growth of 6% over 2014 sales of AED 1.388 billion.

Private market vs. government sector sales

Julphar standalone registered a sale of AED 1,406.44 million for the year 2015. Private markets' sale of AED 1,018.01 million contributed 72.4% of the sales whereas government sector contributed AED 388.43 million with 27.6%.

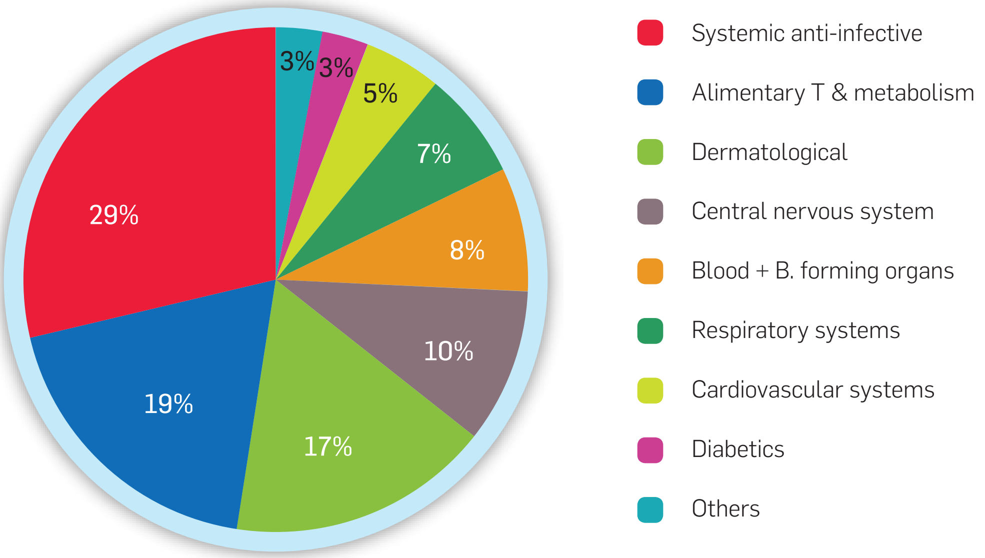
Country-wise sales

Saudi Arabia, with a contribution of 35%, continued to be the leading market for Julphar's products during the period. It was followed by UAE (16%), Egypt (9%), Iraq (8%), Lebanon (5%), Kuwait (4%), and Libya (3%). The top-7 markets, thus, accounted for 81% of the sales.



Therapeutic segment-wise sales

Anti-infectives led the therapeutic segment sales for Julphar as the leading product segment for the year 2015 accounting 29% of the sales, followed by metabolism products and dermatology. The top-5 segments account for 82% of the sales.



Order book

Total orders

The company continued the tradition of healthy order book in the beginning of the year. Total orders in hand amounted to AED 334.8 million, out of which AED 221.7 million (66% share) pertained to the private market and the balance AED 113.1 million (34% share) belonged to the tender market.

Major orders emanated from Saudi Arabia, Iraq, Lebanon, and UAE in the beginning of 2016.

Financial performance overview

The financial performance of Julphar during the year under review was as under:

Sales

During 2015, Julphar registered sales of AED 1,470 million, as against AED 1,388 million in 2014, achieving a growth of 5.9%.

The total sales figure includes the consolidation of sales from Julphar standalone with the subsidiaries Julphar Bangladesh, Julphar Ethiopia, Julphar KSA, Julphar Egypt and Gulf Inject.

Cost of sales

The cost of sales for the year was AED 561.3 million, down by 1.48% despite sales growth of 6%. As a share of sales revenues, the overall direct costs decreased from 41.03% in the previous year to 38.18% in the year 2015.

Gross profit

Gross profit stood at AED 908.9 million, which was 11.1% higher than the 2014 figure of AED 818.4 million. Better cost control has helped us to reduce the cost of sales despite higher sales in 2015.

