**Gulf Pharmaceutical Industries P.S.C.**

**Condensed consolidated interim financial information (Unaudited) for the three month period ended 31 March 2018**

## Gulf Pharmaceutical Industries P.S.C.

## Condensed consolidated interim financial information for the three month period ended 31 March 2018

## Report on review of the condensed consolidated interim financial information to the Board of Directors of Gulf Pharmaceutical Industries P.S.C.

### Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Gulf Pharmaceutical Industries P.S.C. (the "Company"), and its subsidiaries (the "Group"), as at 31 March 2018 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the three month period then ended, and other explanatory notes. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

### Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of Interim Financial Information performed by the Independent Auditor of the entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34: Interim Financial Reporting.

PricewaterhouseCoopers
15 May 2018

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

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## Gulf Pharmaceutical Industries P.S.C.

## Condensed consolidated interim statement of financial position

| | Note | As at 31 March 2018 AED m | As at 31 December 2017 AED m |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 5 | 1,147.3 | 1,156.9 |
| Intangible assets | | 48.1 | 46.5 |
| Investment in associate | 6 | 274.8 | 268.4 |
| Available-for-sale investments | 7 | - | 11.5 |
| | | 1,470.2 | 1483.3 |
| **Current assets** | | | |
| Inventories | | 315.3 | 328.0 |
| Financial assets at fair value through profit and loss | 8 | 33.0 | 0.3 |
| Trade and other receivables | 9 | 1,564.6 | 1,547.6 |
| Bank balances and cash | 10 | 131.5 | 168.5 |
| | | 2,044.4 | 2,044.4 |
| **Total assets** | | 3,514.6 | 3,527.7 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| **Capital and reserves** | | | |
| Share capital | 11 | 1,124.8 | 1,124.8 |
| Statutory reserve | 12 | 562.4 | 562.4 |
| Voluntary reserve | 13 | 184.8 | 184.8 |
| Foreign currency translation reserve | | (134.2) | (136.6) |
| Fair value reserve | | - | 2.0 |
| Retained earnings | | 216.6 | 328.3 |
| **Capital and reserves attributable to shareholders of the company** | | 1,954.4 | 2,065.7 |
| Non-controlling interest | | 158.6 | 144.6 |
| **Net equity** | | 2,113.0 | 2,210.3 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Provision for employees' end of service indemnity | | 48.3 | 46.7 |
| Bank borrowings | 14 | 352.9 | 409.9 |
| | | 401.2 | 456.6 |
| **Current liabilities** | | | |
| Bank borrowings | 14 | 467.7 | 499.5 |
| Trade payables and accruals | | 532.7 | 361.3 |
| | | 1,000.4 | 860.8 |
| **Total liabilities** | | 1,401.6 | 1,317.4 |
| **Total equity and liabilities** | | 3,514.6 | 3,527.7 |

This condensed consolidated interim financial information were approved by the Board of Directors on 13 May 2018 and signed on its behalf by:

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H.H. Faisal Bin Saqr Al Qasimi
Chairman

Jerome Carle
General Manager

## Gulf Pharmaceutical Industries P.S.C.

## Condensed consolidated interim statement of income

| | Note | Three month ended 31 March 2018 AED m | 2017 AED m |
|---|---|---|---|
| **Gross Sales** | | **290.7** | **369.3** |
| Less: Commission | | (26.7) | (35.4) |
| **Net Sales** | | **264.0** | **333.9** |
| Cost of sales | | (164.6) | (180.3) |
| **Gross profit** | | **99.4** | **153.6** |
| General and administrative expenses | | (24.6) | (27.5) |
| Selling and distribution expenses | | (62.3) | (88.5) |
| Other income | | 2.6 | 1.8 |
| Gain from investments and others | | 0.5 | 3.0 |
| Share of profit from investment accounted for using the equity method | 6 | 6.4 | 6.0 |
| **Operating profit** | | 22.0 | 48.4 |
| Finance income | | 1.8 | - |
| Finance costs | | (5.4) | (4.3) |
| Finance costs – net | | (3.6) | (4.3) |
| **Profit for the period** | | 18.4 | 44.1 |
| **Attributable to:** | | | |
| Owners of the company | | 19.6 | 44.8 |
| Non-controlling interest | | (1.2) | (0.7) |
| | | 18.4 | 44.1 |
| Basic and diluted earnings per share (in UAE fils) | 15 | 1.7 | 3.9 |

The notes on pages 7 to 31 are an integral part of this condensed consolidated interim financial information.

