Integrated Report 2021

# Gulf Pharmaceutical Industries

JULPHAR

Environmental, Social & Governance Report 2021

# Gulf Pharmaceutical Industries

JULPHAR

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# ABOUT THIS REPORT

This report represents the next chapter for Julphar. We are committed to raising stakeholder awareness of our priority environmental, social, and governance (ESG) issues and disclosing how our performance on non-financial metrics contributes to long-term value creation and a sustainable, responsible, and customer-centric business model.

This report has been prepared following the "Core" option of the Global Reporting Initiative (GRI) Standards, with further references to the Abu Dhabi Stock Exchanges' 31 Key Performance Indicators. In addition, the report describes our commitment to the 17 Sustainable Development Goals (SDGs) of the United Nations' 2030 Agenda.

We are committed to reporting annually on our sustainability measures alongside our governance report, which provides a comprehensive overview of our financial, governance, and risk performance. Accordingly, we have organised the report into three main topics of environment, social, and governance to cover our core ESG Topics.

Julphar intends to regularly review its performance reporting and improve its data collection processes and controls. Due to inherent measurement uncertainties, some of our disclosures in this report are estimates or based on calculative assumptions.

The company strives to create value for our shareholders by carefully allocating resources to prioritized goals. We believe ESG principles enable long-term value creation, and we have outlined in this report our approach to managing risks and seizing opportunities in key ESG areas - the most important being inequalities and inter-connectedness in our society, and disclosures on pharmaceutical industry standards as a pharmaceutical company. This ESG reporting is done to address issues that are relevant to our stakeholders.

This report has been approved by our CEO, **and** members of the cross-functional Sustainability Steering Committee.

The key disclosures for 2021, were identified as Energy, Water, Emissions, Wastewater, Employment, Employee Information, Diversity, Equal Opportunity etc., during Stakeholder Engagement, and the 'Materiality Assessment.

# MESSAGE FROM CEO

The past couple of years presented our planet with unexpected challenges with respect to social and environmental disturbances like the pandemic, which highlighted the importance of the pharmaceutical industry. It reminded us at Julphar of our responsibilities to patients, employees, communities, and the environment. We had to adapt and continue our work as usual in the most extraordinary circumstances. In the face of this social crisis, it strengthened our resolve to enhance our responsibilities and social commitments. It also confirmed that such social and environmental disturbances are acute problems, not only related to the environment but also clearly linked to health.

In the mid of this, we have made significant efforts to integrate ESG into our business strategy, starting with the board and executive oversight. In our quest for world-class governance, ESG guidelines help monitor non-financial opportunities and challenges. Julphar should authentically represent the communities in which we live and the people we serve. In 2021, we developed a globally accepted strategy to systematically embed inclusion and diversity at Julphar. In all aspects of our organization, we believe in diversity of background, opinion, race, and gender fostering an inclusive culture, and recruiting high-quality, diverse talent for our employees and Board of Directors. The Julphar culture promotes inclusion and diversity.

It is time for Julphar as an organization to live up to our goal of sustainably developing a path, just as we have risen as individuals to meet the difficulties of our time. Our commitment to sustainable, responsible business practices will drive us to do better: We will continue to develop innovative solutions to combat the life-threatening health issues and improve health care; act as responsible stewards in our operations and product offerings; recognize the strength and beauty of diversity, equity, and inclusion for all; and work hand-in-hand with employees, partners, suppliers, and stakeholders to ensure we all succeed and achieve our goals together.

Our employees have a single goal: to provide essential medicines to patients. Taking a multi-year perspective and honoring our commitments to our patients, community, environment, and shareholders, our goal is to develop a resilient and sustainable global business that will last generations.

With the release of this ESG report, Julphar ushers in a new era. There is much ahead of us and the tremendous contributions others have already made in this area that we can learn from and build upon. We are only at the beginning of this adventure, and we need your help to stay on the right track and together chart a better path.

**Dr. Essam Mohamed**
Chief Executive Officer, Gulf Pharmaceutical Industries (Julphar)

# ABOUT US

## Our organizational profile

Julphar is one of the largest pharmaceutical manufacturers in the Middle East and Africa and one of the leading producers of insulin in the world. The Company was established in 1980 under the guidance of His Highness Sheikh Saqr Bin Mohammed Al Qasimi, the late ruler of Ras Al Khaimah. Since then, Julphar has delivered high-quality, innovative, and affordable healthcare solutions to the families across the globe. Julphar was not only the first pharmaceutical manufacturing company set up in the Arab Gulf States, but we also continue to be a leader in the production and distribution of pharmaceutical products. We have a network of twelve manufacturing plants and a reliable logistics network that covers five continents.

Our business is centered on three core business units - Julphar Diabetes Solutions, General Medicines, and our consumer division, Julphar Life. Our medicines target major therapeutic segments, including Gastrointestinal Tract (GIT), Respiratory, Pain Management, Wounds and Scars, Anti-infectives, Anemia, Gynaecology, Dermatology, Erectile Dysfunction, and Cardiology. We employ around 2,500 people globally and distribute our products to more than 50 countries in five continents. We have a rich heritage, and our business is part of the fabric of the UAE. As leaders in healthcare in the region, we are responsible for conducting our business with compassion, care, and professionalism. Here is a timeline of some of the critical events in our journey so far:

## Our History

From a small initiative in Ras al Al Khaima, UAE to a regional leader in generic medications and biopharmaceuticals with operations in 13 countries, Julphar has experienced significant growth over time.

**1980** Established under the guidance of His Highness Sheikh Saqr Bin Mohammed Al Qasimi. Registered as a national UAE public shareholding company.

**1984** Obtained Ministry of Health approval for the first 30 products.

**1988** Started manufacturing liquids and semi-solids.

**1990** Established distribution agents in key markets across the globe.

**1998** Launched three new plants - Julphar II, III, and IV.

**2003** Launched biotech plants Julphar VII.

**2007** Launched new plants - Julphar VII, IX, and X.

**2008** Transportation division MenaCool launched.

**2011** Signed an agreement with the Saudi-based Cigalah Group to build an independent manufacturing facility in the western region of KSA - a project worth USD40 million in 2011. Won the prestigious Mohammed Bin Rashid Al Maktoum Business Award and the Arab Achievement Award.

**2012** Began biosimilars production. Julphar Diabetes Solutions Launched.

**2013** Officially inaugurated the first facility in Ethiopia.

**2015** Julphar acquired a majority stake in Bangladesh. CHC Division - Julphar LIFE launched.

**2017** Julphar Saudi officially opened.

**2019** Initiated plans for sustainable development

**2020** Annual Environment, Social & Governance reporting as per ADX and GRI ESG framework.

# OUR VALUE CHAIN

More than 80% of our products are exported outside the UAE, and we have more than 150 products in the pipeline. Our robust distribution network includes 200 pharmacies in the GCC. We have a total of 14 manufacturing facilities for the production of generics, vaccines, and diabetes solutions. We produce more than half a million drug packs daily at our facilities and have more than 4,000 product registration certificates. We have achieved global sales of over AED 1.15 Billion at the end of 2021 and are a publicly-traded company with a total asset value of AED 2.41 Billion. We are very proud of our global presence as we operate in multiple markets as you can see on the map below.

We manufacture a wide range of pharmaceuticals, injections, and consumer health products. Our customers use our medicines for conditions ranging from headaches to heart disease. We specialize in wound care, cardiovascular health, and pain management, and are one of the world's leading insulin manufacturers. We also support healthy people in their lifestyle choices, for example through vitamin supplements. Below you will find an overview of our products.

Medicines whose patents have typically expired but produce to the same standards as the original branded medicines.

**GENERAL MEDICINES**

Everyday medicines, supplements, ointments, and other products are available without a prescription.

**JULPHAR LIFE**

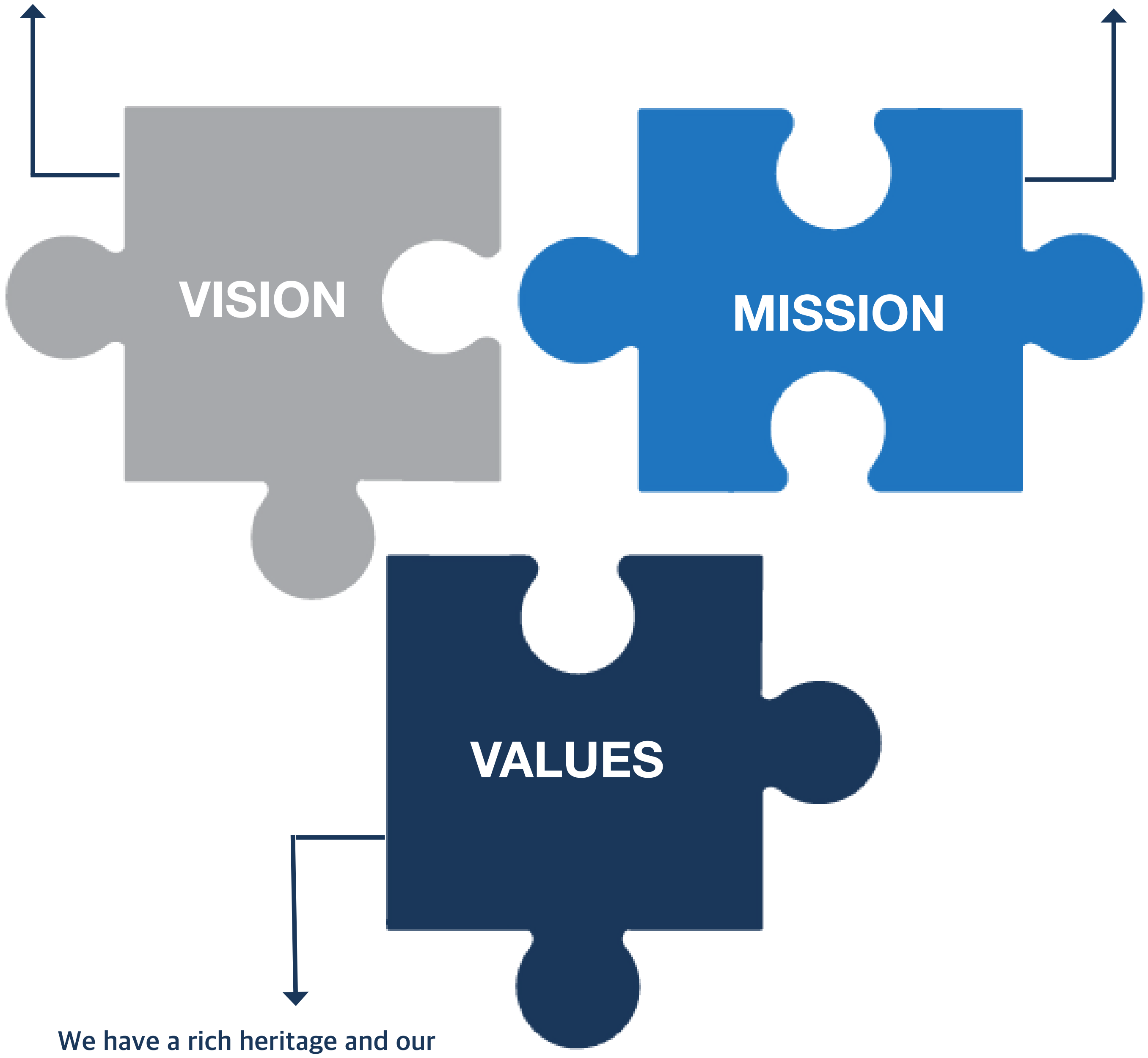
Affordable solutions in various insulin formulations improve the quality of life for diabetic patients with type 1, type 2, and gestational diabetes.

**JULPHAR DIABETES SOLUTIONS**

# OUR VALUES

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

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




We have a rich heritage and our business is part of the UAE’s fabric.

***“Our values are the essence of our culture and the inspiration for our behavior. They define who we are and how we operate.”***

Our values are the foundation for everything we do - from ensuring rigorous safety standards in the development of new medicines to dealing ethically with healthcare professionals and customers. The way we do things is as important as what we do. We have developed our value-based culture to ensure that our customers always come first.


Our Core Values reflect the expectations that Julphar workers have for one another and symbolize what we stand for as a company.

We offer a better way – of doing business, enabling our customers' success, engaging our workers, and supporting the communities where we live and serve– guided by these fundamental values and foundational principles, as well as our commitment to positive change

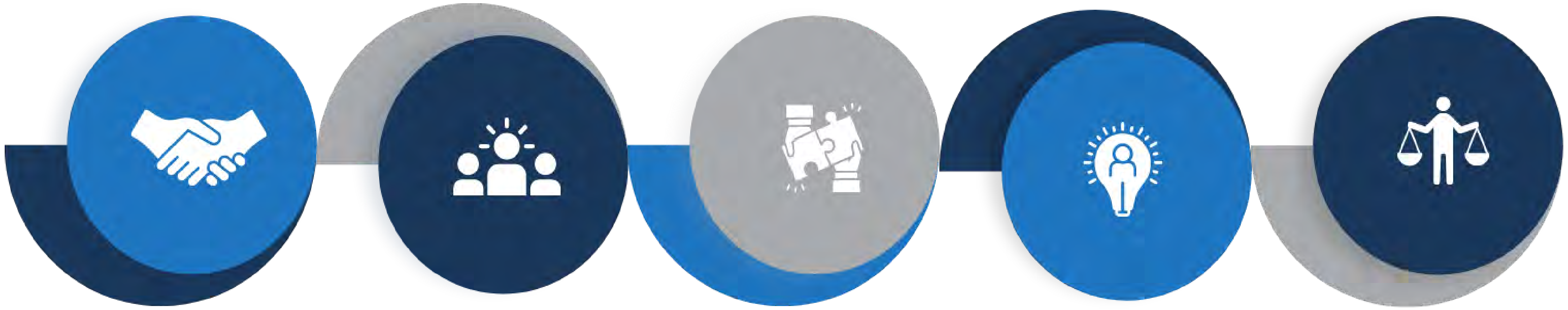
# OUR VALUES

### LEADERSHIP

As a leader in global healthcare, we are committed to excellence in everything we do

### INNOVATION

We believe that high-quality research and development is critical to driving innovation and ensuring the long-term success of the pharmaceutical industry.



### RESPECT

We focus on cultural professionalism with respect for people and appreciate the unique contribution made by a diversity of perspectives and cultures

### COLLABORATION

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

### INTEGRITY

We embrace a culture of professionalism and respect for people and honour the unique contribution that diversity of perspectives and cultures makes.

# RESPONDING TO COVID-19

Our values have guided our response to COVID-19: Protecting the health and safety of our colleagues, ensuring our medicines are available to customers who depend on them, doing our part to reduce transmission, and supporting the communities where our colleagues live and work.

In 2021, Julphar was proud to be part of a new joint venture that was initiated by the UAE Govt and which played a vital role in combating COVID-19 globally. We supported the production of Hayat-Vax, the first Covid-19 vaccine production line in the UAE, with an initial capacity of 2 million doses per month. This initiative was a major strategic advancement to future proof the population health.

We acted early in the pandemic and followed it till the later part of 2021, by stopping all non-essential international travel, converting our conventional "work from office" to remote "work from home" for the safety of our colleagues. We also implemented enhanced infection control protocols at our manufacturing sites and R&D labs to ensure that colleagues who needed to be on site could continue to do so safely.

## Organization level steps were taken towards COVID-19

- 40% reduction in on-site workforce in 2020-21 and allocation of laptops to our staff to work from remotelocations to facilitate business operations.
- 60% of staff assigned to work in shifts due to the nature of the operation.
- All pregnant employees and employees with chronic conditions were considered at risk and therefore asked to work from home.
- Reduced shift hours for those employees who could not work from home due to the nature of their job, or roster support.
- Allowing our female employees to work from home and take time off to support their children's with online study due to COVID-19 effects based on revised learning platforms.
- An off-site full quarantine facility was established (Zam Zam Girls High School, Digdaga) and was operational for almost 2 months with on-site medical care.
- All absences from work due to the Covid crisis were taken as fully paid leave.
- Regular and multiple awareness implemented to ensure employee safety.
- The safety team and Julphar Clinic teams were on duty around the clock to manage the Covid crisis both at the plant and in the shelters.
- Defined precautionary protocols to contain the infection in case of exposure and confirmed infections.
- Mass Covid screening campaigns were organized both on-site and off-site to contain the infection. 3 Mass Covid vaccination campaigns were conducted in 2021 in collaboration with the Prevention Department and RAK Hospital to ensure that as many employees as possible were vaccinated.
- Green Passport access was introduced to encourage further vaccination.
- Workforce regular mandatory Al-Hosan green pass check.
- Employees with even mild symptoms were asked to work from home and take mandatory COVID PCR test.

# Our approach towards COVID-19

### SUPPORTING OUR CUSTOMERS

- Provide new point-of-care systems and support services for rapid response.
- Virtual online training -Support for deployment and resolution of technical issues using video conferencing and a remote diagnostic tool.
- Assisting field customers in implementing critical automation systems while adhering to safety protocols, including the use of personal protective equipment (PPE).
- Providing data analytics to customers to help them anticipate and understand significant changes in medication use and manage those changes during times of instance surge.

### BUSINESS SURVEILLANCE

- Business continuity measures were implemented throughout our production and supply chain.
- Accelerated our business operations as a vital service to ensure continuity of supply.

### EMPLOYEE HEALTH AND SAFETY FIRST

- Unessential travel was prohibited.
- Remote communication technology was used to suspend face-to-face group meetings and events.
- Flexible work arrangements and alternative scheduling processes were implemented.
- Instructions for regular self-monitoring.
- All employees who were not required to be at the Julphar facility or at a client site were mandated to work from home.

# OUR APPROACH TO SUSTAINABILITY

Sustainability materiality assessment was cited by stakeholders as the area that the pharmaceutical industry most needs to address. The assessment was conducted using weighted average rating against each material topic. Economic performance, Market presence, Environmental Impacts, Non- Discrimination & Emiratization were identified as the most important topics, receiving the rating of 9 plus out of 10.

Sustainability at Julphar means using our capabilities to make the greatest impact where society needs it. We know that people's health, the planet, and our business are interconnected and impact each other.

Our goal at Julphar is to move our organization towards greater sustainability. Our sustainability efforts go beyond meeting our annual and longer-term goals.