(AED mn)	2015	2014*	Change	% Change
Sales	1,470.20	1,387.96	82.24	5.9%
Gross profit	908.92	818.43	90.49	11.1%
Other income	16.55	19.78	(3.23)	-16.3%
Operating profit	249.68	231.84	17.84	7.7%
Gain from investment and others	(3.51)	9.16	(12.67)	-138.3%
Net finance cost	(23.03)	(29.77)	6.74	-22.6%
Share of profit from investments	7.75	19.07	(11.32)	-59.4%
Net profit	226.65	202.08	24.57	12.2%

Amounts in AED million (*restated)

Operating profit

Selling and distribution expenses increased to AED 571.34 million during the year, an increase of AED 6.27 million compared to the year 2014. General & administrative expenses increased to AED 108.70 million, an increase of AED 39.17 million compared to AED 69.53 million in the year 2014. Higher expenses mainly attributed to higher provision for doubtful debts of AED 20.55 million against AED 2.0 million in the previous year and amortisation expense of AED 7.25 million. The Operating Profit for the year was AED 249.68 million against AED 231.84 million in the previous year, up 7.7% yoy.

Finance cost

The net finance cost for the year was AED 23.03 million, down by AED 6.74 million compared with AED 29.77 million in 2014.

Net profit

Net Profit of Julphar for the year reached AED 226.65 million, higher by 12.2% compared to AED 202.08 million in 2014.

Earnings per share

Basic earnings per share for the year was 21.94 fils compared to 19.39 fils for the previous year.

Dividend for the year

The Board has recommended a cash dividend of 11% (11 fils per share) and stock dividend of 4% for 2015, as against a cash dividend of 15% (15 fils per share) and stock dividend of 5% paid out for 2014.

The proposed dividend will be paid out subject to approval in the Annual General Meeting.

Capital structure

The paid-up capital of the company at the end of December 2015 was AED 1,050 million, as against AED 1,000.0 million at the end of the previous year. Shareholders' equity stood at AED 2.29 billion, up from AED 2.13 billion by 7.5% from the end of 2014.

Non-current debt stood at AED 307.15 million, up from AED 263.03 million by the year end of 2014. Current debt stood at AED 503.31 million at the end of the year compared to AED 440.23 million. Total Debt-Equity ratio at the end of the year was 0.35.

The current ratio of the company was 2.3 at the end of December 2015.

Outlook

Continued optimism and growth in the region gives us the reason to believe that the company's revenues would grow at a steady rate with fairly steady margins in the year 2016. Pharmaceutical market in the region is expected to grow at 6% CAGR leading to 2020. Increasing expat population and mandatory insurance are growth drivers for healthcare and pharmaceutical industry and it will help us to grow our private sector business in the year 2016. In addition to the organic growth of the company, commissioning of new KSA plant would complement the growth in our Saudi business.

Majority of business being generated from the MENA region, the company shall face some resistance due to the continued instability in some of the countries in the region, however, the overall growth is expected to be better than the other markets. Addition of super generic products to our existing portfolio is likely to help us to consolidate our leadership positions in the existing markets and expand to newer markets with better profitability. Addition of Bangladesh and Ethiopia plants opens up opportunities to explore newer markets in addition to our traditional markets.

With a strong financial outcome, the company's books look solid as usual and our efforts to improve our operational efficiency, reduce sales and distribution expenses started showing the results and offer us the opportunity to constantly look for avenues to grow inorganically adding to our strong organic growth. We are confident of marching forward with renewed energy and continued focus to deliver an outstanding performance in the year 2016 as well.

Basis of preparation and forward-looking statements

This Business and Financial review has been prepared solely to provide additional information to shareholders to assess the company's strategies and the potential for those strategies to succeed, and should not be relied on by any other party or for any other purpose. The World Bank's classification for MENA region has been relied on for our analysis of and outlook for the region. Certain statements in the above review are forward-looking statements – using words such as "intends", "believes", "anticipates", "projects", "likely" and "expects". Where included, these have been made by the company management in good faith based on the information available to them up to the time of their approval of this report.

By their nature, forward-looking statements are based on assumptions and involve inherent risks and uncertainties that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements, and should be treated with caution. These risks, uncertainties or assumptions could adversely affect the outcome and financial effects of the plans and events described in this review. Statements contained in this review regarding past trends or activities should not be taken as a representation of perceived trends or activities in the future. Undue reliance should not be placed on forward-looking statements, which are valid only on the date of the approval of this report.