## Gulf Pharmaceutical Industries P.S.C.

## Condensed consolidated interim statement of comprehensive income

| | Three month ended 31 March | |
|---|---|---|
| | **2018** | **2017** |
| | **AED m** | **AED m** |
| **Profit for the period** | 18.4 | 44.1 |
| **Other comprehensive loss:** | | |
| ***Items that may be reclassified subsequently to profit or loss:*** | | |
| Reclassification adjustment on disposal of available for sale investments | - | 1.5 |
| | - | 1.5 |
| Currency translation differences | 2.4 | (5.7) |
| **Total other comprehensive income/(loss)** | 2.4 | (4.2) |
| **Total comprehensive income for the period** | 20.8 | 39.9 |
| **Attributable to:** | | |
| Owners of the company | 22.0 | 40.6 |
| Non-controlling interest | (1.2) | (0.7) |
| | 20.8 | 39.9 |

The notes on pages 7 to 31 are an integral part of this condensed consolidated interim financial information.

## Gulf Pharmaceutical Industries P.S.C.

## Condensed consolidated interim statement of changes in equity

| | Share capital AED m | Statutory reserve AED m | Voluntary reserve AED m | Foreign currency translation reserve AED m | Fair value reserve AED m | Retained earnings AED m | Attributable to owners of the company AED m | Non-controllin g interest AED m | Total AED m |
|---|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2017 | 1,092.0 | 546.0 | 184.8 | (120.0) | 2.7 | 462.1 | 2,167.6 | 138.6 | 2,306.2 |
| Profit for the three month period 31 ended March 2017 | - | - | - | - | - | 44.8 | 44.8 | (0.7) | 44.1 |
| Comprehensive income for the period | - | - | - | (5.7) | 1.5 | - | (4.2) | - | (4.2) |
| **Total comprehensive income for the period** | - | - | - | (5.7) | 1.5 | 44.8 | 40.6 | (0.7) | 39.9 |
| Movement in non-controlling interest | - | - | - | - | - | - | - | 12.3 | 12.3 |
| **Balance at 31 March 2017** | 1,092.0 | 546.0 | 184.8 | (125.7) | 4.2 | 506.9 | 2,208.2 | 150.2 | 2,358.4 |
| Balance at 1 January 2018 (as previously stated) | 1,124.8 | 562.4 | 184.8 | (136.6) | 2.0 | 328.3 | 2,065.7 | 144.6 | 2,210.3 |
| Change in accounting policy | - | - | - | - | (2.0) | (131.3) | (133.3) | - | (133.3) |
| Balance at 1 January 2018 (restated) | 1,124.8 | 562.4 | 184.8 | (136.6) | - | 197.0 | 1,932.4 | 144.6 | 2,077.0 |
| Profit for the three month period 31 ended March 2018 | - | - | - | - | - | 19.6 | 19.6 | (1.2) | 18.4 |
| Comprehensive income for the period | - | - | - | 2.4 | - | - | 2.4 | - | 2.4 |
| **Total comprehensive income for the period** | - | - | - | 2.4 | - | 19.6 | 22.0 | (1.2) | 20.8 |
| Movement in non-controlling interest | - | - | - | - | - | - | - | 15.2 | 15.2 |
| **Balance at 31 March 2018** | 1,124.8 | 562.4 | 184.8 | (134.2) | - | 216.6 | 1,954.4 | 158.6 | 2,113.0 |

The notes on pages 7 to 31 are an integral part this condensed consolidated interim financial information.

## Gulf Pharmaceutical Industries P.S.C.

## Condensed consolidated interim statement of cash flows

| | Note | Three month ended 31 March 2018 AED m | 2017 AED m |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Profit for the period | | 18.4 | 44.1 |
| **Adjustments for:** | | | |
| Depreciation of property, plant and equipment | 5 | 21.1 | 21.9 |
| Amortisation for intangible assets | | 1.6 | 1.4 |
| Share of profit from investment in associate | 6 | (6.4) | (6.0) |
| Deferred revenue | | 25.0 | - |
| Allowance for slow-moving inventories | | - | 1.2 |
| Allowance for doubtful debts | 9 | - | 2.6 |
| Loss/(gain) on revaluation of financial asset at FVTPL | 8 | 1.4 | (0.5) |
| Gain on sale of available-for-sale investments | | - | (4.3) |
| Loss on sale of FVTPL | | 1.4 | - |
| Recycled loss on available-for-sale investments | | - | 1.5 |
| Provision for employees' end of service indemnity | | 1.6 | 2.1 |
| Finance costs (net) | | 3.6 | 4.3 |
| **Working capital and payment of EOSB operating cash flow before changes in** | | 67.7 | 68.3 |
| **Changes in working capital:** | | | |
| Trade and other receivables | | (1.4) | (102.5) |
| Inventories | | 12.7 | 19.6 |
| Trade payables and accruals | | (16.5) | 45.1 |
| **Net cash flows from operating activities** | | 62.5 | 30.5 |
| **Cash flows from investing activities:** | | | |
| Additions to property, plant and equipment | 5 | (11.5) | (17.6) |
| Additions to investments at FVTPL | | (16.9) | - |
| Sales proceeds from disposal of available-for-sale financial assets | | - | 34.8 |
| Sales proceeds from FVTPL | | 7.3 | - |
| Interest income | | 1.8 | - |
| **Net cash flows (used in)/ provided by investing activities** | | (19.3) | 17.2 |
| **Cash flows from financing activities:** | | | |
| Proceeds from bank borrowings | | 34.8 | 0.5 |
| Repayment of loans | | (123.7) | (95.2) |
| Non-controlling interest | | 15.2 | 12.3 |
| Interest paid | | (5.4) | (4.3) |
| **Net cash used in financing activities** | | (79.1) | (86.7) |
| **Net decrease in cash and cash equivalents** | | (35.9) | (39.0) |
| Currency translation differences | | (1.2) | (5.4) |
| Cash and cash equivalents at the beginning of the period | | 168.5 | 164.0 |
| **Cash and cash equivalents at the end of the period** | 10 | 131.4 | 119.6 |