We must continually evolve our thinking and practices to meet the changing times. This is both a responsibility and a business opportunity.

## Contribution to National and Regional Development

Making a meaningful and lasting contribution to the future of the United Arab Emirates is at the heart of our long-term development plan. With over 800 products in various dosage forms for different therapeutic segments, we at Julphar are an example of a local UAE company making a difference on a global scale. We have 14 locations in the UAE, with our headquarters located in Ras Al Khaimah.

Emiratization is a key part of our plan to support local development. That is why we have participated in the Absher Initiative. This initiative aims to provide UAE citizens and their families with a better quality of life and encourage them to enter the private sector. We have also partnered with leading organizations in the UAE, the Middle East, and beyond, as well as universities and colleges in the UAE, to enhance employment opportunities for graduates and students. Through these partnerships, we are achieving our vision of empowering young people in the UAE and promoting a sustainable future.

Julphar awards scholarships - under certain conditions - to its national employees and to outstanding high school graduates to help them balance work and study.

With its own training center, Julphar is committed to helping Emirati workers develop their skills and abilities so they can take on higher positions.

We launched the Sheikh Faisal Program for Leadership Development, an initiative specifically aimed at training Emirati leaders and encouraging them to actively participate in decision-making while advancing their careers.

Julphar launches initiatives to attract students to develop skills and gain experience during their summer breaks.

Julphar organizes open houses to allow potential applicants to tour our facilities, meet our employees, and learn about the various opportunities at Julphar. We participate in national career fairs as part of the Emiratization plan to attract a highly-skilled national workforce.


## “iTurnaround Project”

In 2020, we initiated our iTurnaround project to improve the way our company operates, from our internal controls to improving our employee performance systems and implementing energy efficiency measures. The project was executed in three distinct waves, spanning from 2020 to 2021. In 2021, we made good progress on several initiatives discussed in this report. Our iTurnaround project aims to make a meaningful contribution to both our employees and the communities in which we operate through our social, environmental, and economic impact.

**100%**
of our product complaints were minor

**48.60%**
of the total new employees hired were under 30 years

**8.20%**
of the total new employees hired were UAE Nationals

**15.20%**
of our workforce were under 30 years old in 2021

**26%**
of the total new employees hired were females

**100%**
of our treated wastewater was utilized for irrigation purposes

## Moving forward

In 2022, we plan to continue on our path of environmental sustainability by committing to not discharging wastewater and adopting an energy management plan to improve our energy efficiency. In addition, as part of our current "iTurnaround project," we have conducted, a benchmark analysis and compensation study to ensure that our employees are fairly compensated. We intend to continue supporting the UAE's Emiratization policy through our Emiratization plan that helps Emirati students gain valuable work experience. Finally, we are also committed to continuing to support pandemic relief through the manufacturing of our generic medicines, and their distribution across the globe.

## Sustainability Governance

We are committed to corporate social responsibility and the protection of the environment, human health, and safety in all our operations. We undertake corporate social responsibility (CSR) initiatives because we believe they are the right thing to do. These efforts help us strengthen our relationships and contribute to society at large.

### Our focus of CSR Activities

- Improve our customer's health and safety needs.
- Conducting public awareness drives regarding chronic health issues. i.e., cancer awareness programs.
- Providing various training and capacity building of upcoming students.
- Increase funding on research and development programs.
- Safeguarding the rights of local and indigenous communities.
- Reduce adverse impacts on the environment.
- Supporting communities through projects, organizations, and charities.
- Producing innovative products that aim to improve the overall quality of human life.

# STAKEHOLDERS ENGAGEMENT

Every part of Julphar's operations depends on its stakeholders. Our most important stakeholders are those who influence our business as much as we do as a result of their relationship with Julphar. To guide our issues, programs, and actions, Julphar works strategically with patients, employees, regulators, the healthcare industry, non-profit organizations, investors, suppliers, and customers. At the same time, we are advancing efforts to limit global warming through ongoing collaboration and communication, including but not limited to dialog with investors, engagement with patient organizations, and employee surveys. For more information on our engagement with our key stakeholder groups, see the table below:

| **Stakeholder Structure** | **Engagement Strategy** | **Topics of Concern** |
|---|---|---|
| Patients | Interactions facilitated by patient advocacy groups | Quality production and quality care; business ethics, combating bribery and corruption, and access to health and medicines. |
| Employees | Annual employee surveys, roundtables, performance reviews, training events, town hall meetings, and team meetings are all examples of ways to engage employees. | Engagement of employees; workforce analytics, advancement, and development; emissions, effluents, and waste; inclusion and diversity; data privacy and security; employee health, safety, and well-being |
| Regulators | As needed, collaborative participation and consultation on public policy. | Access to health and medications; price; quality manufacturing and patient safety; business ethics, anti-bribery, and anti-corruption; emissions, effluents, and waste; and business ethics, anti-bribery, and anti-corruption; environmental effects of medications |
| Healthcare industry | Participation in industry associations | Quality manufacturing and patient safety; price; pandemic preparedness and catastrophe relief |
| Non-profit organization | To promote healthcare, we continue to cooperate with community partners and collaborate on social and environmental initiatives. | Emissions, effluents, and waste; and while promoting efforts to keep global warming acting and patient safety are all issues that need to be addressed. |
| Global health leaders | Interactions with global health governing organizations, participation in global health congresses and meetings | Health and medicine accessibility; pandemic preparedness and catastrophe relief; and climate action and resilience patient safety and high-quality production; a trustworthy supply chain |
| Customers | Tenders, questionnaires, surveys, audits | Climate change and resilience; emissions, effluents, and waste; business ethics, anti-bribery, and anti-corruption; diversity and inclusion; human rights; quality manufacturing and patient safety; corporate governance |
| Suppliers | Information is gathered through questionnaires, questionnaires, and audits. | Climate action and resilience; emissions, effluents, and waste; business ethics, bribery, and corruption; inclusion and diversity; human rights; quality manufacturing; data privacy and security; drugs in the environment; and a responsible supply chain |
| Investors | Investor outreach, investor conferences and presentations, regular meetings with various investor groups, and involvement in ESG rankings and ratings are all examples of investor outreach. | Corporate governance; climate action and resilience; inclusion and diversity; business ethics, anti-bribery, and anti-corruption; access to health and medicines; pricing; quality manufacturing and patient safety; corporate governance; climate action and resilience; Intellectual property; employee engagement; talent recruiting, development, and retention |

# Materiality Assessment

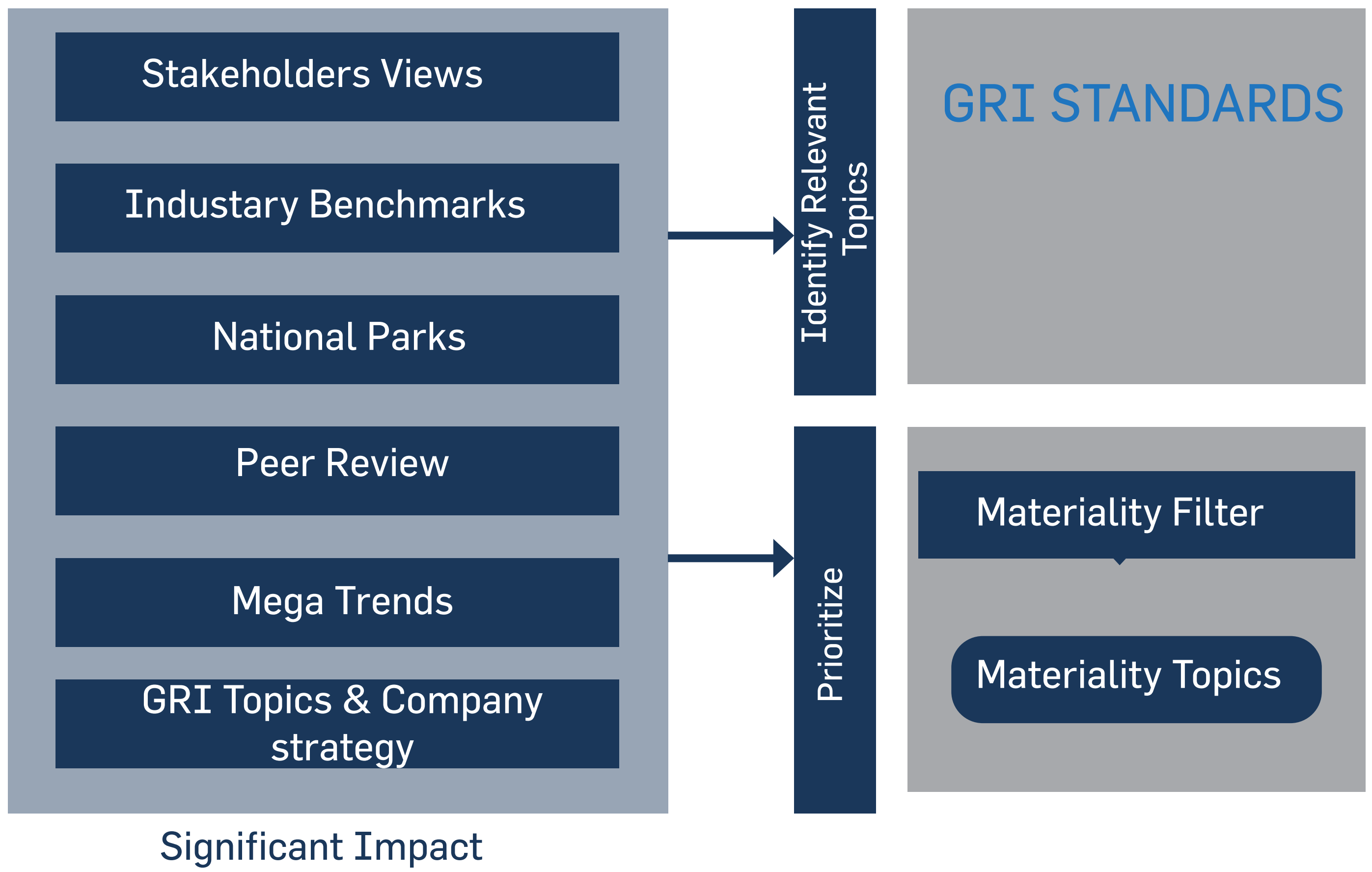
Materiality analysis stands as a crucial tool for us to identify the most relevant and social goals that align with Julphar's vision and business strategy and to determine the content of our ESG report. The analysis is based on data-driven extensive stakeholder consultation. The data, internal and external, is the most important tool in analyzing this report. The data is based on current and former government norms, seeking opinions with stakeholders and reviewing our sustainability measures


Internal and external stakeholders were contacted, and strategic insights were included. We selected the issues that have a major impact on Julphar's economic, social, and environmental performance, as well as those that may have a long-term impact on stakeholder perceptions and decisions, using this matrix.

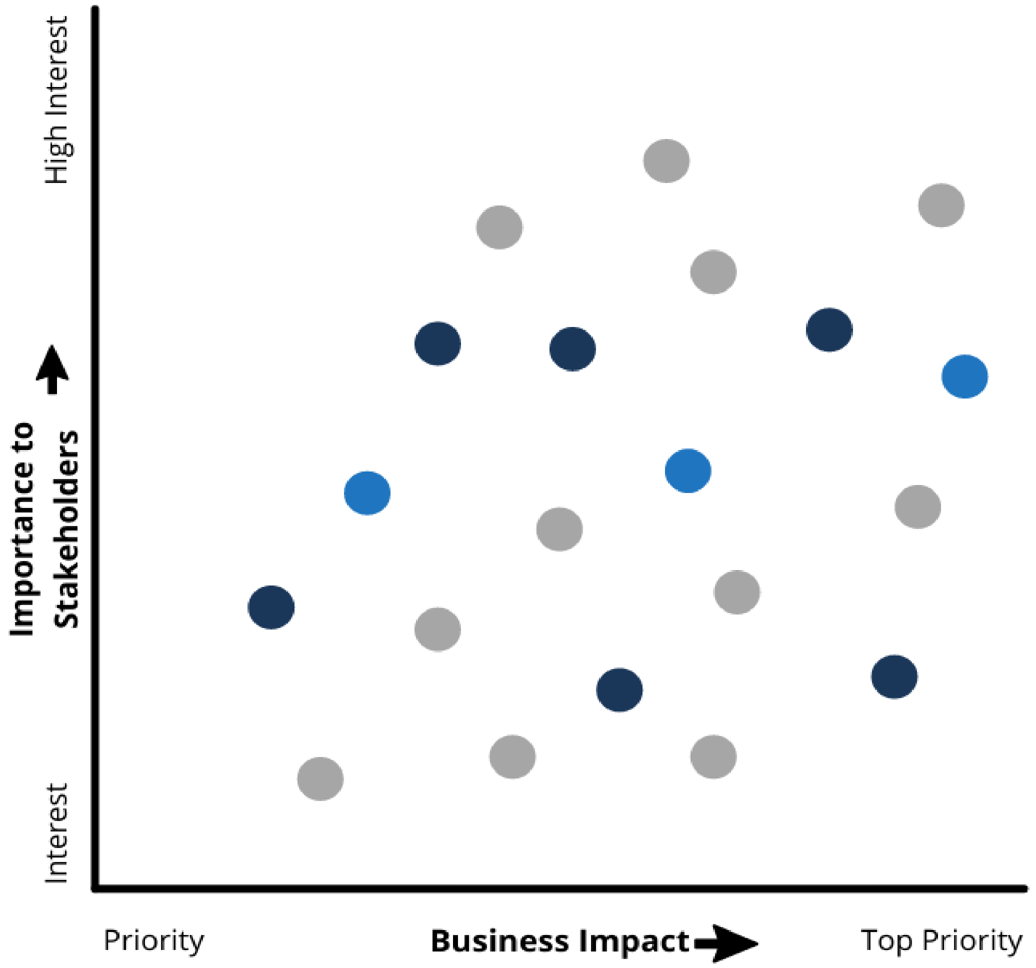
Julphar gives due importance to the plans and commitments that were made to the customers and the stakeholders. The placement of issues on the materiality matrix indicates a significant level of agreement between the opinions of internal and external stakeholders, which were obtained separately, as expected, and desired.

The materiality matrix also reflects our attempts to develop and strengthen our external and internal stakeholder engagement approach. The main topics of focus remain to be economic, social, and environmental concerns that are crucial for us to build a sustainable, strong, and long-term business.

The Materiality Assessment is done by conducting both internal and external stakeholder consultation and identifying the relevenat indicators based upon the feedbacks received



# Materiality Assessment




### Social Topics

Employment
Labor/Management Relations
Occupational Health And Safety
Training And Education
Diversity And Equal Opportunity
Non-Discrimination
Child Labor
Rights Of Indigenous Peoples
Human Rights Assessment
Supplier Social Assessment
Customer Health And Safety
Emiratisation

### Governance Topics

Economic Performance
Market Presence
Procurement Practices
Supplier Social Assessment

### Environmental Topics

Energy Management And Impacts
Energy Intensity
Water And Effluents
Emissions
Waste
Environmental Impact

# ENVIRONMENTAL STEWARDSHIP

## Resilience and Climate Action

**We have a responsibility to reduce our environmental impacts with 13 production facilities in Ras Al-Khaimah —and a growing list of concerns harming our globe.**

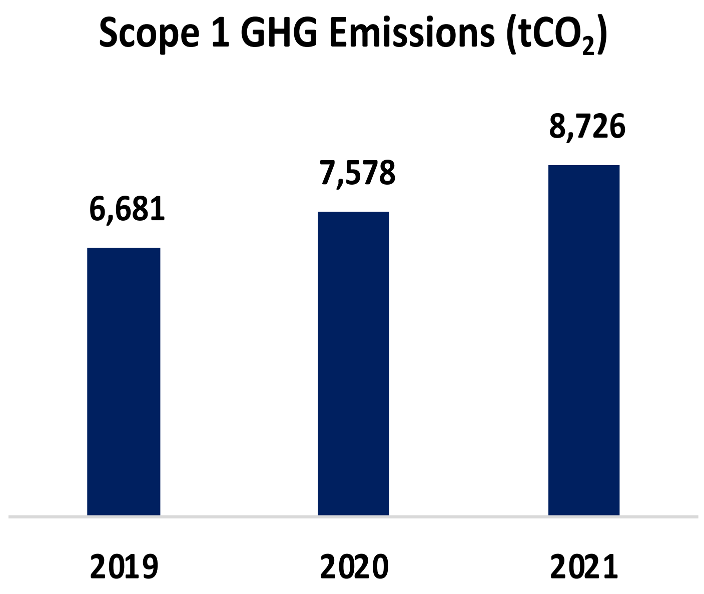
## GHG Emission

Julphar has set new long-term environmental goals this year to support climate change and business resilience, use natural resources responsibly, and improve management and reduction of emissions, effluents, and waste.

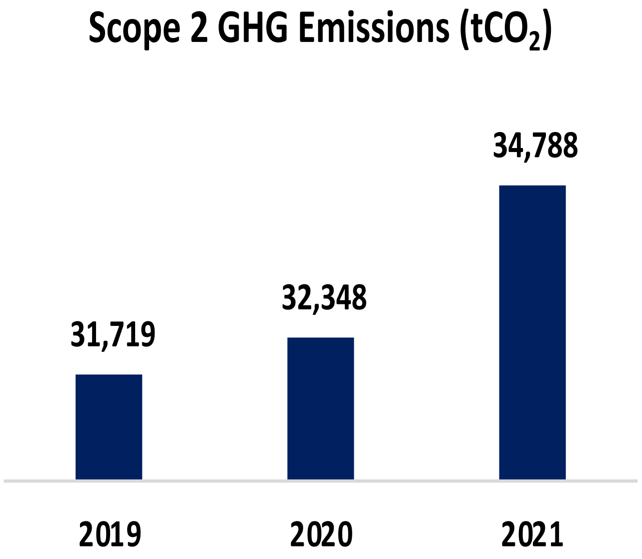
Resilience and climate protection Climate change is one of the most pressing issues facing the world today.

The health and sustainability of our environment are critical to our business and our patients at Julphar, and we are rising to the challenge of global climate change.