Except as required by law, the company is under no obligation to update or keep current the forward-looking statements contained in this review, or to correct any inaccuracies which may become apparent in such forward-looking statements.

julphar.net

Julphar

Directors' Report

The Board of Directors of Gulf Pharmaceutical Industries (Julphar) is pleased to present their report along with the audited consolidated financial statements of the Company & its subsidiaries for the year ended 31 December 2015.

Financial Performance

Julphar recorded Sales of AED 1.47 billion achieving a growth of 6% against 2014* sales of AED 1.387 billion *(*restated due to more convergence approach of inco terms than contractual interpretation of delivery from initial carriage to main carriage for certain customers).*

The net profit is AED 226.649 million for the year ended 31 December 2015 as compared to AED202.075 million in the previous year, up by 12%.

During 2015, Julphar consolidated for first time its subsidiaries Julphar Bangladesh, Julphar Egypt & Julphar KSA in addition to Julphar Ethiopia & Gulf Inject Dubai.

Outlook 2016

Julphar's strategy for 2016 is to further consolidate its strong position in the major markets like KSA, UAE and be a market leader in generics by introducing several new products. Julphar would like to focus its overseas manufacturing facilities in Bangladesh for Oncology/API's ; Ethiopia for retroviral/virology ; Gulf Inject for specialized IV fluids & ophthalmology & KSA for simultaneous launching of new products in GCC.

Proposed Dividend

The Board has recommended a cash dividend of 11% and 4% 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 Saqr Al Qasimi
Chairman
03/04/2016

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الخليج للصناعات الدوائية
Gulf Pharmaceutical Industries

pwc

Independent auditor's report
to the shareholders of Gulf Pharmaceutical Industries P.S.C

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of **Gulf Pharmaceuticals Industries P.S.C. ("the Company"), and its subsidiaries (together, "the Group")**, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these 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 these consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

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

(i) we have obtained all the information we considered necessary for the purposes of our audit;
(ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
(iii) the Group has maintained proper books of account;
(iv) the financial information included in the report of the Directors' is consistent with the books of account of the Group;
(v) note 9 (i) to the consolidated financial statements disclose the investment in shares during the financial year ended 31 December 2015;
(vi) note 29 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted;
(vii) 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 financial year ended 31 December 2015, 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 consolidated financial position as at 31 December 2015; and
(viii) note 22 to the consolidated financial statements discloses the social contributions made during the financial year ended 31 December 2015.

Other matters

The financial statements of the Group for the year ended 31 December 2014 was audited by another auditor, whose report, dated 19 February 2015, expressed an unmodified opinion.

PricewaterhouseCoopers
7 April 2016

Mohamed ElBorno
Registered Auditor Number 946
Dubai, United Arab Emirates

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Consolidated Statement of Financial Position

as at 31 December 2015

AED in thousands

	As at 31 December 2015	As at 31 December 2014 (as restated)*	As at 1 January 2014 (as restated)*
ASSETS			
Non-current assets			
Property, plant and equipment	1,163,375	1,103,813	1,099,879
Investment property	-	-	8,585
Intangible assets	72,298	-	-
Investment in associate	241,573	277,822	265,572
Available-for-sale-financial assets	73,362	60,610	42,591
Total non-current assets	1,550,608	1,442,245	1,416,627
Current assets			
Inventories	491,542	465,431	428,766
Financial assets at fair value through profit and loss	22,351	35,937	33,886
Trade and other receivables	1,239,812	1,105,385	904,119
Cash and bank balances	151,521	120,925	214,614
Total current assets	1,905,226	1,727,678	1,581,385
Total Assets	3,455,834	3,169,923	2,998,012
EQUITY AND LIABILITIES			
EQUITY			
Share capital	1,050,000	1,000,000	863,156
Statutory reserve	531,954	531,954	405,737
Voluntary reserve	184,819	184,819	161,290
Foreign currency translation reserve	(3,290)	(793)	534
Fair value reserve	16,603	(8,308)	8,604
Retained earnings	421,497	391,075	383,660
Capital and reserves attributable to shareholders of the company	2,201,583	2,098,747	1,822,981
Non-controlling interest	91,206	29,860	15,898
Total equity	2,292,789	2,128,607	1,838,879
LIABILITIES			
Non-current liabilities			
Provision for employees' end of service indemnity	42,400	39,697	32,019
Bank borrowings	307,149	263,063	412,266
Total non-current liabilities	349,549	302,760	444,285
Current liabilities			
Bank borrowings	503,314	440,234	384,372
Trade payables and other accruals	310,182	298,322	330,476
Total current liabilities	813,496	738,556	714,848
Total liabilities	1,163,045	1,041,316	1,159,133
Total equity and liabilities	3,455,834	3,169,923	2,998,012