The notes on pages 7 to 31 are an integral part this condensed consolidated interim financial information.

## Gulf Pharmaceutical Industries P.S.C.

## Notes to the condensed consolidated interim financial information for the three month period ended 31 March 2018

### 1 General information

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 the manufacturing and selling of medicines, drugs and various other types of pharmaceutical and medical compounds in addition to cosmetic compounds.

The condensed consolidated interim financial information of the Group for the three month period ended 31 March 2018 was authorised for issue in accordance with the resolution of the Board of Directors on 13 May 2018.

The condensed consolidated interim financial information is reviewed, not audited.

The Company has the following major subsidiaries:

| Serial No. | Name of subsidiary | Place of incorporation and operation | Percentage of ownership 2018 | Percentage of ownership 2017 | 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 |

## 1 General information (continued)

| Serial No. | Name of subsidiary | Place of incorporation and operation | Percentage of ownership 2018 | 2017 | Principle activity |
|---|---|---|---|---|---|
| 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 – U.A.E. | 100% | 100% | Manufacturer of insulin products |
| 9. | Julphar General Trading L.L.C. | Ras Al Khaimah – U.A.E. | 100% | 100% | General Trading |
| 10. | Mena Cool Machinery Trading | Ras Al Khaimah – U.A.E. | 100% | 100% | General Trading |

## 2 Summary of significant accounting policies

### 2.1 Statement of compliance

The Group prepares its financial statements in accordance, and comply with, International Financial Reporting Standards ("IFRSs") and IFRS's Interpretations Committee ("IFRICs"). This condensed consolidated interim financial information for the three month period ended 31 March 2018 has been prepared in accordance with IAS 34, 'Interim Financial Reporting'.

The condensed consolidated interim financial information has been prepared under the historical cost convention, except for investments carried at fair value through profit or loss which has been measured at fair value.

### 2.2 Accounting policies

The condensed consolidated interim financial information does not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2017 which have been prepared in accordance with IFRSs and IFRICs. In addition, results for the three month period ended 31 March 2018, are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2018.

## 2 Summary of significant accounting policies (continued)

### 2.2 Accounting policies (continued)

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out below:

*(a) New and amended standards adopted by the Group*

The following new standards became applicable for the current reporting period and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting these standards:

- IFRS 9 "Financial Instruments" and
- IFRS 15 "Revenue from Contracts with Customers"

The impact of the adoption of these standards and the new accounting policies are disclosed in Note 21.

*(b) New standards and amendments not early adopted by the Group*

- IFRS 16, 'Leases', (effective from 1 January 2019).

Management anticipates that this new standard will be adopted in the Group's consolidated financial statements for the year beginning 1 January 2019. The adoption of this new standard is expected to have a material impact on the consolidated financial statements of the Group in the period of initial application and is currently being assessed by the management for the concerned impact on the Group's consolidated financial statements.

As required by the Securities and Commodities Authority of the U.A.E. ("SCA") Notification No. 2624/2008 dated 12 October 2008, accounting policies relating to property, plant and equipment, investment in associate and investments in securities have been disclosed in the condensed consolidated interim financial information.

### 2.3 Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses.

Land is stated at cost less impairment loss, if any.

Capital work in progress is stated at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Subsequent costs are included in the asset's carrying amount are 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 expenses are charged to the profit or loss in the period in which they are incurred.

## 2 Summary of significant accounting policies (continued)

### 2.3 Property, plant and equipment (continued)

Depreciation is charged so as to write off the cost of assets, other than land and capital work in progress, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit or loss.

Depreciation is provided on the straight-line method based on the anticipated useful lives, 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 |

### 2.4 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 finite useful lives and are subsequently 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 Summary of significant accounting policies (continued)

### 2.5 Investments accounted for using the equity method

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

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

The Group's share of post-acquisition profit or loss is recognised in the consolidated statement of income, and its share of post-acquisition movements in other comprehensive income is recognised in consolidated statement of other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each statement of financial position date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) from equity accounted associates in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's consolidated financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Dilution gains and losses arising in investments in associates are recognised in the consolidated income statement.