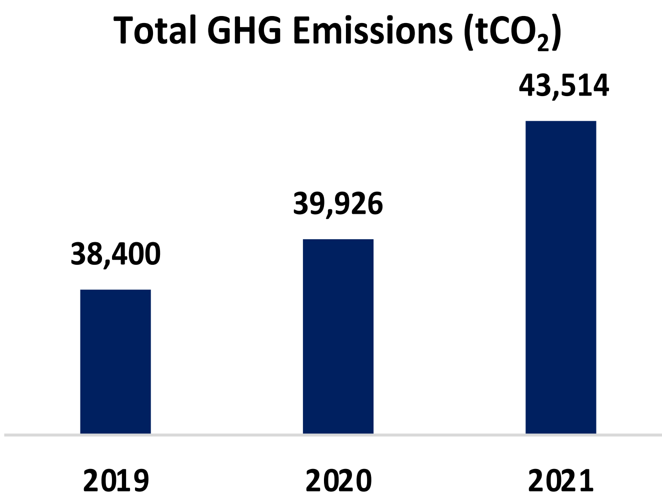
In 2021, compared to 2020, Julphar Scope 1 GHG emissions increased by 15 %, Direct consumption of diesel fuel is the contributor of the emission. Increased industrial activity and logistics operations post pandemic is identified as the key reason, for this increment.




Scope 2 GHG emissions have also seen an increment by 7.5% in the year 2021 as compared to that of 2020. Scope 2 emissions are the indirect emissions, in the form of utilized electricity for the operations of Julphar. Post-pandemic the utilization rate of the electricity has increased, which is reflected in the elevated Scope 2 emissions.




Since 2019, Julphar has observed the lowest of the GHG emissions, However, as we are coming out of a pandemic and running business ‘as usual scenario’, a constant increase of approx. 9% is observed. Our aim is to reduce Scope 1 and 2 emissions by 33% by the year 2030. In the interim, as part of our "iTurnaround Project," we aim to conduct an energy management exercise to optimize our operations.



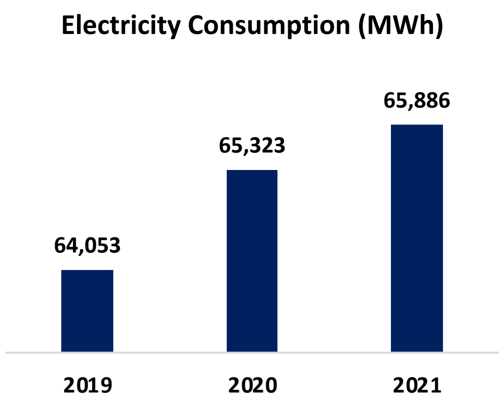
The effort is still in its early phases, with savings predicted in 2021. Its goal is to explore energy and GHG reduction potential across Julphar's activities. The initiative's first year will be focused on:

- Identifying and implementing low and no-cost energy-saving solutions.
- A mapping exercise of the company's renewable energy potential — Capital energy-saving projects at two experimental sites.

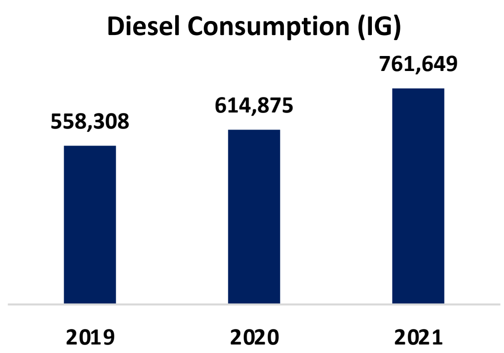
We recognize the significant influence we can have on the earth with our more than 13 manufacturing locations spread across many nations, but we are — and want to stay — a pioneer in our industry in terms of environmental performance. We continue to track our accomplishments and re-evaluate our objectives regularly to keep pushing ourselves."

## Energy

Julphar is using electricity and diesel as the primary sources of energy. Electricity is utilized in the production and its plant's operations have shown the following trend.




Diesel is the key energy source for the supply chain and transportation. Although our electricity and diesel consumption has increased from the year 2020, it is to be noted that we have raised our production capacity

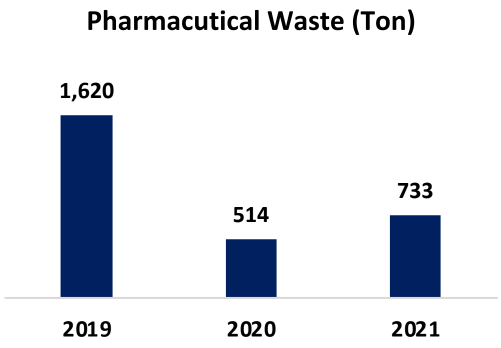



## Waste Management

At Julphar, managing our waste is very important, and we strictly adhere to all local rules and regulations regarding waste disposal. Our waste management includes waste categorization, separation, minimization, safe handling and disposal, and monitoring. We consider it our duty to ensure that waste is disposed of safely without harming the environment. Depending on the category of waste, our waste is safely disposed of through incineration, treatment of contaminated waste, or landfill, if it cannot be recycled and reused.

Our pharmaceutical waste cannot be reused, so all hazardous and non-hazardous pharmaceutical waste is incinerated.

In the Year 2021, Julphar has generated 733 tons of Pharmaceutical waste, the generated Pharmaceutical waste is 55% less than that of 2019. However, in 2021 a total 42% waste generation increase has been observed from the last year's generation.

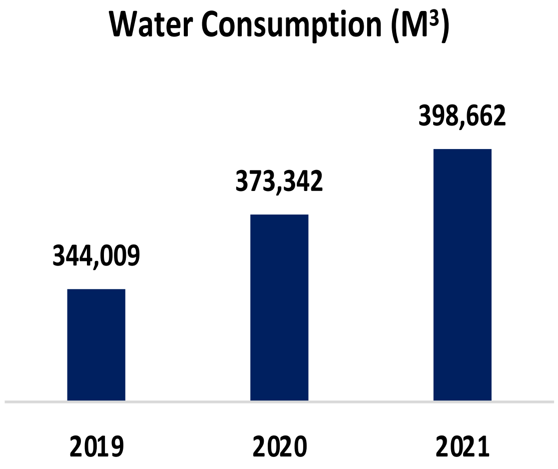



As part of our "iTurnaround Project" in 2020, we introduced measures to improve our inventory management to reduce costs and expirations, as well as increase stock supply availability. We additionally conducted a one-time inventory reduction exercise to reduce our waste.

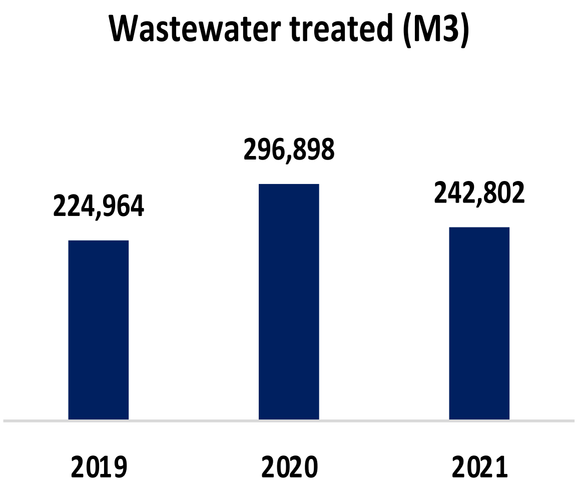
We strive to conserve resources and reduce our water withdrawals as we operate in water-scarce areas. Water is needed for the development and manufacture of our products, and it, therefore, makes good business sense for us to use this resource responsibly.

## Water

We understand the importance of precious water and take necessary measures to reduce our water demand.




Our water demand has increased from 2020 to 2021 by 6.7 %. However, our wastewater generation and wastewater treatment and reuse rate has touched almost 60%




Our production facilities produce the majority of our wastewater. Every quarter, we are submitting our generated wastewater volume details to the Ras Al Khaimah Government Authority as a part of our operations and maintenance report. Most of this water has been treated and used for irrigation purposes. Except for our chemically contaminated wastewater, our wastewater is treated within our premises by an internal wastewater treatment plant supported by an ETP process. In 2021, the amount of water treated in our ETP was about 242,802 M3, highlighting the importance we place on reusing our resources as much as possible. To ensure high water quality, the parameters of our influent and effluent water are tested weekly by the Ras Al Khaimah Governmental Authority.

# SOCIAL STEWARDSHIP

**"Our people are at the heart of our business, and we invest in opportunities for the development and upskilling of our employees to promote opportunities for professional growth. Beyond professional training, we promote health awareness campaigns to promote healthy lifestyles amongst our employees."**
**– Chief Human Resources Officer**

## Our commitment to the UN Sustainable Development Goals (UNSDGs):


Our high safety standards illustrate our commitment to our employees' health and safety.

We also work to support employees' emotional and physical wellbeing.


We promote lifelong learning among our employees and provide them with quality training opportunities for professional growth.

We support capacity building and promote career readiness skills across the MENA region.

We raise awareness around health issues to educate and support the local communities in which we operate.


We are committed to creating job opportunities for local talent.

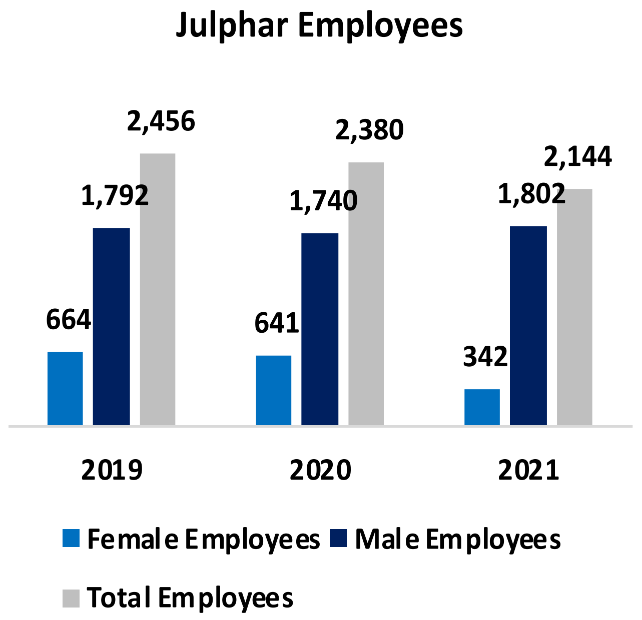

Our Social Performance aims to raise the quality of life for the local communities in which we operate.

We have grown and prospered because of our employees, who have always gone above and beyond the call of duty. We consider our employees our greatest asset, from those who work in research and development to those who ensure our operations continue to function reliably and those who are involved in our community. We invest in them to help them develop as employees and as people. Initiatives such as the Julphar Excellence program, which recognizes exceptional employees, our monthly Happiness Hour events, and our Ramadan activities have successfully brought together employees from all areas of the company.

## Our commitment to our employees

### Our workforce

Our employees are critical to our vision of sustainable growth. We strive to attract, engage, and retain the best talent across all areas of the business to ensure we build our internal capabilities for the long term. We pride ourselves on creating a work environment that values and leverages the contributions and experience of employees from very diverse backgrounds. We want to ensure that all employees are treated fairly and with respect and have equal access to opportunities and needed resources. Our success depends on an inclusive environment where all colleagues are welcomed, encouraged, and inspired to use their unique voices and talents. This is how we find innovative approaches to serve our customers and communities.




We strive to ensure that our commitment to a healthy work environment resonates with all employees so they can build meaningful careers that match their aspirations. In 2021, our overall employee population has reached 2,144 which is lower than the past year's records.

**8.8%**
The female ratio of the top management

**26%**
New female employee hired

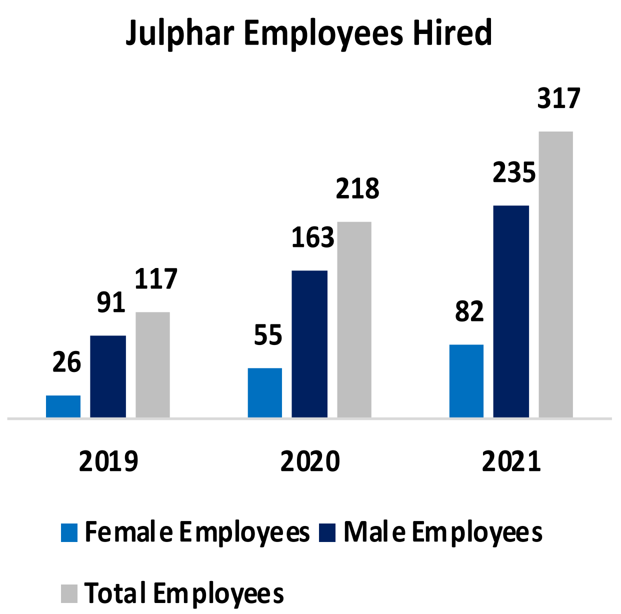
**48.60%**
New employee hired below the age of 30.

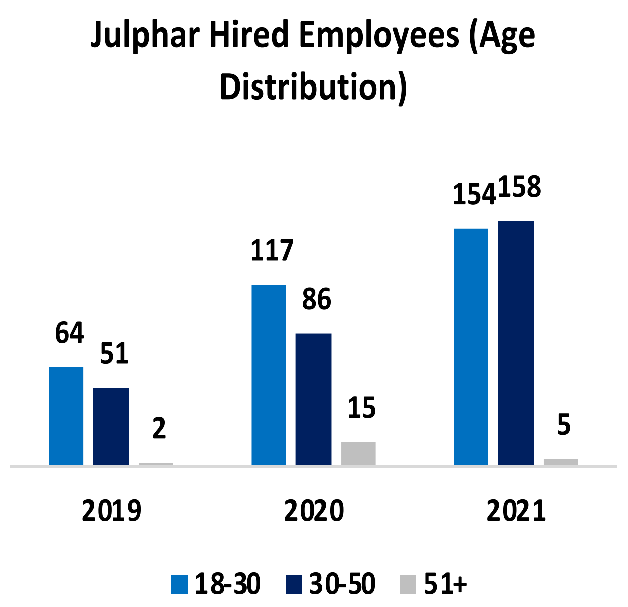
**8.20%**
New employee hired under Emiratization, highest of all time

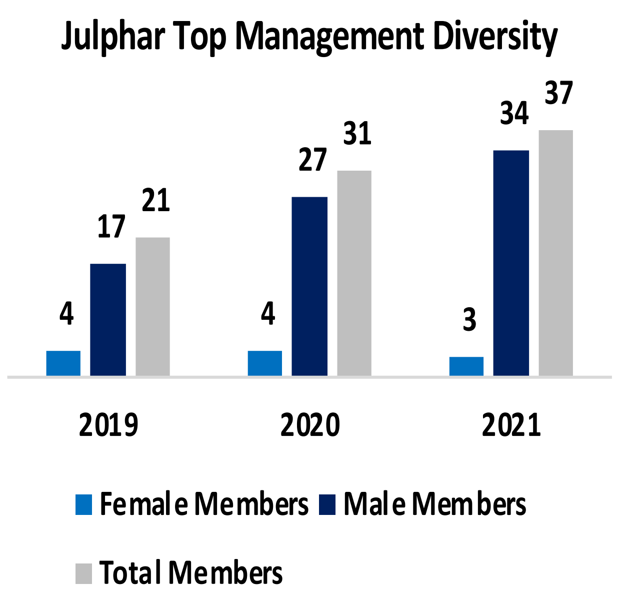
**9%**
Employee turnover rate.

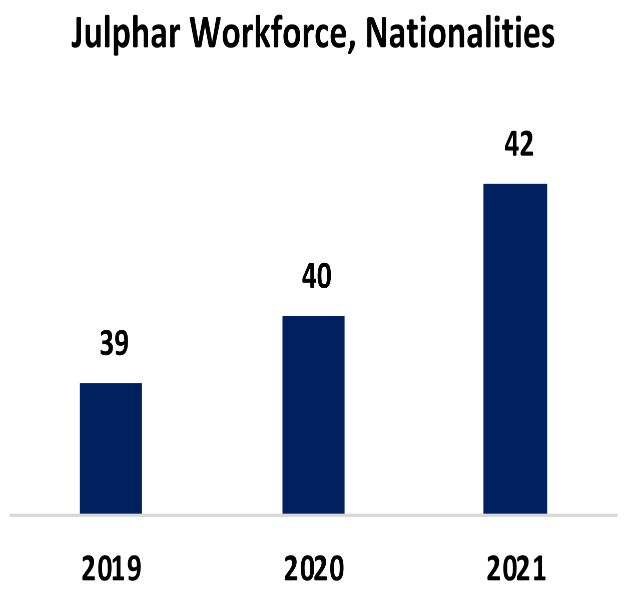
**42%**
Different nationality currently working with Julphar

In 2021, 42 nationalities were represented in our workforce. Our diversity is also reflected in the experience of our workforce. In 2021, our new hires under the age of 30 made up 48.60 %, between the ages of 30 and 50 made up 49.80%, and over the age of 50 represented 1.60% % of the total new workforce. This age diversity gives us a workforce with varying levels of knowledge, experience, and intellectual diversity. At Julphar, we are committed to promoting the younger generation. From 2019 to 2021, By encouraging the employment of young people, we are supporting local development and providing better career opportunities for the younger workforce.




## Training and Education

In the year 2021, regular training drives were conducted for the development and capacity building of the employees, and to uplift awareness about various industry-specific topics.

We are committed to fostering a corporate culture focused on the development and continuous improvement of our employees' skills, competencies, and capacities. We believe it is important to provide our employees with the resources and opportunities to advance their professional and personal development. Our learning and development offerings cover a variety of focus areas and are delivered through on-the-job, classroom, and online learning platforms.

In 2021, A total of 1,590 employees participated in regulatory and skills development training through our online platforms Coursera and Percipio.

Our employee training efforts in 2021 reinforced the pursuit of continuous learning and growth by providing opportunities for all employees to build new skills and capabilities. To enable continuous improvement for our employees, we defined and implemented a training performance evaluation system as part of our iTurnaround project.

In 2021, we were considered for a prestigious award at the GCC GOV HR Awards 2021 in the category of 'Most Outstanding Learning and Development Strategy with Julphar Training Center being recognized as one of the top training centers in the region, our learning programs have a clear focus on improving employee skills, career development, and performance management.