*See Note 33 for details regarding the restatement as a result of an error.

These consolidated financial statements were approved by the Board of Directors on 7 April 2016 and signed on its behalf by:

Sheikh Faisal Bin Saqr Al Qasimi
Chairman

G.V.G. Krishna
Chief Financial Officer

Consolidated Statement of Income

for the year ended 31 December 2015

AED in thousands

	2015	2014 (as restated)*
Sales	1,470,204	1,387,955
Cost of sales	(561,280)	(569,528)
Gross profit	908,924	818,427
General and administrative expenses	(108,700)	(69,531)
Selling and distribution expenses	(571,338)	(565,067)
Other income	16,549	19,784
Other (loss)/gain from investments	(3,507)	9,155
Share of profit from investment accounted for using the equity method	7,751	19,074
Operating profit	249,679	231,842
Finance income	4,444	-
Finance costs	(27,474)	(29,767)
Finance costs – net	(23,030)	(29,767)
Profit for the year	226,649	202,075
Attributable to:		
Owners of the company	230,422	203,574
Non-controlling interest	(3,773)	(1,499)
	226,649	202,075
Basic and diluted earnings per share (in UAE fils)	21.94	19.39

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2015

AED in thousands

	2015	2014 (as restated)*
Profit for the year	226,649	202,075
Other comprehensive income:		
Items that may be subsequently reclassified to profit or loss		
Change in the fair value of available-for-sale investments	24,753	350
Reclassification adjustment on disposal of available for sale investments	158	(17,262)
	24,911	(16,912)
Currency translation differences	(2,497)	(2,056)
Total other comprehensive income/(loss)	22,414	(18,968)
Total comprehensive income for the year	249,063	183,107
Attributable to:		
Owners of the company	252,836	185,335
Non-controlling interest	(3,773)	(2,228)
	249,063	183,107

*See Note 33 for details regarding the restatement as a result of an error.