The balance sheet dates of the associates and the Group are identical and their accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

## 2 Summary of significant accounting policies (continued)

### 2.6 Financial assets at fair value through profit and loss

The Group's investments in equity and mutual fund investments are classified as investments carried at fair value through profit or loss. These financial assets are designated by the Group as investments carried at fair value through profit or loss at inception.

Investments carried at fair value through profit or loss are financial instruments whose performance evaluated on a fair value basis in accordance with the Group's documented investment strategy.

Assets in this category are classified as current assets if they are expected to be realised within 12 months of the balance sheet date. Those not expected to be realised within 12 months of the balance sheet date are classified as non-current.

### 2.7 Basis of consolidation

The condensed consolidated interim financial information as at, and for the three-month period ended 31 March 2018, comprises results of the Group. The condensed interim financial information of the subsidiaries is prepared for the same reporting period as that of the Company, using consistent accounting policies. All inter-company transactions, profits and balances are eliminated on consolidation.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

## 3 Critical accounting estimates and judgments

The preparation of this condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainties were consistent with the financial statements as at 31 December 2017.

*(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.

## 3 Critical accounting estimates and judgments (continued)

*(a) Useful lives of intangible assets* (continued)

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) Deferred revenue*

Revenue is deferred by free bonus goods given or expected to be given, which vary by product arrangements and buying groups. These arrangements with the Distributors are dependent upon the submission of claims some time after the initial recognition of the sale. Expected free goods to be provided for marketing activities are deferred at the time of sale, based on available information. Because the amounts are estimated they may not fully reflect the final outcome, and the amounts are subject to change dependent upon, amongst other things, the types of product sales mix. The level of deferred revenue is reviewed and adjusted regularly in the light of contractual and legal obligations, historical trends, past experience and projected market conditions. Market conditions are evaluated using distributor and in-house analysis, market research data and internally generated information.

## 4 Financial risk management

### 4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

These condensed consolidated interim financial information do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual financial statements as at 31 December 2017. There have been no changes in the risk management department or in any risk management policies since the year end.

### 4.2 Liquidity risk

Compared to year end 31 December 2017, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

## 5 Property, plant and equipment

- Property, plant and equipment additions during the current period amounted to AED 11.5 million (Three months period ended 31 March 2017: AED 17.6 million).
- Depreciation charges for the current period amounted to AED 21.1 million (Three months period ended 31 March 2017: AED 21.9 million).
- Certain property, plant and equipment of the Group are mortgaged against bank facilities (Note 14).

## 6 Investment in associate

The Company has 40% shareholding in Planet Pharmacies which is the distributor of the company's products and has a wide distribution of retail and wholesale pharmacies in UAE and Oman.

Details of the Company's investment in Planet Pharmacies which is accounted for using the equity method is as follows:

| **Name of associate** | **Place of incorporation and operation** | **Percentage of ownership** | 31 March 2018 AED m | 31 December 2017 AED m |
|---|---|---|---|---|
| Planet Pharmacies L.L.C. | UAE | 40% | 274.8 | 268.4 |

## 6 Investment in an associate (continued)

Movements in the account of net investment in an associate during the period/year were as follows:

| | 31 March 2018 AED m | 31 December 2017 AED m |
|---|---|---|
| Balance at the beginning of the period/year | 268.4 | 263.7 |
| Share of the associate's profit | 6.4 | 24.7 |
| Dividends received during the period/year | - | (20.0) |
| Balance at the ending of the period/year | 274.8 | 268.4 |

## 7 Available-for-sale investments

Movements in available-for-sale investments were as follows:

| | 31 March 2018 AED m | 31 December 2017 AED m |
|---|---|---|
| Balance at the beginning of the period/year | 11.5 | 47.2 |
| Written off during the period/year | - | (0.5) |
| Disposals during the period/year | - | (35.1) |
| Change in the fair value of available-for-sale investments | - | (0.1) |
| Reclassified to fair value through profit and loss (Note 8) | (11.5) | - |
| | - | 11.5 |

## 8 Financial assets at fair value through profit and loss

Movements in financial assets at fair value through profit and loss are as follows:

| | 31 March 2018 AED m | 31 December 2017 AED m |
|---|---|---|
| At 1 January | 0.3 | 19.0 |
| Reclassified from available-for-sale investments (Note 7) | 11.5 | - |
| Fair value change for change in accounting policy | 14.4 | - |
| Purchase during the period | 16.9 | - |
| Disposals during the period | (8.7) | (13.8) |
| Net loss on revaluation | (1.4) | (4.9) |
| | 33.0 | 0.3 |

Out of the investments, amounting to AED 33 million, AED 19.5 million us valued using the investee's net book value. Based on the initial analysis performed on the investees financial statements taking into consideration the business operations, variance financial statement captions, trends etc., Management believes that Net book value is in approximate to Companies fair value. Management plans to obtain a valuation for these investments at 31 December 2018.