We are also a recognized training provider by the Institute of Leadership & Management in the United Arab Emirates.

| | |
|---|---|
| 1,590 | Total number of employees trained |
| 34,970 hours | Average time given for the training in 2021 |
| 32,811 hours | Total number of internal training hours in 2021 |
| 2,159 hours | Total number of external training hours in 2021 |
| 22 hours | Average training hours per employee in 2021 |
| 20 hours | Average internal training hours per employee in 2021 |
| 1.5 hours | Average external training hours per employee in 2021 |
| 1,443 hours | Internal training hours for UAE nationals employees in 2021 |
| 549 hours | External training hours for UAE nationals employees in 2021 |
| 31,368 hours | Internal training hours for international employees in 2021 |
| 1,610 hours | External training hours for international employees in 2021 |
| 400 employees | Number of e-learning and e-books completed, i.e.. webinars and GXP self-learning courses, Webinars are posted on Ana Julphar, PV courses |
| 112 courses | Number of eLearning and eReads available |

## Fair Compensation

In 2021, we conducted a compensation and performance analysis and benchmarking of the industry as part of the "iTurnaround Project." In doing so, we defined a grading structure for the entire company, established compensation and benefit levels based on the grading structure, and benchmarked pay levels against industry benchmarks. We also developed financial incentive plans for sales, pharmaceutical sales representatives, and line managers.

10 REDUCED INEQUALITIES

**"Julphar is committed to adhering to the Sustainable Development Goal 10 towards ensuring equal opportunity and fair compensation to its employees."**

## Emiratization

Emiratization is essential for us to make a meaningful and lasting contribution to the future of the UAE. This philosophy is at the heart of Julphar's long-term growth plans, and we are committed to continuing to create employment opportunities for Emiratis.

As part of the "iTurnaround Project" in 2021, we have defined and implemented a plan focused on the development and recruitment of UAE nationals.

We currently employ approximately 163 experienced UAE nationals. In addition, we help local graduates who are interested in the pharmaceutical industry to explore the various opportunities available to them and provide them with the necessary support to enter the workforce. Since the signing of the Absher Initiative Agreement with the Ministry of Presidential Affairs in May 2013, we have committed to employing more UAE nationals. We also participate in national career fairs as part of our Emiratization plan to attract highly qualified graduates.

## Educating our Employees

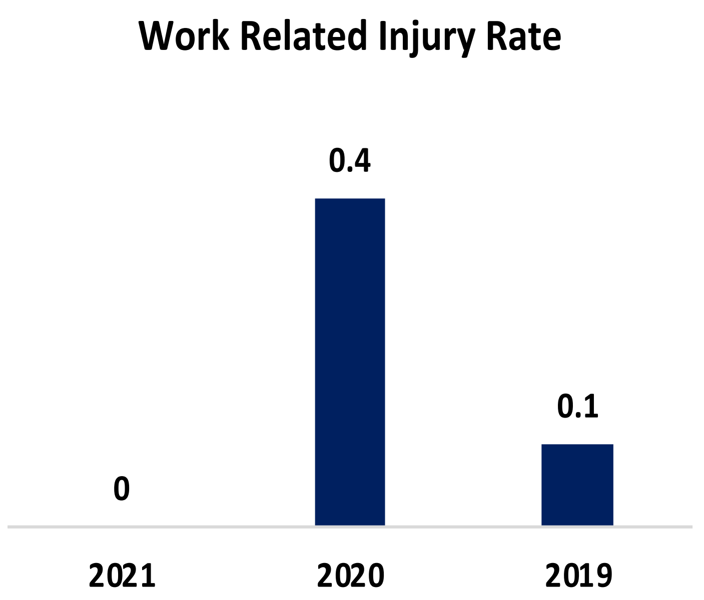
Our HR department strives to ensure the emotional and physical well-being of our employees by promoting a healthy work-life balance, implementing team-building activities, and organizing health awareness events.

## Occupational Health and Safety

Caring for the health, safety, and well-being of our colleagues and the communities in which we work, live, and operate is critical. From occupational health and safety workshops to COVID-19 education, we ensure our employees have the resources they need to live healthy lives.

This year was particularly challenging due to the pandemic, but we responded proactively. We made sure every possible measure was in place to ensure safe and continuous operations at all our business sites and contribute to a safer, more inclusive world - for the shared benefit of our company, society, and the planet.

Employee's mental health was given special mention as coming back to work after the pandemic, providing necessary sessions to minimize the risk of workplace accidents due to mental fatigue.




In 2021, zero injuries were observed during our operation of 4,704,000 man-hours, distributed in 8 hrs shift / 240 Days in a year.

## Our priority for safety

Keeping our employee's safe starts with prevention. At Julphar, we adhere to strict safety standards and work to prevent risks before they materialize. We avoid actions that could put people at risk or affect their health or well-being. We provide role-specific health and safety training for our employees, such as 'Good Laboratory Practice' (GLP) training for our employees who work in our laboratories. We are working on the implementation of an EHS management system to develop, monitor, and track health and safety KPIs.

We are striving to close all operational and capacity gaps related to health and safety in all plants at our headquarters in Ras Al Khaimah as part of our 'iTurnaround Project'.

## Safety awareness

We have carefully developed our manufacturing processes and safety assessments for each of our products to prevent adverse events. In addition, we have several Standard Operating Procedures that guide our safety practices at Julphar.

These procedures outline the actions necessary to ensure a safe work environment, and department managers are responsible for the following:

- SOPs. Topics are inclusive of General Safety Instructions for Contractors, Subcontractors, other workers such as outside drivers.
- Operating procedures for portable fire extinguishers, Safety rules for welding, cutting, and brazing, personal protective equipment, and procedures for handling, investigating, and reporting emergencies.

We have also developed a business continuity plan and disaster recovery plan that identifies resources and procedures in the event of a disaster.

## Our Commitment to our Community and Customers

We strive to improve the quality of life in the areas where we operate through our social services. Our long-term growth plan also focuses on the education and development of UAE citizens. Through our certified Institute of Leadership & Management, our employees have access to the latest management techniques and best practices in a truly international setting.

In addition, our training staff promotes local career development by organizing various internal and external development programs that enable UAE nationals to excel in the workplace and successfully contribute to the UAE economy.

## Preparing young people for the world of work

Through our training center, Julphar helps the Emirati workforce develop their skills and capabilities. In 2012, we launched the Sheikh. Faisal leadership development program, an initiative to nurture, Emirati leaders and encourage them to be active decision makers and advance their careers. We support national graduates in the following disciplines: pharmacy, medical physics, biotechnology, chemistry, natural sciences, electrical engineering, information systems, and marketing. We also hire graduates and train them in our facilities while they complete their college education."

### Julphar Training Center (JTC)

Our in-house training center is unique among pharmaceutical companies. It has been recognized by ILM (International Leadership & Management - UK) as an accredited training provider and is the only center of its kind in the region. Each year, the center welcomes more than 3,000 students from around the world for a combination of technical and social training and development.

All training is conducted in-house and is designed to help close the skills gap and foster the growth and development of the next generation of healthcare providers, giving them an edge in today's competitive environment. The center plays a critical role in creating a highly skilled and motivated workforce and helps us build a solid talent pipeline.

### In-house training

Training is not just for new employees. JTC is constantly improving the skills and updating the knowledge of current employees to help them adapt to the changing demands of their jobs.

JTC is always ready and able to provide training on both hard skills (technology and safety) and soft skills (communication and management, customer satisfaction and service, sales and marketing) with the help of our available expert staff and knowledgeable training team. By doing this while employees are in the field, learning and effective

### Julphar Mentoring & Coaching

Particularly successful employees are invited and involved in teaching skills to their colleagues (peer learning and experience sharing).

### External training

JTC provides off-site training by sending employees to seminars, conferences, college courses or workshops. Such training opportunities can be seen as a reward, great incentive, and source of inspiration for outstanding employees.

### Academic training for students

JTC is known for its leading pharmaceutical technology and state-of-the-art facilities. JTC plays an important role in developing the next generation of healthcare leaders and meeting the needs to meet future challenges and demands.

We offer various on-site training and orientation courses covering pharmaceutical manufacturing of various dosage forms, quality assurance, quality control, material planning, biotechnology, packaging, and marketing.

1. RAK Medical & Health Sciences University
2. University of Sharjah
3. Ajman College of Pharmacy & Health Science
4. An Najah National University
5. College of Pharmacy and Health Sciences (Fuj)
6. UAE University College of Engineering
7. HCT Colleges (all emirates)
8. Ministry of Education (MOE)-RAK
9. Vocational Education Development Center
10. American University of Ras Al Khaimah
11. University of Sharjah
12. UAE University
13. Abu Dhabi University
14. Gulf Medical University
15. Khalifa University

## International institutes:

1. Queen's University Belfast – (UK)
2. Mid-western University – (USA)
3. Sree Buddha College – (India)
4. Yildiz Technical University – (Turkey)
5. Calicut University – (India)
6. German University – (Jordan)
7. University of Calicut – (India)
8. German University – (Egypt)
9. Heliopolis University – (Egypt)
10. Florida Atlantic University – (USA)

## The Julphar UAE Graduate Program is an industrial training program developed to:

- Equip students with an understanding of basic work skills;
- Learn the different career choices in their respective fields;
- Develop professional competencies;
- Apply classroom theories in the corporate world;
- Facilitate the transition of the students from their academic work to the corporate world.

We have supported the UAE government through several initiatives, including:

- Supporting the Securities and Commodities Authority (SCA) in launching the campaign, "Effective Governance Is the Foundation of Sustainable Development," to raise awareness of the importance of the governance of listed companies by sharing releases and social media posts provided by SCA.
- Supporting the UAE Government's campaign to promote the Mars Probe, in line with the UAE Media office's direction

We actively work with governments, international organizations, research institutions on innovative medicines to provide a high-quality supply of medicine to those in need. We believe that collaboration between the pharmaceutical industry, regulators, and local governments is fundamental to supporting our local community's health needs.

## Scientific Discoveries and R&D

With over 800 products in various dosage forms targeting various therapeutic segments, here at Julphar, we strive to continue to expand our product offering. As part of our "iTurnaround Project" in 2021, we explored strategic partnerships and the possibility of developing molecules in-house to expand Julphar's future product portfolio.

## Pharmacovigilance (PV)

Pharmacovigilance (PV) is defined by the World Health Organisation (WHO) as the science and activities relating to the detection, assessment, understanding, and prevention of adverse effects or any other drug-related problem.

Safety monitoring includes all activities related to detecting, assessing, understanding, and preventing adverse effects and other possible drug-related problems. In addition to reviewing and evaluating suspected adverse reaction reports, published literature, epidemiological studies, and additional clinical trial results, monitoring is also conducted through a variety of other methods.

In response to new and emerging safety data, Julphar takes appropriate regulatory actions. Additionally, to contribute to the safety profiles of existing drugs, pharmacovigilance activities contribute to the broadening of epidemiological data.

Pharmacovigilance is therefore vital for the advancement of medical understanding, future research, and product development. Any improvements in safety or understanding will ultimately lead to improvements in patient care.

## Our Responsibility

Among the responsibilities of Julphar is reporting and addressing any concerns raised by the health authorities of each country upon receipt of medical products from Health Care Professionals (HCP) (including but not limited to medical doctors, pharmacists, nurses, dentists, allied health professionals, midwives, caregivers, etc.).

Questions and complaints about our products are taken seriously and treated with the strictest confidentiality. Julphar employees involved in pharmacovigilance activities are trained, know their responsibilities, and are capable of fulfilling them.

Any issues related to the quality or safety of the medicines at Julphar must be reported immediately by all employees. As part of the Clinical Trial Protocol, spontaneous adverse reactions to marketed products are collected by phone, email, fax, or post. Adverse reactions to investigational products are collected as per the Clinical Trial Protocol.

# ETHICAL GOVERNANCE

***"We have the ultimate obligation to serve our customers with high-quality medicines while also providing a safe working environment for our staff and conserving the environment. This is governed by our Quality, Environment, Health, Safety, and Sustainability vision, which includes continually increasing our compliance in all parts of our Quality, having the correct capabilities and capacity in place, and making appropriate decisions at all stages of the product life cycle"***

We are committed to operating ethically, carefully, and responsibly as we seek to satisfy the need of society and to promote safety and openness in everything we do. Our compliance program promotes proactive business-led quality and compliance governance based on risk management principles.

The Board of Directors are crucial to our governance because they represent the interests of our shareholders and strive to increase long-term shareholder value. The Board of Directors are made up mostly of independent directors that represent a wide range of gender, age, race, ethnicity, background, professional experience, and opinion.

## Governance Approach to SDGs

**Good Health and Well-Being:** Through fair access to medicines and vaccinations, we aim to ensure good health and well-being for all people of all ages

**Gender Equality:** We want to eliminate discrimination against women, provide equal leadership opportunities, and ensure that women have access to reproductive health care.

**Peace, Justice, and Strong Institutions:** We work to ensure that justice is served, that the rule of law is upheld, and that decision-making is ethical, transparent, and representative.

COVID-19 has resulted in the limitation of our conventional face-to-face connection with healthcare professionals, posing a barrier to our responsible sales and marketing operations. Virtual detailing and interactions, online seminars, electronic platform speaker programs, and virtual meetings are all examples of how we adapted and tried to overcome the global pandemic.

To ensure that our patients understand our product, we interact with our stakeholders, including healthcare professionals, in a transparent and ethical manner.

All ethical sales and marketing policies are implemented throughout our business units and locations, and our promotional materials are ethically reviewed and approved. Our sales and marketing activities adhere to all applicable laws and regulations. As described in Julphar's 'Position on Marketing and Promotional Practices', we encourage universal access to medicines by adhering to globally defined criteria and using appropriate and relevant channels and materials.

## Ethics and Transparency in Pharmaceutical: Responsible Lobbying

We collaborate with suppliers who are committed to doing business ethically and respecting human rights. Julphar has been following the United Nations Global Compact, taking steps to ensure that all individuals and their human rights are respected and protected across Julphar and its supply chain.

***"Julphar has high standards for conducting business ethically, responsibly, and in accordance with all applicable laws and regulations, as well as our own stringent principles"***

## Diverse Suppliers

Julphar is committed to maintaining a supplier network that reflects our consumer and patient base, as well as obtaining reasonably priced, high-quality medicines and services from our pre- qualified diverse vendors (small to large scale).

We exceeded our annual spending objective with local UAE small businesses, small, blooming businesses, and small to medium size firms. In the UAE, we also worked with women-owned enterprises. We maintained contacts with partner groups in order to increase regional engagement with the small and diversified supply base, attending and organizing incubation events to create and grow partnerships with such emerging businesses.

## Responsible Lobbying

Julphar is constantly participating in trade and industry associations, as well as, we are deeply involved with non-profit organizations, research institutes, and individual healthcare professionals. We must ensure that our consumers have access to a long-term healthcare system. Such activities are managed by Julphar government affairs professionals and related senior executives. Julphar's position on Government Affairs explains our methods for working with governments in addressing healthcare issues responsibly and smartly.

As we work to meet the best quality standards for our products, we are also focused on acting morally, mindfully, and constantly focusing on the wellbeing of our consumers. Our Board of Directors are the top decision makers on administration and other frameworks.

## Risk Management

To deliver value to our customers, employees, communities, and shareholders, we must understand and manage the impacts, risks and opportunities faced across our entire enterprise. We use several tools to identify and prioritize risks and opportunities, including a sustainability materiality assessment, a stakeholder engagement process, and our Enterprise Risk Management process. Risk management is a strategic activity within Julphar, and our ability to manage risk creates opportunities as well. Corporate-level identification and management of risk are systematically accomplished using an integrated Enterprise Risk Management approach. Risk management results are regularly communicated to management. The Board is responsible for overseeing the overall risk management process for the company, including review and approval of the enterprise risk management model and process implemented by management to identify, assess, manage and mitigate risk. Risk management is considered a strategic priority within the company, and responsibility for managing risk rests with executive management, while the Board oversees the process. The oversight responsibility of the Board is enabled by an enterprise risk management model and process, which is implemented by management that is designed to identify, assess, manage and mitigate risks. The Audit Committee is responsible for overseeing that management implements and follows this risk management process and for coordinating the outcome of reviews by the other Committees in their respective risk areas.

Our Risk Management framework lays down the very foundation of our core strategies including, but not limited to,

- Third-Party Risk
- Risks in Supply Chain,
- Crisis Management, etc.

With the core objective of identifying opportunities and avoiding uncertainties before they are materialized, our Risk Management Framework sets the tone of our Risk Governance.

The Head of Internal Audit & Risk Management is responsible for leading the formal risk assessment process within the organization. The Internal Audit & Risk Management function closely works with the senior management to assess the organization's overall risk profile along with any emerging risks and mitigating controls. Periodically, the Head of Internal Audit & Risk Management presents the organization's updated risk profile to the Audit Committee along with the steps they plan to take to mitigate the exposure.

While the board has assigned the primary responsibility for the risk oversight to the Audit Committee, there are other committees that help evaluate risks in their areas of responsibility and expertise, such as Quality and Technical Committee (QTC) handles Quality and Technology risks. For example, Cyber Security and Disaster Recovery.

## Our Corporate Governance

In an effort to achieve our fundamental objective, we are committed to maintaining a culture complying with applicable law and organizational policies, which is fully embedded across the organization. Our ethical standards support our business objectives while ensuring compliance and promoting ethical business values in our daily activities.

We have implemented corporate discipline and governance standards following the Resolution of the Chairman of Authority's Board of Directors of the Securities and Commodities Authority Decision no. (3/Chairman) of 2020 concerning the Approval of Joint Stock Companies Governance Guide. As part of this process, we reformed our Board Committees in line with the resolution above. In addition, we are currently amending our Articles of Association and taking the required measures to reflect the same. We have developed a corporate governance system that covers the Company's management, shareholders, employees, and clients, in addition to associate companies. We confirm our commitment to transparency and objectivity and periodically review the Company's policies to ensure that they align with our governance system and the approved governance manual.

Recently, Julphar contracted with a third-party company to develop our corporate governance framework to comply with our updated corporate governance rules and company regulations, as well as international best practices. The process involved reviewing and updating committee charters and the corporate governance manual and reviewing the current delegation of authority under the supervision of audit committee. This process was completed in 2020. Since 2020 a constant review and update of these governance manuals have been undertaken by the audit committee. As part of our "iTurnaround Project," Wave 1 we have also launched our internal policies on Anti-Bribery, Anti-Corruption, Anti-Tax Evasion, Whistle-blower, and Third-Party Due Diligence.