Consolidated Cash Flows

For the year ended 31 December 2015

AED in thousands

	2015	2014
Cash flow from operating activities		
Profit for the year	226,649	202,075
Adjustments for:		
Depreciation of property, plant and equipment	92,553	77,244
Amortisation of intangible asset	3,806	-
Gain on bargain purchase	(3,412)	-
Profit from investment accounted for using the equity method	(7,751)	(19,074)
Loss from sale of investment property	-	1,085
Allowance for slow-moving inventories	11,500	2,000
Allowance for doubtful debts	20,551	2,000
Gain on sale of property, plant and equipment	(173)	(6)
Gain on sale of financial asset at FVTPL	(242)	(8,588)
Loss on revaluation of financial asset at FVTPL	8,446	18,453
Gain on sale of available-for-sale investments	(2,673)	(16,694)
Recycled loss on available-for-sale investments	158	-
Expenses recognized for equity settled share based payments	-	1,217
Provision for employees' end of service indemnity	5,554	15,735
Finance costs	27,474	29,767
Operating cash flow before changes in working capital and payment of EOSB	382,440	305,214
Employees end of service benefits paid	(2,851)	(8,057)
Changes in working capital:		
Trade and other receivables	(110,638)	(180,662)
Inventories	(3,708)	(38,665)
Trade payables and accruals	(77,206)	(38,233)
Net cash generated from operating activities	188,037	39,597
Cash flows from investing activities:		
Additions to property, plant and equipment	(111,017)	(81,178)
Purchase of available-for-sale financial assets	-	(55,194)
Sales proceeds from disposal of available-for-sale financial assets	14,673	18,212
Purchase of investments carried at fair value through profit and loss	-	(72,049)
Sales proceeds from sale of financial asset at FVTPL	5,382	60,133
Proceeds from sale of property, plant and equipment	2,942	6
Proceeds from sale of investment property	-	7,500
Dividends received from investment accounted for using the equity method	44,000	6,824
Acquisition of subsidiaries, net of cash acquired	(79,368)	-
Net cash used in investing activities	(123,388)	(115,746)
Cash flows from financing activities:		
Proceeds from issuance of additional share capital	-	175,529
Proceeds from bank borrowings	510,626	(93,341)
Repayment of loans	(403,460)	-
Dividends paid	(150,000)	(84,241)
Increase in non-controlling interest	38,752	16,190
Interest paid	(27,474)	(29,767)
Net cash used in financing activities	(31,556)	(15,630)
Net increase/(decrease) in cash and cash equivalents	33,093	(91,779)
Currency translation differences	(2,497)	(1,910)
Cash and cash equivalents, at the beginning of the year	120,925	214,614
Cash and cash equivalents, end of the year	151,521	120,925

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2015

AED in thousands

	Share capital	Statutory reserve	Voluntary reserve	Foreign currency translation reserve	Fair value reserve	Retained earnings	Attributable to owners of the company	Non-controlling interest	Total
Balance at 1 January 2014 (as previously stated)	**863,156**	**405,737**	**161,290**	**534**	**8,604**	**431,443**	**1,870,764**	**15,898**	**1,886,662**
Correction of error	-	-	-	-	-	(47,783)	(47,783)	-	(47,783)
Restated total equity at the beginning of the financial year	863,156	405,737	161,290	534	8,604	383,660	1,822,981	15,898	1,838,879
Profit for the year (as previously stated)	-	-	-	-	-	203,574	203,574	(1,499)	202,075
Other comprehensive income for the year	-	-	-	(1,327)	(16,912)	-	(18,239)	(729)	(18,968)
Total comprehensive income for the year	-	-	-	(1,327)	(16,912)	203,574	185,335	(2,228)	183,107
Issuance of bonus shares	86,315	-	-	-	-	(86,315)	-	-	-
Cash dividends for 2013	-	-	-	-	-	(86,315)	(86,315)	-	(86,315)
Issuance of additional share capital	50,000	-	-	-	-	-	50,000	-	50,000
Issuance of additional share capital under employee share option plan	529	-	-	-	-	-	529	-	529
Share premium on issuance of additional share capital	-	126,217	-	-	-	-	126,217	-	126,217
Transfer to voluntary reserve	-	-	23,529	-	-	(23,529)	-	-	-
Movement in non-controlling interest	-	-	-	-	-	-	-	16,190	16,190
	136,844	126,217	23,529	-	-	(196,159)	90,431	16,190	106,621
Balance at 31 December 2014 (as restated)	1,000,000	531,954	184,819	(793)	(8,308)	391,075	2,098,747	29,860	2,128,607
At January 2015 (as restated)	1,000,000	531,954	184,819	(793)	(8,308)	391,075	2,098,747	29,860	2,128,607
Profit for the year	-	-	-	-	-	230,422	230,422	(3,773)	226,649
Other comprehensive loss for the year	-	-	-	(2,497)	24,911	-	22,414	-	22,414
Total comprehensive income for the year	-	-	-	(2,497)	24,911	230,422	252,836	(3,773)	249,063
Issuance of bonus shares	50,000	-	-	-	-	(50,000)	-	-	-
Cash dividends for 2014	-	-	-	-	-	(150,000)	(150,000)	-	(150,000)
Movement in non-controlling interest	-	-	-	-	-	-	-	65,119	65,119
	50,000	-	-	(2,497)	24,911	30,422	102,836	61,346	164,182
Balance at 31 December 2015 (as previously stated)	1,050,000	531,954	184,819	(3,290)	16,603	421,497	2,201,583	91,206	2,292,789

Notes to the Consolidated Financial Statements

(For the year ended December 31, 2015)

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.