## 8 Financial assets at fair value through profit and loss (continued)

Financial assets at fair value through profit and loss which are denominated in AED, are all held for trading in equity securities and include the following:

| | 31 March 2018 AED m | 31 December 2017 AED m |
|---|---|---|
| In U.A.E. markets | 32.9 | 0.2 |
| In other G.C.C. markets | 0.1 | 0.1 |
| | 33.0 | 0.3 |

## 9 Trade and other receivables

Trade and other receivables comprise the following:

| | 31 March 2018 AED m | 31 December 2017 AED m |
|---|---|---|
| Trade accounts receivable | 1,110.8 | 1,115.4 |
| Less: Allowance for doubtful debts | (65.7) | (59.7) |
| | 1,045.1 | 1,055.7 |
| Due from a related party (Note 18(b)) | 462.5 | 438.0 |
| Staff receivables | 1.9 | 1.9 |
| Prepaid expenses | 0.9 | 4.4 |
| Advances to suppliers | 50.4 | 41.5 |
| Other receivables | 3.8 | 6.1 |
| | 1,564.6 | 1,547.6 |

Movement in the allowance for doubtful receivables during the period was as follows:

| | 31 March 2018 AED m | 31 March 2017 AED m |
|---|---|---|
| At 1 January [Note 21.3.1 (ii)] | 70.4 | 50.6 |
| Provision for receivables impairment | - | 2.6 |
| Write-off's during the year | (4.7) | |
| At 31 December | 65.7 | 53.2 |

**Gulf Pharmaceutical Industries P.S.C.**

**Notes to the condensed consolidated interim financial information for the three month period ended 31 March 2018** (continued)

## 10 Cash and cash equivalents

| | 31 March 2018 AED m | 31 December 2017 AED m |
|---|---|---|
| Bank balances: | | |
| Current accounts | 96.2 | 133.5 |
| Short term bank deposits * | 31.6 | 31.3 |
| | 127.8 | 164.8 |
| Cash in hand | 3.7 | 3.7 |
| Cash and cash equivalents | 131.5 | 168.5 |
| **By geographical area:** | | |
| In the U.A.E. | 69.4 | 116.5 |
| In other countries | 62.1 | 52.0 |
| | 131.5 | 168.5 |

* The margin deposits maturity dates range from one to three month from the placement dates.

## 11 Share capital

| | 31 March 2018 AED m | 31 December 2017 AED m |
|---|---|---|
| Issued and fully paid up 1,124,800,000 ordinary shares (1,124,800,000 ordinary shares as of 31 December 2017) at par value of AED 1 each | 1,124.8 | 1,124.8 |

## 12 Statutory reserve

In accordance with United Arab Emirates Federal Commercial Companies Law No. 2 of 2015, the Company has established a statutory reserve by appropriation of 10% of profit for each year. This appropriation shall cease once its balance reaches 50% of the share capital.

This reserve is not available for distribution except in the circumstances stipulated by the law.

## 13 Voluntary reserve

Appropriations to the voluntary reserve account represents appropriation of 10% of the profit for each year. Appropriations to the voluntary reserve may be stopped as proposed by the Board of Directors and approved by the Shareholders general assembly, or once its balance reaches 20% of the share capital. This reserve is distributable based on a recommendation by the Board of Directors and approval of the Shareholders general assembly.

The Company adjusts the statutory and voluntary reserve at the year end.

## 14 Bank borrowings

| | 31 March 2018 AED m | 31 December 2017 AED m |
|---|---|---|
| Overdraft | 49.8 | 17.0 |
| Loans | 770.7 | 892.4 |
| | 820.5 | 909.4 |
| Bank borrowings shall be repaid as follows: | | |
| **Current** | | |
| On demand or within one year | 467.6 | 499.5 |
| **Non-current** | | |
| In the second year | 227.3 | 228.2 |
| In third to sixth year | 125.6 | 181.7 |
| | 352.9 | 409.9 |
| | 820.5 | 909.4 |

The bank loan comprise of

| | 31 March 2018 AED m | 31 December 2017 AED m |
|---|---|---|
| Ijara Loans | 474.4 | 520.3 |
| Other Loans | 296.3 | 372.1 |
| | 770.7 | 892.4 |

The principal features of the bank borrowings are as follows:

(a) Ijara Loan

The Group has taken Ijara loans in order to fund the construction of various assets. Loans are secured against the assets financed and are repayable in periodic instalments. Some of the financing has been acquired in order to refinance the existing loans.

Significant security terms are as follows:

- Negative pledge over all fixed assets including buildings, plant and machinery
- Assignment of receivables for at least USD 150 million equivalent and undertaking to route them annually through Obligor's collection account with the Bank including export LC's.
- Assignment of insurance policy over stocks, plant & machinery in favour of the Bank as loss payee.

## 14 Bank borrowings (continued)

(b) Bank overdraft:

- Bank overdraft is repayable on demand. In general, such banking facilities are renewable on a regular basis.
- Interest on overdraft accounts is computed and added to the account on a monthly basis.