## Board of Directors

- **Sheikh Saqer bin Humaid Al Qasimi**
- **Mr. Rabih Khouri**
- **Mr. Abdulazizi Abdullah Salem Al-Zaabi**
- **Mr. Jamal Salem Ibrahim bin Darwish Al Nuaimi**
- **Ms. Olfa Gam**
- **Mr. Abboud Bejjani**
- **Mr. Adil Karim Kak Ahmed**
- **Mr. Medhat Abu Al-Asrar**
- **Mr. Raman Garg**

We thank the contribution of Mr.Yousef Ali Mohamed, Dr. Ali Hussein Ali Al-Zawawi and Mr. Khaled Abdullah Yousuf Al-Abudullah who were part of our Board in the previous year. We take this opportunity to welcome our new Board member Ms. Olfa Gam.

## Our Committees and their Responsibilities

Our Board of Directors work closely with external auditors through its Audit Committee.

Adherence to International Financial Reporting Standards (IFRS) ensures transparent and reliable reporting. Additionally, the Board of Directors are responsible for our internal control system and risk management, as well as our internal audit structure, which ensures full compliance with laws, regulations, and Julphar policies.

### Board Committees:

- Audit Committee
- Nomination and Remuneration Committee
- Supervision and Follow-up Committee of Insiders' Transactions
- Strategy and Investment Committee
- Quality and Technical Committee

## Audit Committee

The Audit Committee assists the Board of Directors in fulfilling its oversight responsibilities with respect to financial reporting, risk management, internal controls, and compliance with legal and regulatory requirements

### Key Responsibilities:

- Quality, reliability, and integrity of financial statements, and application of accounting principles
- Compliance with legal or regulatory requirements and adequacy of internal controls
- Performance of internal audit function
- Engagement and performance of the independent auditor
- Oversee the company's risk management process Risk Oversight
- Management and effectiveness of accounting, auditing, external reporting, ethics, compliance, and internal controls, and cyber security.

## Nomination and Remuneration Committee

The Nomination and Remuneration Committee's tasks and responsibilities are

- To determine the package of individual and total remunerations for the members on our Board of Directors.
- It is also responsible for developing our remuneration policy and human resources policies.

## Supervision and Follow-Up Committee of Insiders' Transactions

The tasks of the Supervision and Follow-up Committee for Insiders' Transactions are to ensure our compliance with the resolutions of the Securities and Commodities Authority, Abu Dhabi Securities Exchange, and the amendments stated therein.

## Strategy and Investment Committee

Committee members review and approve the Board of Directors' strategies, as well as our annual budget and business plan. The Committee must also develop and monitor our compliance with relevant legislation and regulations. As part of its responsibilities, the Committee reviews contracts of strategic importance as well as financial and accounting matters and approves such matters within the limits in our Committee Charter. We also review reports and economic feasibility studies, assess investment risks, and approve or reject them before they are submitted for approval to our Board of Directors.

## Quality and Technical Committee

By contributing to the Board's supervisory responsibilities regarding quality, compliance, and scientific and technical orientation, the Quality and Technical Committee of the Board of Directors contributes to the Board.

## Our Code of Conduct

We adhere to a global Code of Practice for Promotion and Customer Interactions. We ensure that our scientific engagements and marketing activities are based on our values, and that all promotional efforts are accurate and appropriately identified. The modernization of our behavior is designed to give our customers more assurance about our commitment to putting their needs first and improve the clarity of our interactions with healthcare professionals.

## Compliance with Regulations

Our internal controls include setting written and detailed rules and procedures to ensure stringent and comprehensive internal controls are adopted. In addition, our controls outline actions required to comply with our business policies and general requirements and objectives stipulated in the applicable legislation. We also have a dedicated compliance department to monitor external compliance to all applicable laws, regulations, resolutions, requirements of regulatory bodies, and internal compliance to company policies, rules, and procedures set by the Board.

## Supplier Social Assessment

We adhere to the highest ethical standards and comply with all laws, regulations, and company guidelines. We contact and interact with a variety of Third Parties on a regular basis at Julphar, and these commercial connections must be handled with the utmost integrity. As a result, we follow our Third-Party Due Diligence Policy when dealing with third parties. The Policy sets the standards that must be observed by all Julphar employees throughout the regional business divisions.

Our suppliers are bound by stringent social, environmental, and quality standards and work closely with us to take CSR principles on board. To ensure proper governance and that minimum requirement are followed globally, Third-Party Due Diligence is conducted for all engagements with third parties. As part of our engagement, research, and clinical development activities, we recognize the importance of defining, respecting, and continuously reviewing and improving consistent and transparent bioethical standards.

Third-Party engagement, due diligence, and management practices are outlined in Julphar's Standard Operating Procedures in functional areas such as Procurement, Finance, QA, Regulatory, and IT/IS. In addition, depending on the location of the Julphar office, international, regional, or local instructions and procedures may apply to our contracts with third parties. Finally, we have corporate rules that address the risk of bribery and corporate compliance.

## Encouraging local procurement

Our value chain operations and spending, help local businesses grow and produce multiplier effects that help people find work and better their lives. Economic sustainability requires us to build mutually beneficial partnerships with our stakeholders and to enable economic prosperity in the communities where we operate.

**GRI INDEX**

**GRI Disclouser**

**GRI 101 Foundation 2016**

**GRI 102: General Disclosures 2016**

**Organizational profile**

- 102-1 Name of the organization
- 102-2 Activities, brands, products, or services
- 102-3 Location of headquarters
- 102-4 Location of operations
- 102-5 Ownership and Legal Form
- 102-6 Markets served
- 102-7 Scale of organization
- 102-8 Information on employees and other workers
- 102-9 Supply chain
- 102-12 External initiatives

**Strategy**

- 102-14 Statement from senior decision-marker

**Ethics and Integrity**

- 102-16 Values, principles, standards, and norms of behaviour

**Governance**

- 102-18 Governance Structure
- 102-22 Composition of the highest governance body and its committees
- 102-26 Role of highest governance body in setting purpose, values, and strategy
- 102-29 Identifying and managing economic, environmental, and social impacts
- 102-35 Remuneration policies
- 102-36 Process for determining remuneration

**Stakeholder engagement**

- 102-43 Approach to stakeholder engagement
- 102-44 Key topics and concerns raised

**Reporting practices**

- 102-46 Defining report content and topic boundaries
- 102-47 List of material topics
- 102-50 Reporting period
- 102-52 Reporting cycle
- 102-54 Claims of reporting following the GRI Standards
- 102-55 GRI content index

**GRI 103: Management Approach 2016**

- 103-1 Explanation of the material topic and its boundary

**GRI 200 Economic Standard Series**

**GRI 204: Procurement Practices 2016**

- 204-1 The proportion of spending on local suppliers

**GRI 300 Environmental Standard Series**

**GRI 302: Energy 2016**

- 302-1 Energy consumption within the organization

**GRI 303: Water and effluents 2018**

- 303-3 Water withdrawal by source

**GRI 305: Emissions 2016**

- 305-1 Direct (Scope 1) GHG emissions 18
- 305-2 Energy indirect (Scope 2) GHG emissions

**GRI 306: Waste 2020**

- 306-3 Waste generated
-

**GRI 400 Social Standard Series**

**GRI 401: Employment 2016**

- 401-1 New employee hires and employee turnover

**GRI 403: Occupational Health and Safety 2018**

- 403-1 Occupational health and safety management system
- 403-5 Worker training on occupational health and safety
- 403-6 Promotion of worker health
- 403-9 Work-related injuries

**GRI 404: Training and Education 2016**

- 404-2 Programs for upgrading employee skills and transition assistance program

**GRI 405: Diversity and Equal Opportunity 2016**

- 405-1 Diversity of governance bodies and employees

Gulf Pharmaceutical Industries Julphar Management

# Governance Report 2021

Gulf Pharmaceutical Industries

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Ras Al Khaimah, UAE

## 1) Actions taken by the Company to complete and apply the corporate governance system during 2021

Gulf Pharmaceutical Industries (Julphar), one of the leading pharmaceutical Companies in the Middle East and Africa, is always keen to draw inspiration from best international models, practices, and standards. It seeks to be part of the UAE's vision to build a strong and coherent economy.

In 2020, Julphar celebrated its 40th anniversary since its establishment in 1980 under the directives of the late Sheikh Saqr Bin Mohammed Al Qasimi. Over four decades, Julphar has provided effective solutions to improve and protect the health of people in the Gulf region and globally.

The Company has implemented the standards of corporate discipline and governance based on the Resolution of the Chairman of the Board of Directors of the Securities and Commodities Authority No. 03/2020 on the Corporate Governance Guide for Joint Stock Companies. As part of this process, the Company reformed its Board Committees in line with the aforementioned Resolution, and, in 2021, it amended its Articles of Association to reflect the updated legislation and laws.

The Company has also complied with the Authority's Board of Directors Chairman's Resolution No. (08/CB) of 2020 regarding the representation of women in the Board of Directors, stipulating that the representation of women shall not be less than one member in the formation of the Board of Directors. In the process of its compliance with the aforementioned Resolution, the Company appointed Ms. Olfa Gam as a member of the Company's Board of Directors.

Julphar released its first Sustainability Report in 2021, which represents a new chapter in enhancing stakeholders' awareness of the Company's environmental, social and governance (ESG) aspects, and revealing how the same is applied in non-financial terms. This report has been prepared in accordance with International Reporting Standards (GRI) and included 31 KPIs. Julphar is also committed to issuing the Sustainability Report on an annual basis together with the Corporate Governance Report, which provides a comprehensive overview of financial performance, governance, and risks.

Julphar has also developed a corporate governance system that covers the Company's management, shareholders, employees, and clients, in addition to associate companies. We confirm our commitment to transparency and to objectivity, and we periodically review the Company's policies to ensure that they are in line with the governance system and the approved Governance Guide.

The Board of Directors works closely, through the Audit Committee, with external Auditors to issue transparent and reliable reports by adhering to International Financial Reporting Standards (IFRS). In addition, the Board of Directors, through its subcommittees, is also responsible for the internal control system and risk management, as well as the internal Audit structure to ensure full compliance with laws, regulations and Julphar policies.

## 2) Statement of the transactions of the Board members and their spouses and children in the Company's securities during 2021

| No. | Name | Position | Shares held as on 31/12/2021 | Total sale | Total purchase |
|---|---|---|---|---|---|
| 1 | Sheikh Saqer Bin Humaid Al Qassimi | Chairman of the Board of Directors | 0 | 0 | 0 |
| 2 | Mr. Rabih Khouri | Vice Chairman of the Board of Directors | 0 | 0 | 0 |
| 3 | Mr. Abdulaziz Abdullah Al Zaabi | Board member | 0 | 0 | 0 |
| 4 | Mr. Adel Karim Kak Ahmed | Board member | 0 | 0 | 0 |
| 5 | Mr. Jamal Salem Al Nuaimi | Board member | 523,248 | 0 | 120,907 |
| 6 | Mr. Raman Garg | Board member | 0 | 0 | 0 |
| 7 | Ms. Olfa Gam | Board member | 0 | 0 | 0 |
| 8 | Mr. Abboud Bejjani | Board member | 0 | 0 | 0 |
| 9 | Dr. Medhat Abu Al-Asrar Al-Jamal | Board member | 0 | 0 | 0 |

During 2021, the company’s securities were not traded by any of the spouses or children of the members of the Board of Directors, and they hold no securities in the Company.

**At Julphar, our mission is clear and simple: to provide a better quality of life for the entire family by delivering best in class solutions and real value**

## 3) Formation of the Board of Directors

### a. Statement of the formation of the current Board of Directors:

The Company is managed by a Board of Directors consisting of nine (9) members elected by the General Assembly of shareholders by a cumulative secret vote.

In the General Assembly held on April 18, 2021, the meeting approved an amendment to Item (B) of Article (19) of the Company’s articles of association to become as follows: “In the formation of the Board of Directors, the Company shall comply with the provisions of the Commercial Companies Law, as amended, and the resolutions implementing thereof.”

The members of the Board of Directors were elected in the General Assembly Meeting held on April 09, 2020. During the years 2020 and 2021, a number of members resigned, and the representative of the Arab Company for Drug Industries and Medical Appliances (ACDIMA) was replaced, and accordingly, new members were appointed to complete the term of his predecessor.

In the General Assembly Meeting held on April 18, 2021, the appointment of Mr. Abboud Bejjani as a member of the Board of Directors was approved, and the Company will present the appointment of the new members for approval by the Company’s next General Assembly, which is scheduled to be held in 2022

## The table below shows the changes in the formation of the Board of Directors from 2020 to 2021

| No. | Title | Name | Date of last election | New Member | Date of Appointment |
|---|---|---|---|---|---|
| 1 | Chairman of the Board of Directors | Sheikh Saqer Bin Humaid Al Qasimi | 09.04.2020 | - | - |
| 2 | Vice Chairman of the Board of Directors | Mr. Yousef Ali Mohammed | 09.04.2020 | Mr. Rabih Khouri | 11.08.2021 |
| 3 | Board member | Mr. Abdulaziz Abdullah Al Zaabi | 09.04.2020 | - | - |
| 4 | Board member | Mr. Jamal Salem Al Nuaimi | 09.04.2020 | - | - |
| 5 | Board member | Mr. Khaled Abdullah Yousef Al Abdullah | 09.04.2020 | Mrs. Olfa Gam | 11.08.2021 |
| 6 | Board member | Mr. Razi Adel Ahmed Dolani | 09.04.2020 | Mr. Abboud Bejjani | 11.08.2020 |
| 7 | Board member | Dr. Ali Hussein Ali Al-Zawawi | 09.04.2020 | Mr. Adel Karim Kak Ahmed | 20.04.2021 |
| 8 | Board member | Dr. Medhat Abu Al-Asrar Al-Jamal | 09.04.2020 | - | - |
| 9 | Board member | Mr. Raman Garg | 09.04.2020 | - | - |

## The table below shows the current Board members:

| Name | Category (executive, non-executive and independent) | Experience and qualifications | Period served as a Board member from the date of his first election | Memberships and positions in any other joint stock companies | Positions in any other important regulatory, governmental or commercial entities |
|---|---|---|---|---|---|
| **Sheikh Saqer Bin Humaid Al Qassim** | Non-executive and non-independent | Bachelor of Finance<br>Experience in financial markets<br>Military experience | Since 2005 | None | None |
| **Mr. Rabih Khouri** | Non-executive and independent | Masters degree in Engineering from Ecole Centrale Paris, MBA from Cambridge University and French CPA degree.<br><br>Mr. Rabih is an investment professional with more than 23 years of experience.<br>Between 1995 and 2007 Rabih worked in Europe in transaction service and audit with Arthur Andersen (acquired by E&Y), with Mckinsey as part of the corporate finance and strategy practice as well as with Nord Est, a family diversified holding in the strategy and M&A department | Since 2021 | Board member of Ras Al Khaimah Gas, RAKEZ | Chief Investment Officer at Investment and Development Office of the Government of Ras Al Khaimah (IDO) |
| **Mr. Abdulaziz Abdullah Al Zaabi** | Non-executive and independent | Bachelor's degree in International Business Administration from San Jose University, United States of America.<br>More than 30 years of experience in business management in the real estate and banking sectors, real estate investments and banking.<br>Experience in the affairs of the Federal National Council. | Since 2017 | Chairman of the Board of Directors of Ras Al Khaimah Real Estate Company<br>Chairman of the Board of Directors of Gulf Investment Company | Former second vice president of the Federal National Council<br>Chairman of the Board of Directors of Ras Al Khaimah Charitable Foundation. |

| | | | | | |
|---|---|---|---|---|---|
| **Mr. Adil Karim Kak Ahmed** | Non-executive and independent | Mr. Adel Karim brings together 30 years of experience in the field of industry through the development of the industrial sector and overseeing the construction and rehabilitation of dozens of industrial projects in various fields, including in the field of pharmaceutical industries.<br><br>Mr. Adel Karim holds a Bachelor's degree in Machinery and Equipment Engineering, University of Technology. | Since 2021 | None | Arab Company for Drug Industries & Medical Appliances Chairman of Tassili Arab Pharmaceutical Company Taphco. Board member of Saudi Pharmaceutical Industries & Medical Appliances Corporation (SPIMACO). Undersecretary of the Ministry of Industry and Minerals-Iraq. |
| **Mr. Jamal Salem Al Nuaimi** | Non-executive and independent | Jamal holds a Bachelor's degree in Business Administration from the Beirut Arab University.<br>Has more than 20 years' experience in the banking sector in the UAE and.. | Since 2014 | None | None |
| **Mr. Raman Garg** | Non-executive and independent | Certified Public Accountant by CA, India<br>30 years of experience in global and private investment funds and multinational companies such as Sequoia Capital, Max New York Life Insurance, Coca-Cola, Pisco, Aczo Nobel and others.<br>Certified Cost Accountant from Institute of Cost Accountants of India.<br>Certified Corporate Secretary from Institute of Corporate Secretaries of India. | Since 2020 | None | Chief Financial Officer of Al Hamra Group |
| **Ms. Olfa Gam** | Non-executive and independent | 24 years of experience in the pharmaceutical and biotechnology industry (especially in Europe)<br>in the field of operation<br>Industrial Engineer<br>Master of Business Administration black belt certification | Since 2021 | None | |
| **Mr. Abboud Bejjani** | Non-executive and independent | Advanced management Harvard Business School, Boston.<br>MA in Finance Saint Joseph University in Beirut, Lebanon.<br>Managing Partner of Informed, Health and Life Sciences Consulting Division.<br>Member of the Board of Directors Ultra Group (Saudi Arabia). Certified Principal Consultant for multinational healthcare consulting firms | Since 2020 | None | |
| **Mr. Medhat Abu Al-Asrar Al-Jamal** | Non-executive and non-independent | Bachelor's degree in Pharmaceutical Sciences<br>43 years of experience in the field of selling, distributing and managing various departments in pharmaceutical and medical products companies | Since 2020 | None | |

b) A statement of the percentage of women's representation in the Board of Directors for the year 2021.