UAE Federal Law No. 2 of 2015 ("Companies Law") which is applicable to the Company and its subsidiaries has come into effect on 1 July 2015. The Group is currently assessing and evaluating the relevant provisions of the Companies Law which includes among others composition of the Board of Directors in odd numbers and approval of the Board of Directors prior to conducting transactions with related parties. As per the transitional provisions contained therein, companies are allowed 12 months from the effective date to ensure compliance with the Companies Law.

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.

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. The financial statements are for the Group consisting of the Company and its subsidiaries. Certain accounting policies of the Company has been changed during the year, mainly related to revenue recognition due to a correction of recognition error.

2.1 Basis of preparation

(a) Compliance with IFRS
These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee ("IFRS IC") interpretations 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 on a historical cost basis as modified by the revaluation to fair value of available-for-sale investments and financial assets at fair value through profit and loss.

The preparation of the consolidated financial statements requires the use of accounting estimates, which by definition, will seldom equal the actual results. Management also needs to exercise judgment in applying the Group's accounting policies.

(c) New standards and interpretations not yet adopted by the Group

Certain new accounting standards and interpretations have been published that are not mandatory for reporting periods ended on 31 December 2015 and have not been early adopted by the Group. The Group is currently assessing the impact of these standards and interpretation on its consolidated financial statements.

- IFRS 11 (amendment), 'Joint arrangements' (effective from 1 January 2016);
- IFRS 7 (amendment) 'Financial instruments: Disclosures', (with consequential amendments to IFRS 1) regarding servicing contracts (effective from 1 January 2016);
- IAS 19 (amendment) 'Employee benefits' regarding discount rates (effective from 1 January 2016);
- IAS 1 (amendment) 'Presentation of financial statements' on the disclosure initiative (effective from 1 January 2016);
- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2015. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income with no subsequent recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018 and earlier adoption is permitted. The Group is yet to assess IFRS 9's full impact; and

- 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 yet to assess IFRS 16's full impact.

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.

2.2 Foreign currency translation

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 statement of income. 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 statement of within 'other income'.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, are taken to 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. Exchange differences arising are recognised in other comprehensive income income in the consolidated statement of income.

2.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company and its subsidiaries. Control is achieved when the Company:
- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual agreements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.
- Acquisition related expense are changed to the statement of income.

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement.

Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Details of the Company's subsidiaries as of 31 December 2014 were as follows:

Name of subsidiary	Place of incorporation and operation	Percentage of ownership	Principal activity
Mena Cool F.Z.E	Ras Al Khaimah-UAE	100%	Transportation
Julphar Pharmaceuticals P.L.C	Ethiopia	55%	Manufacturing of medicines, wrapping and packing materials
Julphar Pharma GMBH	Germany	100%	Manufacturing of medical supplies – Discontinued
Gulf Inject L.L.C.	Dubai – UAE	51%	Manufacturing of medical supplies
RAK Pharmaceuticals Pvt. Ltd.	Dhaka – Bangladesh	50.5% medicines	Manufacturing of
Julphar Saudi Arabia L.L.C.	Rabigh – Saudi Arabia	51% medicines	Manufacturing of
Julphar Egypt Company L.L.C.	Cairo – Egypt	100%	Distributors of Julphar's products in Egypt
Julphar Diabetes L.L.C.	Ras Al Khaimah U.A.E.	70%	Manufacturer of insulin products
Julphar General Trading L.L.C.	Ras Al Khaimah U.A.E.	100%	General Trading
Mena Cool Machinery Trading	Ras Al Khaimah U.A.E.	100%	General Trading

2.4 Investments accounted for using the equity method

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 after initially being recognised at cost.

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 and joint ventures 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 and joint ventures 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.

2.5 Property, plant and equipment

Property, plant and equipment comprise land and buildings, machinery and equipment, furniture and fixtures, motor vehicles and capital work-in-progress.