(c) Other loans:

The Group has obtained long and short term loans from local banks to finance the purchase of the factory's machinery and equipment and to secure working capital requirements. The loans balance as of the reporting date amounted to AED 296.3 million (2017: AED 372.8 million). Interest on these loans is calculated on monthly basis and paid separately or added to the loan balances. The loan balances are paid in monthly installments, over periods ranging from one month to six years, until full settlement.

The Group has obtained banking facilities against the following securities:

1. Assignment of insurance policies in favor of banks amounting to AED 69 million and maintainance of certain financial ratios as agreed with the respective banks.

2. The Group has assigned insurance policies amounting to AED 291.8 million in favour of banks.

Interest rates on bank borrowings during 2018 ranged from 1.5% to 3.2% above one month EIBOR (2017: 1.5% to 3.2% above one month EIBOR).

## 15 Basic and diluted earnings per share

Basic earnings per share of AED 1.7 fils is calculated by dividing the profit for the period attributable to the shareholders of the Parent company of AED 19.6 million (2017: AED 44.8 million) by the weighted average number of shares outstanding during the year of 1,158.5 million (2017: 1,124.8 million). The Company does not have any potential equity shares and accordingly the basic and diluted earnings per share is the same.

The basic earnings per share of AED 3.9 fils as reported for the period ended 31 March 2017 (previously reported as AED 3.9 for the period ended 31 March 2017) has been adjusted for the effect of the shares issued in 2018 as a result of the bonus shares dividends approved by shareholders as per Note 16.

## 16 Dividends

At the Board of Directors meeting held on 28 March 2018, a dividend was proposed of AED 3 fils per share to be distributed as bonus share dividends at 3% of share capital and the distribution of cash dividends at AED 10 fils per share, or 10% cash dividends, totaling AED 146.2 million. This was subsequently approved by the shareholders at the Annual General Meeting held on 26 April 2018.

## 17 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 year.

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 net profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

## 17 Segment information (continued)

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.

| | For the three month period ended 31-March-2018 | | | | For the three month period ended 31-March-2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Manufacturing** AED m | **Investments** AED m | **Other segments** AED m | **Total** AED m | **Manufacturing** AED m | **Investments** AED m | **Other segments** AED m | **Total** AED m |
| **Segment revenue** | 264.0 | - | - | 264.0 | 333.9 | - | - | 333.9 |
| Segment result | 21.5 | 0.5 | (3.6) | 18.4 | 45.4 | 3.0 | (4.3)* | 44.1 |
| Depreciation expense | 21.1 | - | - | 21.1 | 21.9 | - | - | 21.9 |
| Share of associate's profit | - | 6.4 | - | 6.4 | - | 6.0 | - | 6.0 |

| | 31-March-2018 | | | | 31-December-2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Manufacturing** AED m | **Investments** AED m | **Other segments** AED m | **Total** AED m | **Manufacturing** AED m | **Investments** AED m | **Other segments** AED m | **Total** AED m |
| **Segment assets** | 3,075.3 | 307.8 | 131.5 | 3,514.6 | 3,079.0 | 280.2 | 168.5 | 3,527.7 |
| **Segment liabilities** | 581.1 | - | 820.5 | 1,401.6 | 408.0 | - | 909.4 | 1,317.4 |

## 17 Segment information (continued)

*Information by geographical region*

In accordance with IFRS 8, non current assets below are based on the geographical location in which the company holds assets. In accordance with IFRS 8, the non-current assets reported below exclude financial instruments.

| | 2018 (Unaudited) | | | |
|---|---|---|---|---|
| (AED m) | Total | UAE | Saudi Arabia | Others |
| Non-current assets | | | | |
| Property, plant and equipment | 1,147.3 | 897.7 | 223.3 | 26.3 |
| Intangible Assets | 48.1 | 4.1 | - | 44.0 |
| | **Three month period ended March 2018** | | | |
| Revenue | 264.0 | 74.2 | 66.4 | 123.4 |

| | 2017 (Audited) | | | |
|---|---|---|---|---|
| (AED m) | Total | UAE | Saudi Arabia | Others |
| Non-current assets | | | | |
| Property, plant and equipment | 1,156.9 | 915.9 | 214.0 | 27.4 |
| Intangible Assets | 46.5 | 5.9 | - | 40.6 |
| | **Three month period ended March 2017** | | | |
| Revenue | 333.9 | 72.9 | 128.3 | 132.7 |

The Company has sales to 2 customers whose sales individually are more than 10% of the total external sales. Total amount of sales for the three month period ended 31 March 2018 to these customers amounts to AED 140.6 million (2017: AED 226.9 million). These revenues are included under manufacturing segment. Included under "others" intangibles amounting to AED 24.2 million (2017: AED 24.0 million) in Egypt and AED 16.4 million (2017: AED 16.6 million) in Bangladesh. There are no other non-current assets or revenue included in "Others" which are more than 10% of the total segment non currents assets or total revenue.