At the Board of Directors meeting held on August 11, 2021, the resignation of Board Member Mr. Khaled Abdullah Yousef Al Abdullah was approved by the Board of Directors and his seat was filled by Ms. Olfa Gam, as a non-executive and independent Board Member. Thus, the Company fulfilled the requirement for female representation in the Board of Directors.

Ms. Olfa Gam, a Belgian national, holds a BA in Industrial Engineering from the National School of Engineers in Tunis and an MBA from the Fleerec Business School in Belgium.

Ms. Olfa Gam has 24 years of experience in the Pharmaceutical and Biotechnology industries and has a proven track record of pioneering industrial transformation, operational excellence, and strategic and executive planning.

c) A statement of the reasons for the non-nomination of any female component of the Board of Directors

The candidacy for membership of the Board of Directors was opened in the Board session in 2020; however, no female members were nominated in the composition of the Board, however the Company has met the requirement for female representation in the Board of Directors by appointing Mrs. Olfa Gam on August 11, 2021.

Statement of the following:

1. Statement of the total remunerations of the members of the Board of Directors paid for the year 2020.

At the Company's Annual General Meeting held on April 18, 2021, the Board of Director's proposal not to distribute the remuneration of the members of the Board of Directors for the fiscal year ended on December 31, 2020, was unanimously approved.

2. Statement of the total remunerations of the members of Board of Directors proposed for the year 2021, which will be presented at the annual general meeting for approval.

The Board's remunerations will be presented and discussed as part of the agenda of the General Assembly for voting at its proposed meeting during the year 2022, Where it has not yet been determined.

Statement detailing the allowances for attending the meetings of the Committees emanating from the Board that the members of the Board of Directors received for the fiscal year 2021.

No allowances were paid to any member for attending the meetings of the Board or Board Committees emanating from the Board during the year 2021.

3. Details of the allowances, salaries, or additional fees that a member of the Board of Directors received other than the allowances for attending the sessions of Committees, and the reasons for paying the same.

The Board member, Mr. Raman Garg, and the former Board member, Dr. Ali Al-Zawawi, each received an amount of AED 300,000 for tasks completed for the Company during the year 2021.

Whereas Planet Pharmacies LLC was owned 40% by Julphar, in the year 2021, the remaining 60% shares in Planet were acquired by the Company which in turn lead to the sole ownership of Planet by Julphar with effect from the second quarter of 2021.
In the year 2021, Sheikh Saqer bin Humaid Al Qasimi, received fees in the amount of AED 300,000 pursuant to his representation of Planet Pharmacies LLC and its subsidiaries, before the Commercial and Medical Authorities for the purpose of fulfilling these Authorities obligations and requirements for legal representation in accordance with applicable laws and regulations of the UAE and Oman.
Moreover, Sheikh Saqer bin Humaid Al Qasimi has been one of the representatives of Planet Pharmacies LLC and its subsidiaries, in his personal legal capacity from the year 2016 and has received financial consideration which has been determined by the Board of Planet after notifying the Julphar Board of Directors.

**At Julphar, we produce a wide range of medicines, vaccines and consumer healthcare products for different conditions ranging from headaches to heart disease**

d) Number of Board meetings held during fiscal year 2021

Board meetings are held in the presence of the majority of members. During the year 2021, five Board meetings were held. Below are the dates of the Board of Directors' meetings and the number of times of personal attendance for all Board members:

| No. | Meeting date | Number of attendees | Attendance by proxy | Names of absent members |
|---|---|---|---|---|
| 1 | 11.02.2021 | 9 | - | - |
| 2 | 17.03.2021 | 9 | - | - |
| 3 | 09.05.2021 | 9 | - | - |
| 4 | 11.08.2021 | 7 | - | Mr. Khalid Abdullah Yousef and Mr. Adel Karim |
| 5 | 10.11.2021 | 8 | - | Mr. Adel Karim |

e) The number and dates of Board resolutions issued by passing during Fiscal year 2021.

During 2021, the Board of Directors adopted 17 resolutions by passing, and the table below shows the date of the subsequent Board meeting:

| No. | Number of resolutions adopted by passing | Date |
|---|---|---|
| 1 | 2 | **11.02.2021** |
| 2 | 1 | **17.03.2021** |
| 3 | 4 | **09.05.2021** |
| 4 | 5 | **11.08.2021** |
| 5 | 5 | **10.11.2021** |

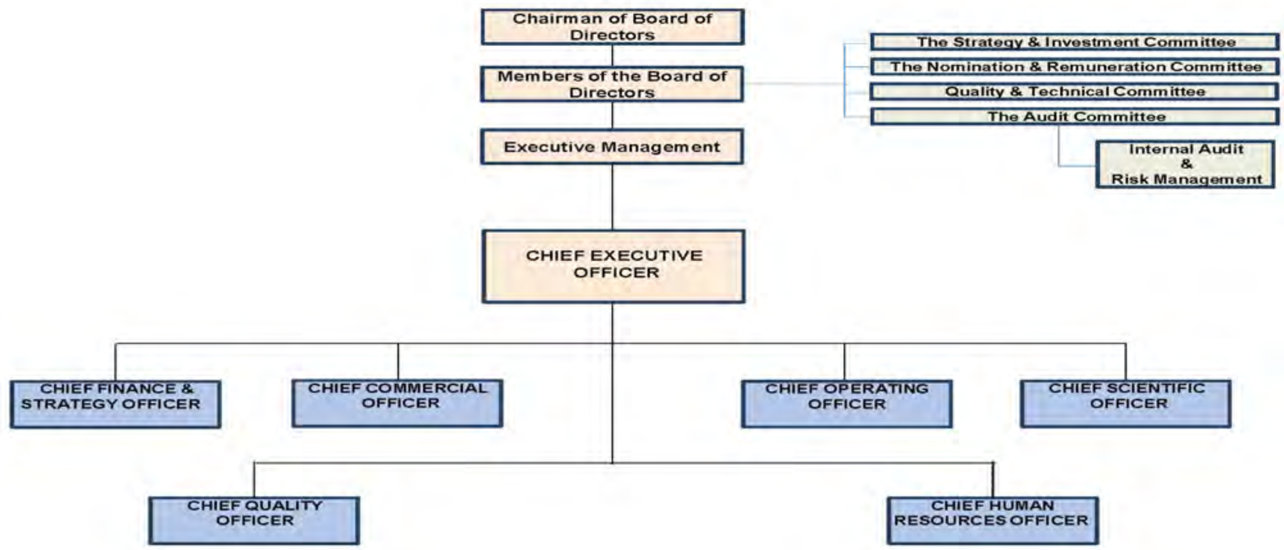
f) Statement of the duties and powers of the Board of Directors carried out by one of the Board members or the Executive Management during 2021 based on a mandate from the Board

| No. | Name of authorized Board member | Powers | Term of delegation |
|---|---|---|---|
| 1 | Raman Garg and Yousef Ali | Signing the documents related to the divestment of Alpha Pharma LLC. | **Until the transaction is completed** |
| 2 | Raman Garg and Yousef Ali | Signing the documents related to the acquisition of Plant Pharmacies LLC. | **Until the transaction is completed** |
| 3 | Raman Garg | Signing the documents related to a loan facility in connection with Planet Pharmacies LLC acquisition | **Until the transaction is completed** |
| 4 | Raman Garg and Yousef Ali | Signing the documents related to the Signing the documents related to the divestment of Gulf Inject LLC | **Until the transaction is completed** |
| 5 | Raman Garg | Signing the documents related to the divestment of Julphar Ethiopia | **Until the transaction is completed** |

g) A statement of the details of the transactions made with the related parties (stakeholders) during 2021:

| No. | Related party | Nature of the relationship | Dealing type | Value |
|---|---|---|---|---|
| 1 | Planet Pharmacies – UAE LLC | Subsidiary & Associate | Sales of medicines | **86,079,396** |
| 2 | Planet Pharmacies – UAE LLC | Subsidiary & Associate | Marketing expenses | **(7,299,992)** |
| 3 | Planet Pharmacies – UAE LLC | Subsidiary & Associate | Commission | **(8,607,940)** |
| 4 | Planet Pharmacies - Oman | Subsidiary & Associate | Sales of medicines | **20,519,667** |
| 5 | Planet Pharmacies - Oman | Subsidiary & Associate | Marketing expenses | **(2,276,758)** |
| 6 | Planet Pharmacies - Oman | Subsidiary & Associate | Commissions | **(2,051,967)** |
| 7 | Julphar Egypt LLC | Subsidiary | Sales of medicines | **54,372,561** |
| 8 | Julphar Egypt LLC | Subsidiary | Marketing expenses | **(4,975,934)** |
| 9 | Julphar Ethiopia | Subsidiary | Sale of materials and equipment | **1,532,185** |
| 10 | Majan printing and packaging | Investment | Purchase of packaging materials | **(13,042,212)** |
| 11 | Julphar Egypt LLC | Subsidiary | Purchase of packaging materials | **(685,646)** |

h) Current organizational structure of the company:




i) Statement of the senior Executives in the first and second grade according to the organizational structure of the Company, their jobs and dates of their appointment, along with a statement of the total salaries and bonuses paid to them:

Julphar's Executive Management oversee the day-to-day affairs of the Company in accordance with the responsibilities, tasks and powers delegated to them by the Company's Board of Directors within the framework and governance guidelines as well as the provisions of the Articles of Association, they carry out their tasks and duties in accordance with the mechanisms set to achieve the planned goals of the Company.

The CEO is responsible for the operational and administrative operations of the Company, as well as contributing and directing periodically and effectively to develop and improve the performance of the Company. He is responsible, along with the Executive management for implementing the approved strategies and policies to achieve the Company's goals.

The CEO is responsible towards the Board of Directors for the implementation of the effective internal control systems and for the implementation of all recommendations related to it by Auditors and external oversight bodies, as well as by the Board and the Committees emanating from it.

Senior Executives in the first and second grade, their jobs, and dates of their appointment, along with a statement of the total salaries and bonuses paid to them as of 2021:

| No. | Position | Date of appointment | Total salaries and allowances paid for the year 2021 (AED) | Total bonuses paid in 2021 (AED) | Any other cash / in-kind bonuses for the year 2021 or due in the future) | Date of resignation |
|---|---|---|---|---|---|---|
| 1 | Chief Executive Officer | 05.04.2020 | 3,489,881 | 1,625,000 | - | - |
| 2 | Chief financial and strategic officer | 01.10.2019 | 1,421,000 | 153,000 | - | - |
| 3 | Chief Commercial Officer | 03.08.2020 | 1,067,500 | - | - | - |
| 4 | Chief Scientific Officer | 15.04.2020 | 960,000 | - | - | - |
| 5 | Chief Quality Officer | 28.04.2019 | 852,000 | 127,000 | - | - |
| 6 | Chief Human Resources Officer | 03.05.2020 | 604,800 | 60,480 | - | - |
| 7 | Chief Operating Officer | 19.04.2021 | 688,800 | - | - | - |
| 8 | General Counsel and Compliance Officer | 01.09.2020 | 744,632 | - | - | 15.09.2021 |

## 4) External Auditor

### a) About the Company's Auditor:

At the General Assembly meeting held on 18 April 2021, M/s Ernst and Young were re-appointed as the Company's Auditor for the year 2021, against a fee of AED 490,000.
Ernst and Young is one of the largest professional services companies and one of the big four Audit firms in the world. It has presence in more than 140 countries around the world and is a leading Company in the field of providing Audit services, professional and tax consulting. It has been operating in the UAE since 1966.

### b) Statement of fees and costs for the Audit or services provided by the external Auditor:

| | |
|---|---|
| Name of the Audit office and the partner Auditor: | Ernst & Young, responsible partner Mr. Nabil Ghodhbane. |
| Number of years spent as an external Auditor for the company: | 3 |
| Number of years the partner Auditor has spent Auditing the company's accounts: | 3 |
| Total Audit fees for 2021 (AED): | 490,000/- AED. |
| Fees and costs of other special services other than Auditing the financial statements for the year 2021 (AED) | 95,420/-<br>Accounting consulting regarding interest rate. |
| Details and nature of other services provided (if any): | Preparing the sustainability report for 2020 through 2021 |
| Statement of other services provided by another external Auditor during 2021 | |
| Name of Auditor: | Details of services provided |
| Grant Thornton | Determining the purchase price for a subsidiary. |
| Moore Stephens | Inventory. |
| PricewaterhouseCoopers | Tax consulting services. |
| Nimai Rama | Submission of the quarterly VAT return, adding Planet to the VAT group. |
| KGRN Accounting Associates | Assistance with VAT refund. |

c) Reservations made by the Company's External Auditor in the interim and Annual Financial Statements for the year 2021

No reservations were made by the Auditor in the Company's preliminary financial statements for the year 2021; and the annual financial statements for 2021 are still under review and preparation at the time of issuing this report.

## 5) Audit Committee

a) Acknowledgment by the Chairman of the Audit Committee of their responsibility for the Committee's system in the Company and for their review of its work, mechanisms and verification of its effectiveness.

Mr. Raman Garg, Chairman of the Audit Committee, acknowledges his responsibility for the Committee's system in the Company and for his review of its work, mechanisms and ensuring its effectiveness.

b) Names of members of the Audit Committee and clarifying its terms of reference and tasks assigned to it.

The Audit Committee carries out its activities in accordance with what is stipulated in Article No. (61) of Resolution No. (3/B.C) of 2020 regarding the Approval of the Governance Guide for Public Joint Stock Companies. The main tasks, responsibilities and powers of the Audit Committee are to monitor and review the Financial Statements as well as the Internal Control and Risk Management systems of the Company and make the necessary recommendations for the Board of Directors regarding the Internal Control systems of the Company. The Committee also deals with the Company's External and Internal Auditors, as well as its main role in ensuring the Company's commitment to implementing all approved operational and financial policies and procedures.
The Committee was re-formed in Board of Directors Meeting No. (4) of 2021, held on August 11, 2021, and accordingly the Audit Committee is composed of the following members:

- Mr. Raman Garg, Chairman of the Committee
- Ms. Olfa Gam, Committee Member
- Mr. Abdulaziz Abdullah Al Zaabi, Committee Member
- Mr. Razi Adel Ahmed Dolani, Committee Member external to the Board of Directors

a. Number of Audit Committee meetings held in 2021

| No. | Date | Member present | Absentees (who apologize) | Meeting purpose |
|---|---|---|---|---|
| 1 | 28.01.2021 | 4 | - | **Other issues** |
| 2 | 10.02.2021 | 3 | Mr. Abdulaziz Al Zaabi | **Other issues** |
| 3 | 28.02.2021 | 3 | Mr. Abdulaziz Al Zaabi | **Audit of financial statements** |
| 4 | 25.03.2021 | 4 | - | **Other issues** |
| 5 | 28.04.2021 | 4 | - | **Other issues** |
| 6 | 06.05.2021 | 4 | - | **Audit of financial statements** |
| 8 | 15.07.2021 | 4 | - | **Other issues** |
| 9 | 04.08.2021 | 3 | Mr. Razi Dolani | **Audit of financial statements** |
| 10 | 08.08.2021 | 4 | - | **Audit of financial statements** |
| 11 | 03.11.2021 | 4 | - | **Audit of financial statements** |
| 12 | 07.11.2021 | 4 | - | **Audit of financial statements** |
| 13 | 25.11.2021 | 4 | - | **Other issues** |

## 6) Nomination and Remuneration Committee

a. Acknowledgment by the Chairman of the Nominations and Remunerations Committee of his/her responsibility for the Committee's system in the Company and for his review of its work mechanism and verification of its effectiveness

Mr. Abboud Bejjani, Chairman of the Nomination and Remuneration Committee, acknowledges his responsibility for the Committee's system in the Company and for his review of its work, mechanisms and ensuring its effectiveness.

b. Names of members of the Nominations and Remunerations Committee, and a description of its responsibilities and tasks assigned to it.

The Nomination and Remuneration Committee assumes its duties according to the provisions of Article (59) of the Authority Board's Resolution No. (3 / RM) of 2020 regarding the Approval of the Governance Guide for Public Joint Stock Companies. The Committee's tasks, responsibilities and powers are mainly represented in determining the package of individual and total remunerations for the members of the Board of Directors, in accordance with the approved procedures. It is also responsible for developing the remuneration policy for the executive management related to the performance of the Company. The Committee is also responsible for preparing and reviewing human resources policies in accordance with the relevant laws and regulations, and the Committee supervises the procedures for nominating members of the Board of Directors, the basis and the conditions for their selection. The Nominations and Remunerations Committee was re-formed at the Board Meeting No. (4) of 2020, which was held on Tuesday, August 11, 2021.

The Nominations and Remunerations Committee consists of the following members:

- Mr. Abboud Bejjani, Chairman of the Committee.
- Mr. Jamal Salem Bin Darwish Al Nuaimi, Committee Member.
- Mr. Rabih Khouri, Committee Member.

c. Number of meetings held by the Nomination and Remuneration Committee during 2021

| No. | Date | Attendees | Absentees (who apologize) |
| --- | --- | --- | --- |
| 1 | 21.01.2021 | 3 | - |
| 2 | 22.03.2021 | 2 | Mr. Khalid Abdulla Yousef |
| 3 | 16.06.2021 | 3 | - |
| 4 | 03.11.2021 | 2 | Mr. Jamal Salem Bin Darwish Al Nuaimi |
| 5 | 14.11.2021 | 2 | Mr. Jamal Salem Bin Darwish Al Nuaimi |
| 6 | 09.12.2021 | 3 | - |

## 7. The Supervision and Follow-up Committee of Insider Transactions

a. Acknowledgement by the Chairman of the Committee or the person authorized to be responsible for the system of the Committee in the Company and for reviewing its work mechanism and ensuring its effectiveness

The former Committee Chairman, Mr. Mohamed Odeh, resigned from his position in the Company in January 2022, and the Committee will be re-formed in 2022.

b. Names of the members of the Supervision and Follow-up Committee of Insider Transactions, and a description of its responsibilities and tasks assigned to it.

The Supervision and Follow-up Committee for Insider Transactions was formed by the Board of Directors and performs its tasks and powers in accordance with the corporate governance systems. The Committee consisted of the following during the year 2021:

- Mohamed Ahmed Odeh, the former Chairman of the Committee.
- Hessa Ali Al Shehhi, Committee Member.