All other property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the purchase of the assets.

Increases in the carrying amounts arising on revaluation of land is recognised, in other comprehensive income and accumulated in reserves in shareholders' equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same asset are first recognised in other comprehensive income to the extent of the remaining surplus attributable to the asset; all other decreases are charged to profit or loss.

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	%
Buildings	10-50
Plant and machinery	3-17
Installations	4-25
Motor Vehicles	3-10
Furniture and fixture	4-10
Tools and equipment	3-10
Land improvements	10-25

2.6 Intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary as of the date of the acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes.

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. The amount is arrived at by calculating the present value of the expected future economic benefits to arise from these licenses and permits. Amortisation is calculated using the straight-line method to allocate the costs over its estimated useful life of 5 to 20 years.

2.7 Financial assets

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. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. The Group's loans and receivables comprise, 'Trade and other receivables (excluding prepayments and advances)' (Note 12), 'due from related parties' and 'cash and cash equivalents' in the consolidated statement of financial position.

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.

2.8 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 statement of comprehensive 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 comprehensive income.

(*b*) *Financial 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.

For debt securities, 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 or loss – is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated statement of income.

(c) *Assets classified as available-for-sale*
For equity investments, a significant or prolonged decline in the fair value of the security below 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.

2.9 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.

2.10 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).

2.11 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

2.12 Share capital

Ordinary shares are classified as equity.

2.13 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 to 120 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2.14 Employee benefits

An accrual is made for employees in the UAE for estimated liability for their entitlement to annual leave and leave passage as a result of services rendered up to the statement of financial position date. Provision is also made, using actuarial techniques, for the end of service benefits due to employees in accordance with the UAE Labour Law for their periods of service up to the statement of financial position date.

Payments made to state-managed pension schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution scheme. Accordingly, the accrued cost of contribution is charged to the consolidated statement of comprehensive income as incurred.

The accruals relating to annual leave and leave passage is disclosed as a current liability, while the provision relating to end of service benefits is disclosed as a non-current liability.

2.15 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

2.15 Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount.

2.16 Dividends

Dividend revenue from investments is recognized when the Company's right to receive payment has been established.

2.17 Dividend distribution

Dividend distribution to the Shareholders is recognised as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the Shareholders in their Annual General Meeting.

2.18 Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit/(loss) attributable to the ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is calculated by adjusting the weighted average number of equity shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group does not have any dilutive potential ordinary shares.

2.19 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of the Group that makes strategic decisions.

3 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, price risk, cash flow and fair value interest rate risk, credit risk and liquidity risk). The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the Group's management.

The Group is exposed to foreign currency risk arising from future commercial transactions, recognised assets and liabilities that are denominated in a currency other than the respective functional currencies of the Group entities. Management has set up policies to require Group companies to manage their foreign currency risk against their functional currency. As the AED is pegged to the USD, balances in USD are not considered to represent significant foreign currency risk. The Group operates internationally and is exposed to foreign currency risk arising from various currency exposures, primarily with respect to Indian Ruppees (INR), Euro (EUR) and Egyptian Pound (EGP).

The Group is exposed to equity securities price risk through their investment at fair value through profit and loss and available-for-sale financial asset. To manage the risk the Group diversifies and places such investments with financially sound institutions.

The Group's interest rate risk arises from bank deposits and long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk which is partially offset against cash held at variable rates.

With respect to trade and other receivables, Group has policies in place to ensure that its exposure to credit risk is minimal by setting credit limits for individual customers and monitoring outstanding receivables based on long standing relationships.

The trade receivable balances are presented in the consolidated statement of financial position net of any applicable allowances for losses that were estimated by the Group's management based on prior experience and prevailing economic conditions. Current year's sales include AED 712,723,166 being sales to two main customers (2014: AED 672,086,136 being sales to two main customers). Total trade receivables due from the above two main customers amounted to AED 516,521,239 as at 31 December 2015 (2014: AED 541,814,000).

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, the Group maintains flexibility in funding by keeping adequate cash and bank balances.