## 18 Related party balances and transactions

Related parties comprise the company's majority shareholders, key management personnel, subsidiaries, associates, directors and other businesses which are controlled directly or indirectly by the shareholders or directors or over which they exercise significant management influence (hereinafter referred as "affiliates"). In the normal course of business, the Group has various transactions with its related parties. Transactions are entered into with the related parties on terms and conditions approved by either Group management, or its Board of Directors.

## 18 Related party balances and transactions (continued)

*(a) Related party transactions*

During the year, the Group entered into the following significant transactions with related parties in the ordinary course of business as per mutually agreed terms:

| | Three months period ended 31 March 2018 AED m | Three months period ended 31 March 2017 AED m |
|---|---|---|
| Sales to associate | 87.6 | 83.9 |
| Purchases from affiliates | 0.8 | 3.6 |
| **Compensation to key management personnel** | | |
| Short term benefits | 1.7 | 2.1 |
| Long term benefits | 0.02 | 0.1 |

*(b) Due from a related party*

| | 31 March 2018 AED m | 31 December 2018 AED m |
|---|---|---|
| Planet Pharmacies L.L.C. (Associate) | 462.5 | 438.0 |

*(c) Due to a related party*

| | | |
|---|---|---|
| Majan Printing and Packaging Company L.L.C. (Affiliate) | 4.5 | 5.7 |

Due to a related party balances are included in the Trade payables and accrual balances.

No bank guarantees are received from/provided to related parties against balances due from/ to them. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

## 19 Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

*Fair value of financial instruments carried at amortised cost*

Management considers that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the condensed consolidated financial statements approximate their fair values.

## 19 Fair value measurements (continued)

*Valuation techniques and assumptions applied for the purposes of measuring fair value*

The fair values of financial assets and financial liabilities are determined using similar valuation techniques and assumptions as used in the audited annual consolidated financial statements for the year ended 31 December 2017.

*Fair value of the Group's financial assets that are measured at fair value on recurring basis*

Some of the Group's financial assets are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets are determined:

| | **Fair Value as at** | | **Fair Value hierarchy** | **Valuation techniques and key inputs** | **Significant unobservable input** | **Relationship of unobservable inputs to fair value** |
|---|---|---|---|---|---|---|
| | 2018<br>31 March<br>AED m | 2017<br>31 December<br>AED m | | | | |
| Unquoted equity investments | 19.5 | - | Level 3 | Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) | Net book value | Refer Note 8 |
| Mutual funds - AFS | 5.2 | 4.8 | Level 3 | Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) | Net assets value. | Higher the net assets value of the investees, higher the fair value. |

| | | | | | | |
|---|---|---|---|---|---|---|
| Quoted equity investments – FVTPL | 8.3 | 0.3 | Level 1 | Quoted prices (unadjusted) in active markets for identical assets or liabilities | None. | NA |

## 19 Fair value measurements (continued)

**Fair value measurement**

*Fair value hierarchy*

The following table provides an analysis of financial and non-financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

## 20 Commitments and contingent liabilities

| | 31 March 2018 AED m | 31 December 2017 AED m |
|---|---|---|
| Capital commitments | 27.7 | 27.7 |
| Letters of credit | 11.1 | 18.4 |
| Letters of guarantee | 61.2 | 61.2 |

## 21 Change in accounting policies

This note explains the impact of the adoption of IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" on the Group's condensed consolidated interim financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

## 21.1 Impact on the financial statements

As a result of the changes in the Group's accounting policies, opening retained earnings of the consolidated financial statements has to be adjusted. IFRS 9 and IFRS 15 were adopted without restating comparative information. The reclassifications and the adjustments arising from the new standards are therefore not reflected in the restated balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018. The adjustments are explained in more detail as overleaf.

## 21 Change in accounting policies (continued)

### 21.1 Impact on the financial statements (continued)

| Consolidated statement of financial position | 31 December 2017 (as originally presented) AED m | IFRS 9 AED m | IFRS 15 AED m | 1 January 2018 AED m |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Available -for-sale- investments | 11.5 | (11.5) | - | - |
| **Current Assets** | | | | |
| Financial assets at fair value through profit and loss | 0.3 | 27.9 | - | 28.2 |
| Trade and other receivables | 1,493.7 | (10.7) | 26.3 | 1,509.3 |
| **Equity** | | | | |
| Retained earnings | 328.3 | 5.7 | (137.0) | 197.0 |
| Fair value reserve | 2.0 | (2.0) | - | - |
| **Current Liabilities** | | | | |
| Trade payables and other accruals | 361.3 | - | 163.3 | 524.6 |

### 21.2 IFRS 15 Revenue from Contracts with Customers

#### 21.2.1 Impact of adoption

The IASB has issued a new standard for the recognition of revenue. IFRS 15 'Revenue from contracts with customers' outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes IAS 11 which covers construction contracts and IAS 18 which covers contracts for goods. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

## 21.2 IFRS 15 Revenue from Contracts with Customers (continued)

### 21.2.1 Impact of adoption (continued)

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 and applied the modified retrospective approach permitted by IFRS 15 upon adoption. Following practical expedients available under the modified retrospective approach of IFRS 15 have been opted by the Group:

- The requirements of the new standard have been applied to contracts that are not completed as at the date of initial application (1 January 2018); and
- The Group has not restated the contracts in accordance with the revenue standard for contract modifications which took place before the date of initial application.