The duties of the Supervision and Follow-up Committee on Insider Transactions are:

- Ensure compliance with the decisions of the Securities and Commodities Authority and the Abu Dhabi Securities Exchange (ADX), as amended.
- Supervising insider transactions and ownership of shares, act as custodian of the insider register, and submitting periodic reports to the ADX.
- Updating the list of insiders in the event of a change therein and inform the concerned authorities thereof.

c. Summary of the report of the Committee's proceedings during 2021.

The Committee periodically updates the list of Company insiders and provides it to the Abu Dhabi Securities Exchange (ADX). The Committee adheres to the decisions of the Securities and Commodities Authority and the Abu Dhabi Securities Exchange (ADX), as amended.

## 8) Any Committees approved by the Board of Directors

In the Board of Directors Meeting No. (4) of 2021, held on August 11, 2021, the Board re-formed the other Committees besides the Permanent Committees, namely the Strategy and Investment Committee and the Quality and Technology Committee.

1. **Strategy and Investment Committee**

a. Acknowledgement by the chairman of the Strategy and Investment Committee of his/her responsibility for the system of the Committee in the Company and for reviewing its work mechanism and ensuring its effectiveness

Mr. Rabih Khouri, Chairman of the Strategy and Investment Committee, acknowledges his responsibility for the Committee's system in the Company and for his review of its work, mechanisms and ensuring its effectiveness.

b. The name of the Committee and the names of its members

The Strategy and Investment Committee is a Committee emanating from the Julphar Board of Directors and was re-formed at the Board of Directors Meeting No. (4) held on August 11, 2021. It consists of the following members:

- Mr. Rabih Khouri, Chairman of the Committee.
- Ms. Olfa Gam, Committee Member
- Mr. Abboud Bejjani, Committee Member
- Mr. Jean Diab, Committee Member external to the Board of Directors

c. The main tasks and duties of the Strategy and Investment Committee:

The Strategy and Investment Committee serves as a link between the Company's Management and the Board of Directors, by adopting executive decisions on issues referred to the Committee within the scope of its competencies. The Committee's competencies include, but not limited to, the following:

- Review and approve the Company's strategies by the Board of Directors. Develop and monitor compliance with relevant legislation and regulations; and oversee the initiatives that are likely to have a material impact from an organizational or competitive perspective or on the Company's reputation.
- Review, approve and recommend the Company's Annual Business Plan and budget for approval by the Board of Directors. Supervise and evaluate the Company's performance against the Business Plan and submit recommendations to the Board of Directors.

- The Committee is also responsible for reviewing and approving contracts related to important strategies and other material matters related to accounting and finance, within the limits set out in the Committee’s charter.
- Other responsibilities including reviewing reports and economic feasibility studies, assessing investment risks and approving or rejecting them before submitting them to the Board of Directors for approval, monitoring important strategic projects and transformation initiatives, and discussing and approving studies and management recommendations regarding participation or making direct or indirect investments, as permitted by the Articles of Association of the Company.
- Perform any other tasks assigned to it by the Company's Board of Directors.

d. A statement on the number and dates of meetings held by the Committee during 2021, together with the number of personal attendances of all members of the Committee:

| No. | Date | Attendees | Absentee |
|---|---|---|---|
| 1 | 19.01.2021 | 2 | **0** |
| 2 | 17.05.2021 | 2 | **0** |
| 3 | 08.09.2021 | 4 | **0** |
| 4 | 15.09.2021 | 4 | **0** |
| 5 | 05.10.2021 | 4 | **0** |
| 6 | 26.10.2021 | 4 | **0** |
| 7 | 03.11.2021 | 4 | **0** |
| 8 | 23. 11.2021 | 4 | **0** |
| 9 | 19.12.2021 | 4 | **0** |

## 2. Quality and Technology Committee:

a. Acknowledgement by the Chairman of the Quality and Technology Committee of her responsibility for the Committee's system and for reviewing its mechanism of work and ensuring its effectiveness.

Ms. Olfa Gam, Chairman of the Committee acknowledges her responsibility for the Committee's system and for reviewing the mechanism of its work and ensuring its effectiveness.

b. The name of the Committee and its members, along with a statement of its functions and the tasks assigned to it

The Quality and Technology Committee is a Committee emanating from the Julphar Board of Directors, and was formed in the Board of Directors Meeting No. (4), held on August,11 2020. It consists of the following members:

- Ms. Olfa Gam, Chairman of the Committee.
- Dr.  Medhat Abu Al-Asrar, Committee Member.
- Mr. Abboud Bejjani, Committee Member.

c. Statement of tasks and main functions of the Quality and Technology Committee:

The Quality and Technology Committee emanating from the Board of Directors contributes to fulfilling the Board supervisory responsibilities regarding quality, compliance issues, and scientific and technical orientation.
The Committee's duties include, but not limited to, the following:

- Periodic review of reports on significant compliance matters to those involved on the quality and compliance functions of the Company.
- The Committee is entrusted with the primary oversight of all areas of quality and compliance issues (non-financial compliance).
- Supervising the Company's innovations and product-line strategies, as well as assessing the competitive position of the Company's portfolio and potential new treatments, following up the Company's approach to developing new markets and the Company's effectiveness in the scope of research, development and intellectual property.
- Reviewing the development and implementation of key business policies by the Management, including security and safety policies, quality assurance and control policies, corporate social responsibility policies, regulatory affairs policies, production policies, and credit policies.
- Performing the tasks and duties assigned to it by the Board of Directors from time to time.

d. A statement on the number and dates of meetings held by the Committee during 2021, together with the number of personal attendances of all members of the Committee:

| No. | Date | Attendees | Absentee |
|---|---|---|---|
| 1 | 09.01.2021 | 3 | - |
| 2 | 27.01.2021 | 3 | - |

## 9. Internal Control and Audit

a. Acknowledgment by the Board of its responsibility for the Company's Internal Control System and for reviewing its work mechanisms and ensuring its effectiveness:

The Board of Directors is responsible for the Company’s internal control system, its annual review and ensuring its efficiency. In order to ensure the optimal application for the internal control and audit requirements, Julphar has adopted the internationally recognized “three lines of defence” model. Thus, the system of internal control and audit in Julphar consists of the following three elements:

- FRONTLINE BUSINESS FUNCTIONS (First line of defense) - governed by policies, procedures, code of business ethics and delegated mandates as approved by the Board of Directors.
- THE INTERNAL CONTROL FUNCTION (Second line of defense) - includes the Enterprise Risk Management (ERM) and Compliance responsibilities. The Internal Control function is responsible for the oversight and monitoring of risks as well as the oversight of overall corporate compliance requirements.

- THE INTERNAL AUDIT FUNCTION (Third line of defense) - which provides overall independent assurance.
- The Internal Control and Internal Audit functions are run by the Internal Audit Department, which is completely independent from the Executive Management, reporting functionally to Julphar Audit Committee

b. Name of the Manager of the Internal Audit Department, his qualifications and the date of his appointment.

The Company's Internal Audit Department is headed by Mr. Yasser Fouad, who was appointed on May 16, 2021. Mr. Fouad is a Certified Internal Auditor (CIA) USA and Associated Chartered Accountant (ACCA), Association of Chartered Certified Accountants, UK, and Certified Management Accountant (CMA), USA, and holds a Bachelor of Commerce, Arab Republic of Egypt.

c. Name of the Compliance Officer, his qualifications and date of appointment.

The former Compliance Officer, Mr. Adel Khalaf, resigned from his position in the Company in September 2021, and the Board of Directors will appoint a successor in 2022.

d. How the Internal Audit Department deals with any major issues in the Company or those that are disclosed in the Annual Reports and Accounts.

No Major issues have been detected in the year 2021.

e. Number of reports issued by the Internal Audit Department to the Board of Directors of the Company

The Internal Audit Department issued four reports to the Company's Board of Directors during the year 2021.

## 10. Details of the violations committed during 2021, the reasons for them and how to address and avoid recurrence thereof in the future.

The Company committed no violations during 2021 with regard to the disclosure of interim and Annual Financial Reports, as well as other required disclosures.

## 11. A statement of the cash and in-kind contributions made by the Company during 2021 towards the development of the local community and the preservation of the environment.

During 2021, the Company made no cash contributions to the development of the local community and the preservation of the environment, however, an in-kind contribution was made by donating medicines and other materials to several parties.
Out of its belief of the importance of the environment and its preservation, Julphar has undertaken several endeavors during 2021, including, but not limited to:

- Periodic training for service employees on how to preserve the environment and quickly get rid of environment harmful causes.

- Under the directives of the concerned authorities, the Company contracted with licensed companies to transport and destroy invalid medicines and raw materials, according to the requirements of the competent authorities.
- A contract has been signed with a specialized Company to dispose of medical wastes resulting from manufacturing medicines on a weekly basis in ways that ensure the preservation of the environment.
- Cooperation has been made with an entity to establish special dumpsites for the daily disposal of consumable materials such as food waste, oils and cardboard waste.
- A contract has been signed with a specialized Company to sterilize all the Company's buildings and departments against the new Covid-19 on a weekly basis.
- The Company has supported the government program (Hassantuk) to enhance safety standards and protection system for the UAE to become one of the safest countries in the world.
- The Company entered into agreements to collect all recyclable materials such as cardboard, plastic, etc.

## 12. General information

a. A statement of the Company's shares price in the Abu Dhabi Securities Exchange during 2021

| Month | Highest price | Lowest price | Closing price |
|---|---|---|---|
| 1 | 1.65 | 1.65 | **1.65** |
| 2 | 1.50 | 1.50 | **1.50** |
| 3 | 1.77 | 1.55 | **1.62** |
| 4 | 1.59 | 1.56 | **1.59** |
| 5 | 1.48 | 1.44 | **1.46** |
| 6 | 1.73 | 1.55 | **1.63** |
| 7 | 1.81 | 1.75 | **1.81** |
| 8 | 2.32 | 2.09 | **2.22** |
| 9 | 1.82 | 1.80 | **1.81** |
| 10 | 2.03 | 1.98 | **2.03** |
| 11 | 1.80 | 1.76 | **1.77** |
| 12 | 1.91 | 1.78 | **1.84** |

b. A statement of the comparative performance of the shares of the Company with the general market index and the sector index of the Company during 2021

| Month | Company share price | General indicator Abu Dhabi Securities Exchange (ADX) | Industrial Sector Index |
|---|---|---|---|
| 1 | 1.65 | 5,593.48 | **1,716.83** |
| 2 | 1.50 | 5,663.62 | **1,683.20** |
| 3 | 1.62 | 5,912.56 | **1,689.03** |
| 4 | 1.59 | 6,046.80 | **1,739.07** |
| 5 | 1.46 | 6,558.71 | **1,968.13** |
| 6 | 1.63 | 6,835.43 | **2,260.36** |
| 7 | 1.81 | 7,318.18 | **2,654.98** |
| 8 | 2.22 | 7,684.61 | **3,120.42** |
| 9 | 1.81 | 7,698.81 | **2,809.10** |
| 10 | 2.03 | 7,865.11 | **3,638.45** |
| 11 | 1.77 | 8,546.52 | **3,847.16** |
| 12 | 1.84 | 8,488.36 | **3,721.38** |

c. A statement on the distribution of shareholders' equity as of 31/12/2021 (individuals, companies, governments), categorized as follows: local, GCC, Arab and foreign:

| No. | Category | Shareholding % | | | |
|---|---|---|---|---|---|
| | | Individuals | Companies | Government | Total |
| 1 | Local | 24.65% | 37.08% | 12.24% | 73.97% |
| 2 | GCC | 12.41% | 0.42% | 0% | 12.83% |
| 3 | Arabic | 1.26% | 11.32% | 0% | 12.58% |
| 4 | Foreign | 0.59% | 0.03% | 0% | 0.62% |
| | Total | 38.91% | 48.85% | 12.24% | 100% |

d. A statement of shareholders holding 5% or more of the Company's capital as of 31/12/2021

| No. | Name | Number of shares held | Shareholding % |
|---|---|---|---|
| 1 | Middle East Pharma Investments | 277,779,700 | 24.045% |
| 2 | The government of Ras Al-Khaimah | 141,400,221 | 12.24% |
| 3 | Arab Company for Drug Industry and Medical Appliances (ACDIMA) | 105,713,772 | 9.15% |
| 4 | Yasser bin Youssef bin Mohammed Naghi | 103,970,503 | 9.00% |
| 5 | Mohammed Abdulaziz Rabie Shaheen Al-Muhairi | 87,552,538 | 7.58% |
| 6 | Sheikh Faisal bin Saqer bin Mohamed Al Qasimi | 82,919,262 | 7.18% |
| Total | | 799,335,996 | 69.19% |

e. A statement on shareholders distribution according to their shareholding as of 31/12/2021

| No. | Shares | Number of shareholders | Number of shares held | Shareholding % |
|---|---|---|---|---|
| 1 | Less than 50,000 | 1,410 | 8,601,057 | 0.75% |
| 2 | From 50,000 to less than 500,000 | 254 | 40,803,941 | 3.53% |
| 3 | From 500,000 to less than 5,000,000 | 81 | 103,772,985 | 8.98% |
| 4 | More than 5,000,000 | 17 | 1,002,049,828 | 86.74% |
| Total | | 1,762 | 1,155,227,811 | 100% |

f. Statement of the actions taken regarding investor relations regulations:

The Company has a dedicated section for investors' relationships in order to provide all the facilities, services and information required by the investors. The page of investor relations has been updated to enable easy access to the data of the Company and all related information for the Investor Relations Department as below:

- Name of the Investor Relations Officer: Hessa AlShehhi
- Phone No. 0097172045273
- Email: investors@julphar.net
- The link for the Investor Relations page: http://www.julphar.net/en/investors

g. Special resolutions presented at the General Assembly in 2021 and the actions taken in their regard

After discussing the items included in the agenda of the Company's General Assembly held on April 18, 2021, the below special resolution was deliberated:

- Approval of the amendment of Articles No. 7, 17, 19, 22, 27, 29, 33, 41, 47, 50, 51 and 52 of the Articles of Association, in accordance with the amendments to Federal Law No. (2) of 2015 regarding Commercial Companies, and pursuant to Federal Decree-Law No. (26) of 2020.

All items of the Articles as amended have been presented to the General Assembly and the amendments were approved by majority.

h. The Rapporteur of the Board of Directors meetings.

Ms. Rayan Omar was appointed as the Board Secretary with effect from 15th February 2021. She is a legal professional with specializations particularly in International Corporate Governance and Corporate Law.

The Board Secretary ensures the connection between the Board and Management through overseeing the Boardroom governance as well as relaying Board actions and decisions. In line with the Governance Guide, applicable laws, and regulations and in accordance with the Company’s Articles of Association the Board Secretary advises the Board on corporate governance matters as required.

## i. A detailed statement of the material events and important disclosures during 2021

| Date | Events/ Disclosures |
|---|---|
| March 29, 2021 | Julphar disclosed that it has entered into a manufacturing contract with G42 Medications Trading LLC to produce Sinopharm's COVID-19 vaccines, with commercial production to commence in April 2021. |
| 10 April 2021 | Julphar showcased its products at the Dubai International Pharmaceutical and Technology Conference and Exhibition " DUPHAT" 2021, the three-day international event at the Dubai World Trade Centre. |
| 28 April 2021 | Julphar disclosed that enters into AED 1.01 bn syndicated loan facility with Arab Bank, RAK Bank and DIB |
| 10 June 201 | Julphar disclosed that it has entered into a sale and purchase agreement with Pharma SPV Limited to acquire its 60% stake in Planet Pharmaceuticals LLC, and the transaction is expected to be closed in July 2021. |
| June 16, 2021 | Julphar disclosed that it has sold 51% of the shares of Alpha Pharma LLC. |
| July 12, 2021 | The CEO of Julphar, Director General of the Food and Drug Corporation, received the Chairman of the Pharmaceutical Manufacturing Committee in the Hashemite Kingdom of Jordan and his accompanying delegation. |
| July 13, 2021 | Julphar announced the signing of an agreement to fully acquire Planet Pharmacies LLC, one of the leading regional distributors for medicines in the UAE, Saudi Arabia, and the Sultanate of Oman. |
| September 05, 2021 | Julphar announced the signing of an agreement to sell Gulf Inject, a wholly owned subsidiary, to Global One Healthcare, a subsidiary of Yas Holding Group, Abu Dhabi. |
| October 24, 2021 | Julphar participated in Expo 2020 Dubai, the world's largest event, which will be held from October 1, 2021, to March 31, 2022 under the theme "Connecting Minds, Creating the Future", within the "Fazaa" pavilion as a strategic partner. |
| October 28, 2021 | Julphar received an official delegation from the Czechoslovak Federation. The visit of the Czechoslovak Federation and members of the EWIC group aims to develop and strengthen economic and social relations between the Czech Republic and the United Arab Emirates. |
| November 22, 2021 | A delegation from Julphar participated in the activities of the Emirati-Mongolian Business Forum, which was held at the Media Center of Expo 2020 Dubai. |
| 06 December ,2021 | Julphar announced the signing of an exclusive licensing and manufacturing agreement with Quantum Genomics, a French company, to manufacture and market "Firibastat" in the Middle East, Africa, CIS countries and Turkey. |

j. A statement of the transactions made by the Company with the related parties during 2021, which are equal to 5% or more of the Company's capital.

The Company has not made any transactions equivalent to 5% or more of the Company's capital with related parties during 2021.

k. A statement of the percentage of Emiratization in the Company by the end of 2019, 2020 and 2021.

| No. | Year | Number of UAE national employees | Percentage |
|---|---|---|---|
| 1 | 2019 | 161 | 6.55% |
| 2 | 2020 | 148 | 6.21% |
| 3 | 2021 | 163 | %6.63 |

l. A statement of innovative projects and initiatives that the Company has undertaken or is developing during 2021.