4 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

The gearing ratio at the year end was as follows:

	2015 AED'000	2014 AED'000
Borrowings	**810,463**	703,297
Bank balances and cash	**(151,521)**	(120,925)
Net debt	**658,942**	582,372
Equity	**3,103,252**	2,831,904
Net debt to equity ratio (times)	**0.21**	0.21

5 Critical accounting judgments and key sources of estimation uncertainty

The preparation of these consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) *Useful lives of intangible assets*
The Group carries its intangibles, at cost less accumulated amortisation and impairment losses. The intangible assets are amortised over their useful lives.

The determination of these useful lives of intangibles requires the use of assumptions of the manner in which the assets will be realised by the Group. These assumptions are based on historical experience, contractual terms of agreements related to the intangibles and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The key assumption on which management has based its estimations of the useful lives of the assets is the likelihood of renewal of licenses and registration of products and management's future plans for continued use of licenses and registrations.

(b) *Allowance for doubtful debts*
Allowance for doubtful debts is determined using a combination of factors to ensure that the receivables are not overstated due to uncollectibility. The allowance for doubtful debts for all customers is based on a variety of factors, including the overall quality and aging of the receivables, continuing credit evaluation of the customers' financial conditions and collateral requirements from customers in certain circumstances. Also, specific provisions for individual accounts are recorded when the Group becomes aware of the customer's inability to meet its financial obligations.

(c) *Allowance for slow moving and obsolete inventories*
Inventories are stated at the lower of cost or net realizable value. Adjustments to reduce the cost of inventory to its net realizable value, if required, are made at the product level for estimated excess, obsolescence or impaired balances. Factors influencing these adjustments include changes in demand, technological changes, physical deterioration and quality issues. Based on the factors, management has identified inventory items as slow and non moving to calculate the allowance for slow moving and obsolete inventories. Revisions to the allowance for slow moving inventories would be required if the outcome of these indicative factors differ from the estimates.

(d) *Useful lives of property, plant and equipment*
Management reviews the residual values and estimated useful lives of property, plant and equipment at the end of each annual reporting period in accordance with IAS 16. Management determined that current year expectations do not differ from previous estimates based on its review.

(e) *Valuation of unquoted AFS equity investments*
Valuation of unquoted AFS equity investments is normally based on recent market transactions on an arm's length basis, fair value of another instrument that is substantially the same, expected cash flows discounted at current rates for similar instruments or other valuation models. In the absence of an active market for these investments or any recent transactions that could provide evidence of the current fair value, these investments are carried at cost less recognised impairment losses, if any. Management believes that the carrying values of these unquoted equity investments are not materially different from their fair values.

(f) *Impairment of investment accounted for using the equity method*
Management regularly reviews its investment in an associate for indicators of impairment. This determination of whether investment in an associate is impaired entails management's evaluation of the specific investee's profitability, liquidity, solvency and ability to generate operating cash flows from the date of acquisition and until the foreseeable future. The difference between the estimated recoverable amount and the carrying value of investment is recognised as an expense in profit or loss. Management is satisfied that no impairment provision is necessary on its investment in an associate.

(g) *Impairment of trade and other receivables*
An estimate of the collectible amount of trade and other receivables is made when collection of the full amount is no longer probable. This determination of whether the receivables are impaired entails management's evaluation of the specific credit and liquidity position of the customers and related parties and their historical recovery rates, including discussion with legal department and review of current economic environment. Management is satisfied that no additional impairment is required on its trade and other receivables in excess of amount already provided.

6 Segment information

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions.

For management purposes, the Group is organised into business units based on their products and services and the following reportable segments:

1) Manufacturing
2) Investments

There are no sales between segments during the period.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

The Board of Directors is also provided with multiple levels of information which comprise of revenue, gross profit and net profit, aggregated for higher level components (i.e. combination of all products and services) by distribution and by region. The financial accounting system of the Group is currently configured in this manner and this information is readily available. However, for decision making purposes, the Board of Directors rely mainly on the revenue and net profit information that contains lower level components. Hence, the segment information provided is primarily to the net profit level of the Group.


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