The Group has assessed the impact of applying the new standard on the Group's consolidated financial statements and has identified following areas that were affected:

*(i) Accounting for multiple performance obligations*

The Group provides bonus goods to its distributor as part of its marketing activities. These arrangements can have single or multiple performance obligations under IFRS 15 based on the nature of marketing campaigns run by the Group. Factors affecting the conclusion whether an arrangement has single or multiple performance obligations can include (among other factors) customer's expectations from the contract, distinct nature of the products and services and degree of integration or inter-relation between the various products and services. This assessment requires significant judgement from the Group.

Under the previous revenue recognition framework, the Group accrued for the estimated bonus goods to be provided towards its marketing activities. Under IFRS 15, the bonus goods distributions are considered as a separate performance obligation and revenue is deferred to the extent the bonus goods obligation is considered outstanding. The obligation of bonus goods are estimated at the time of sale based on available information and historical experience.

As a consequence, the amount of revenue to be deferred was AED 163.3 million higher than the amount recognised as the bonus goods liability of AED 99.4 million under the previous policy, with a corresponding reduction in commission expense of AED 26.3 million and net adjustments to retained earnings of AED 137 million.

## 21.2 IFRS 15 Revenue from Contracts with Customers (continued)

### 21.2.1 Impact of adoption (continued)

*(ii) Variable consideration*

When the product is sold to the distributor, the Group provides a fixed commission on the sales as per the contract. The Group under the previous framework classified commission as part of the selling and distribution expense. Under IFRS 15, this is considered as a variable consideration and is allocated to the transaction price.

To reflect this change in policy, the Group has reclassified in the condensed consolidated interim statement of income for the three months period ended 31 March 2017, AED 35.4 million from selling and distribution expenses and deducted from the revenue.

There were no other areas which materially impacted the revenue recognised by the Group at the initial application date and for the period ended 31 March 2018.

During the period ended 31 March 2018, the Group has recognized revenue of AED 264 million net of commission. Had the company recognized revenue under the previous framework, the revenue would have been AED 289 million net of commission.

### 21.2.2 IFRS 15 Accounting policies

## Sale of goods

Revenue is recognised in the income statement when goods or services are supplied or made available to the customer against orders received, title and risk of loss is passed to the customer, reliable estimates can be made of relevant deductions and all relevant obligations have been fulfilled, such that the earnings process is regarded as being complete. Revenue relating to free goods to be provided in the future relating to current sales are deferred until the free goods are provided.

The methodology and assumptions used to estimate rebates and free goods are monitored and adjusted regularly in the light of constructive obligations, historical trends, past experience and projected market conditions. Market conditions are evaluated using the Distributors and in-house analysis, market research data and internally generated information. Value added tax and other sales taxes are excluded from revenue.

## 21.3 IFRS 9 Financial instruments

### 21.3.1 Impact of adoption

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. The new accounting policies are set out in note 21.3.2. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

*(i) Classification and measurement*

On 1 January 2018 (the date of initial application of IFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories.

The Group has reclassified available-for-sale investments to fair value through profit or loss (FVPL) category.

*(ii) Impairment of financial assets*

The Group has only trade and other receivables which is subject to IFRS 9's new expected credit loss model.

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings and equity is disclosed in Note 21.1.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

## 21.3 IFRS 9 Financial instruments (continued)

### 21.3.1 Impact of adoption (continued)

*(ii) Impairment of financial assets* (continued)

*Trade receivables*

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, the Group has concluded expected loss rates for trade receivables which have been segregated based on credit risk characterises. Based on expected loss rates, the loss allowance as at 1 January 2018 was determined for trade receivables for each segment separately and ranges up to 6.64% depending on the ageing buckets in which the trade receivables assets fall.

The loss allowance for trade receivables as at 31 December 2017 reconcile to the opening loss allowance on 1 January 2018 as follows

| | Total in AED m |
|---|---|
| At 31 December 2017 – calculated under IAS 39 | 59.7 |
| Amounts restated through opening retained earnings | 10.7 |
| Opening loss allowance as at 1 January 2018 – calculated under IFRS9 | 70.4 |

### 21.3.2 Accounting policies

The application of the new standard required the management to apply the following new accounting policies:

*Classification*

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows. Management determines the classification of its investment at initial recognition.

## 21.3 IFRS 9 Financial instruments (continued)

### 21.3.2 Accounting policies (continued)

*Recognition and measurement*

Regular purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Financial assets at fair value through profit or loss (FVPL) are carried at fair value. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

The Group classifies debt instruments at amortized cost using effective interest rate method.

*Impairment of financial assets.*

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.