Julphar has continued its efforts to develop first-to-market and value-added generics to the GCC and MENA countries despite the challenges faced during the COVID-19 pandemic.
In 2021, Julphar supported the UAE Government's initiative in the fight against the pandemic through the production of the Covid 19 vaccine.

| Chairman of the Board of Directors | Chairman of the Audit Committee | Chairman of the Nomination and Remuneration Committee | Director of Internal Control Department |
|---|---|---|---|
| | | | |
| Date:..../..../...... | Date:..../..../...... | Date..../..../...... | Date..../..../...... |

# Gulf Pharmaceutical Industries P.S.C.

## CONSOLIDATED FINANCIAL STATEMENTS

### 31 DECEMBER 2021

## Report of the Board of Directors

The Board of Directors of Gulf Pharmaceutical Industries P.S.C. (the "Company") and its subsidiaries (the "Group" or "Julphar") is pleased to present their report along with the audited consolidated financial statements of the Group for the year as of and ended 31 December 2021.

**Financial Performance**

Julphar recorded net sales of AED 1,143.2 million, a 99.6% increase against 2020 net sales of AED 573.0 million. The Julphar Segment (excluding Planet) generated AED 778.0 million net sales with a growth of 36% compared to previous year.

The profit is AED 59.4 million for the year 2021 as compared to a loss of AED (317.4) million in the previous year.

EBITDA from Continuing Operations[1] reaches AED 164.8 million in 2021 compared to a negative EBITDA from continuing operations of AED 165.8 million in the previous year.

The company generated a 47.1 m AED positive Cash Flow from Operating Activities compared to a negative cash flow of -168.6 in the previous year.

Net debt stood at AED 560 million as of 31. December 2021, which is a 4% increase compared to previous year. The Net Debt / EBITDA[1] ratio improved to 3.4x.

During the past two years the Group has successfully been implementing the turnaround program and returned to profitability for the first time since 2017 due to the below:

- The recruitment of the new leadership team has been completed
- The temporary import suspension to the Kingdom of Saudi Arabia and the GCC markets was lifted
- Quality systems have been upgraded and Julphar's extensive product portfolio is again available to physicians and patients across the markets in MENA
- Non-core and loss-making activities have been divested
- Operating cash flows recovered and combined with the implemented equity and debt refinancing Julphar is now well prepared to enter into the next phase of its transformation journey.

In the generics market in the United Arab Emirates, Julphar consolidated its number one position during 2021. In the Kingdom of Saudia Arabia, MEBO and several other key brands achieved market leading positions after the successful return to the market in the previous year.

Production output increased to 144 million packs during the reporting period, a 27% increase compared to previous year.

The acquisition of the remaining 60% shareholding in Planet Pharmacies is part of the strategic effort to extend Julphar's manufacturing and marketing capabilities into the distribution and retail segments across UAE, KSA and Oman. The divestment of non-core activities progressed well during 2021 and will be completed in the coming year.

The Group has successfully managed the impact of the COVID pandemic on supply chain, product availability and changes in market demand. With the production of 34 million doses of HAYATVAX in cooperation with G42 and Sinopharm, Julphar contributed to the continuous fight of the United Arab Emirates government and various other countries against the pandemic.

Gulf Pharmaceutical Industries Julphar

*[1] EBITDA from Continuing Operations does not include depreciation from assets held for sale in the previous year and finance income and interest on lease liabilities in the current year.*

**Outlook 2022:**
The Group will continue its transformation program during 2022 and strengthen the market position in its core markets in MENA. The Julphar Segment plans to launch more than 15 new products addressing existing medical needs with critical pharmaceuticals and life-saving medicines in the MENA region, securing local supply chains and supporting the manufacturing of high-quality products locally by implementing new cutting-edge technologies in line with the UAE government healthcare agenda. Julphar will also explore growth opportunities to increase its presence in North African markets through new product launches as well as local manufacturing partnerships.

The initiated production expansion projects will add additional production capacity for oral dosage forms, semisolids and injectables products. Efficiency improvement projects will further improve the cost competitiveness of the company.

The new pipeline initiative will progress to secure the medium-term growth of the Group in addition to exploring geographical expansion opportunities in African markets. New strategic in-licensing partnership will further strengthen the Group' future group prospects.

Planet Pharmacies will expand its retail pharmacy network in the markets of Unit Arab Emirates and Kingdom of Saudia Arabia through new store opening as well as targeted acquisitions. The Group will work on new projects to generate further synergies between Julphar's product business and Planet Pharmacies' retail and wholesale business.

We are confident that all initiated programs will support the ongoing transformation and will position the Julphar Group as one of the leading healthcare groups in Emerging Markets.

**Proposed dividend**
Due to accumulated losses incurred by the Group in previous years, the Board has not recommended any dividend declaration to the shareholders of the Company for the year 2021.

**Auditors**
The independent auditors, Ernst & Young, Dubai have signified their willingness to continue in office. The reappointment and remuneration will be proposed at the Annual General Meeting of the Company.

**Acknowledgements**
The Board would like to express their gratitude and appreciation to all shareholders, customers and business partners, government agencies, banks and financial institutions and employees, whose continued commitment, support and co-operation has been a great strength and encouragement.

On behalf of the Board,

Sh. Saqer Humaid Al Qasimi
Chairman
17-03-2022

Gulf Pharmaceutical Industries
Julphar
Management

Building a better working world

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

### Report on the Audit of the Consolidated Financial Statements

***Opinion***

We have audited the consolidated financial statements of Gulf Pharmaceuticals Industries P.S.C. (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

***Basis for Opinion***

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

***Key Audit Matters***

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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

**Report on the Audit of the Consolidated Financial Statements (continued)**

***Key Audit Matters (continued)***

| *Key Audit Matter* | *How our audit addressed the Key Audit Matter* |
|---|---|
| | |
| ***<u>Purchase Price Allocation for the acquisition of additional interest in Planet Pharmacies LLC ("Planet"):</u>***<br>As explained in note 13 to the accompanying consolidated financial statements, the Parent Company purchased the remaining 60% shareholding in Planet Pharmacies L.L.C ("Planet") at a consideration of AED 286 million, thereby obtaining 100% shareholding and control in Planet. The transaction was accounted for using the acquisition method.<br><br>Before the acquisition, the previously held 40% shareholding in Planet was accounted for using the equity method. The acquisition of the additional shareholding is to be classified as business combination achieved in stages according to IFRS 3 Business Combination which requires to remeasure the previously held equity interest in the Planet at its acquisition-date fair value as well as allocate the purchase price in recognizing the newly acquired assets acquired and liabilities assumed at fair values at the acquisition date.<br><br>The valuations of the previously held equity interest in Planet, its related assets acquired and liabilities assumed are complex and requires significant judgement in applying forecasts and assumptions made by management. The principal risk relates to the estimates of the fair values of the identifiable assets and acquired liabilities assumed on acquisition in preparing the purchase price allocation. The management engaged external valuation expert to complete the exercise based on several key assumptions.<br><br>Given the extent of the judgment in valuing the existing equity interest, net assets acquired, the purchase price allocation and the resulting bargain purchase, we believe that the fair value estimation carries significant risk of material misstatement. Accordingly, we have identified this to be a key audit matter. | Our procedures to test the management's assessment of the valuation and its related purchase price allocation ("PPA") included the following:<br>▪ We obtained and read the share purchase agreement ("SPA") to gain an understanding of the key terms and conditions and to assess the adequacy of the accounting treatment;<br><br>▪ We assessed the appropriateness of the accounting treatment applied to the acquisition;<br><br>▪ We assessed the competence of the Group's specialists and their objectivity and independence, to consider whether they were appropriately qualified to carry out an objective valuation;<br><br>▪ We engaged our internal valuation specialist to assist us in the audit of the purchase price allocation;<br><br>▪ We assessed the appropriateness of the valuation model and methodology used, the reasonableness of cash flow forecasts and the key assumptions applied in the calculation of the assets' and liabilities´ provisional fair values and checked the mathematical accuracy of the valuation model and its accounting outcomes;<br><br>▪ We obtained the list of intangible assets arising from the business combination and reviewed the evidence of their existence and valuation;<br><br>▪ We tested the calculation of the PPA and provisional gain on bargain purchase arising from the acquisition, being the difference between the total net consideration paid and the provisional fair value of the net assets acquired; and<br><br>▪ We assessed the adequacy of the disclosures in the consolidated financial statements. |

## Report on the Audit of the Consolidated Financial Statements (continued)

*Key Audit Matters (continued)*

| *Key Audit Matter* | *How our audit addressed the Key Audit Matter* |
|---|---|
| | |
| ***Impairment of non-financial assets:***<br>The Group performed a quantitative and qualitative impairment assessment on its cash generating units (CGUs). Management conducted the impairment test based on its assessment of indicators such as deteriorated operational performance of the CGUs in previous years and continued under utilization of some of the CGUs or assets. These indicators may imply that the carrying value of some of the non-financial assets of the Group might not be fully recoverable.<br>Management identified certain independent CGUs, for the purposes of impairment assessment of the Group. For the CGUs where impairment indicators exist, management estimated the recoverable amounts of the CGUs, being higher of fair value less costs of disposal ("FVLCD") and value in use ("VIU").<br><br>Given the significant judgments made by management to estimate the recoverable amount of the CGUs, performing audit procedures to evaluate the reasonableness of management's estimates and assumptions required a high degree of auditor judgment. Accordingly, we have identified this to be a key audit matter.<br><br>Refer to note 16 to the consolidated financial statements for the relevant disclosures and note 3.7 for key source of estimation uncertainty. | Our procedures to test the impairment analysis prepared by the management of the Group for the identified CGUs included the following:<br><br>▪ Where impairment indicators exist, we examined the methodology used by management to assess the recoverable amounts of the CGUs to determine its compliance with International Financial Reporting Standards (IFRS);<br><br>▪ We reviewed the assumptions used by the management of the Group in determining the fair value of the CGUs, including those completed by external valuers, and assessing whether appropriate valuation methodologies have been applied;<br><br>▪ Performed sensitivity analyses of significant assumptions used to evaluate the change in the fair value of the CGUs resulting from changes in the inputs and assumptions. We also assessed the historical accuracy of management's projections by comparing with the actual data; and<br><br>▪ Assessed the adequacy of the related disclosures in the notes to the consolidated financial statements. |

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF GULF PHARACEUTICALS INDUSTRIES P.S.C. (continued)**

**Report on the Audit of the Consolidated Financial Statements (continued)**

***Key Audit Matters (continued)***

| ***Key Audit Matter*** | ***How our audit addressed the Key Audit Matter*** |
|---|---|
| | |
| ***<u>Allowance for slow-moving inventories:</u>***<br>The gross balance of inventory as at 31 December 2021 is AED 718.4 million, against which provision for slow moving and obsolete inventory amounting to AED 55.7 million was made. The Group assesses the valuation of all inventory items including raw materials, packing materials, work-in process and finished goods at each reporting date. Obsolete, expired, slow-moving and defective inventories are written down to its estimated net realisable value if less than cost.<br><br>We have considered allowance for slow-moving inventories to be a key audit matter because it requires management's assessment of the estimates of whether a write down is required. Key parameter for the inventory valuation include expiration dates of the inventory. The measurement of any excess of cost over net realisable value is judgemental considering the involvement of a number of qualitative factors that are affected by market and economic conditions outside the Group's control.<br><br>Refer to note 3.7 to the consolidated financial statements for the key source of estimation uncertainty, note 18 for inventory disclosure and movement of allowance for slow-moving inventories. | As part of our audit, the procedures to test the management estimates of allowance for slow-moving and obsolete inventory included the following:<br><br>▪ We obtained through inquiry an understanding from the management and evaluated the design of the internal controls over Group's process pertaining to inventory valuation and allowance for slow-moving inventories. We also obtained an understanding about the management's assessment of inventory valuation, including the development of forecasted usage of inventories and consideration of how factors outside the Group's control might affect management's judgement related to valuation of slow-moving, expired, obsolete and defective inventory;<br><br>▪ We observed the inventory count performed by management's expert and assessed the physical existence and condition of selected samples of the inventories;<br><br>▪ We evaluated the significant assumptions taken by the management and tested the completeness of the underlying data used by management to value the slow-moving inventories;<br><br>▪ We performed analysis on specific provision made by the management for defective products based on reports pertaining to procurement of materials from the unqualified vendors and quality assessment of the finished goods;<br><br>▪ We tested the expiration dates of the inventory for a sample of inventory items based on the product expiration reports and prospective assumptions on their expiries. We compared the provision based on the report with provision recognised by the management;<br><br>▪ We tested the valuation of year-end inventory for a sample of selected inventory items, including review of judgements considered regarding obsolescence and net realizable value; |

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF GULF PHARACEUTICALS INDUSTRIES P.S.C. (continued)**

**Report on the Audit of the Consolidated Financial Statements (continued)**

***Key Audit Matters (continued)***

| *Key Audit Matter* | *How our audit addressed the Key Audit Matter* |
|---|---|
| | |
| | ▪ We recomputed the closing allowance for slow-moving inventory balance in the movement schedule and agreed it to the consolidated financial statements; and<br>▪ We also checked that appropriate disclosures have been made in the consolidated financial statements in compliance with the International Financial Reporting Standards. |

***Other Information***

The Board of Directors is responsible for the other information. The other information comprises the Directors Report and does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

***Responsibilities of Management and Board of Directors for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and in compliance with the applicable provisions of the Company's Articles of Association and UAE Federal Law No. (2) of 2015 (as amended), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors are responsible for overseeing the Group's financial reporting process.

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF GULF PHARACEUTICALS INDUSTRIES P.S.C. (continued)

### Report on the Audit of the Consolidated Financial Statements (continued)

***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements***

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

**Report on the Audit of the Consolidated Financial Statements (continued)**

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

**Report on Other Legal and Regulatory Requirements**

Further, as required by the UAE Federal Law No. (2) of 2015 (as amended), 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 Articles of Association of the Company and the UAE Federal Law No. (2) of 2015 (as amended);

iii) the Company has maintained proper books of account;

iv) the financial information included in the Board of Director's report is consistent with the books of account of the Company;

v) investments in shares and stocks during the year ended 31 December 2021 (if any), are disclosed in note 19 to the consolidated financial statements;

vi) note 29 reflects 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 Company has contravened during the year ended 31 December 2021, any of the applicable provisions of the UAE Federal Law No. (2) of 2015 (as amended) or Articles of Association of the Company which would materially affect its activities or its financial position as at 31 December 2021; and

viii) note 8 reflects the social contributions made during the year ended 31 December 2021.

For Ernst & Young

TS. Hari Gopal

Signed by:
Thodla Hari Gopal
Partner
Registration No.: 689

18 March 2022

Sharjah, United Arab Emirates

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2021

| | Notes | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue from contracts with customers | 4 | **1,143.2** | 573.0 |
| Cost of revenue | 5 | **(759.8)** | (387.9) |
| **Gross profit** | | **383.4** | 185.1 |
| Other income | 6 | **110.0** | 3.9 |
| Selling and distribution expenses | 7 | **(269.2)** | (332.2) |
| General and administrative expenses | 8 | **(182.7)** | (64.8) |
| Impairment of property, plant and equipment | 16 | **-** | (37.7) |
| Share of (loss)/profit of an associate | 12 | **(31.4)** | 6.1 |
| Loss on remeasurement of previously existing interest of an associate | 12 | **(7.9)** | - |
| Gain on bargain purchase | 13 | **59.3** | - |
| Gain/(loss) from investments and others | | **2.4** | (2.0) |
| **Operating profit/(loss)** | | **63.9** | (241.6) |
| Finance income | 9 | **2.4** | 2.1 |
| Finance costs | 10 | **(23.7)** | (34.0) |
| **Profit/(loss) before tax for the year from continuing operations** | | **42.6** | (273.5) |
| Net income tax and zakat (expense)/credit | 11 | **(1.1)** | 1.8 |
| **Profit/(loss) for the year from continuing operations** | | **41.5** | (271.7) |
| **Discontinued operations** | | | |
| Loss for the year from discontinued operations | 14(e) | **(10.1)** | (45.7) |
| Gain on disposal of subsidiaries | 14(a)(b) and (c) | **28.0** | - |
| | | **17.9** | (45.7) |
| **PROFIT/(LOSS) FOR THE YEAR** | | **59.4** | (317.4) |
| Profit/(loss) attributable to: | | | |
| Equity holders of the Parent | | **64.4** | (293.2) |
| Non-controlling interests | | **(5.0)** | (24.2) |
| | | **59.4** | (317.4) |
| Earnings per share: | | | |
| Basic and diluted | | | |
| Profit/(loss) per share attributable to the equity holders of the Parent (in UAE fils) | 15 | **5.6** | (27.7) |
| Earnings per share for continuing operations: | | | |
| Basic and diluted | | | |
| Profit/(loss) per share from continuing operations attributable to the equity holders of the Parent (in UAE fils) | 15 | **3.6** | (25.8) |

The attached notes 1 to 38 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

| | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|
| **Profit/(loss) for the year** | **59.4** | (317.4) |
| **Other comprehensive income** | | |
| *Other comprehensive income that may be reclassified to profit or loss in subsequent periods:* | | |
| Currency translation differences | **(7.3)** | (4.3) |
| Loss on cash flow hedge | **(1.5)** | - |
| **TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR** | **50.6** | (321.7) |
| Total comprehensive income/(loss) attributable to: | | |
| Equity holders of the Parent | **55.6** | (297.5) |
| Non-controlling interests | **(5.0)** | (24.2) |
| | **50.6** | (321.7) |

The attached notes 1 to 38 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December2021

| | *Notes* | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | **645.3** | 901.3 |
| Right of use assets | 32 | **103.7** | - |
| Intangible assets | 17 | **177.2** | 15.0 |
| Investment in an associate | 12 | **-** | 270.6 |
| Deferred tax asset | 11 | **0.5** | 1.8 |
| | | **926.7** | 1,188.7 |
| **Current assets** | | | |
| Inventories | 18 | **653.9** | 294.3 |
| Financial assets at fair value through profit or loss | 19 | **19.5** | 19.7 |
| Receivable from a divested subsidiary | 14(c) | **61.2** | - |
| Trade and other receivables | 20 | **581.9** | 647.7 |
| Bank balances and cash | 21 | **159.3** | 73.7 |
| | | **1,475.8** | 1,035.4 |
| Assets held for sale | 14(f) | **23.8** | 103.2 |
| | | **1,499.6** | 1,138.6 |
| **TOTAL ASSETS** | | **2,426.3** | 2,327.3 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 22 | **1,155.3** | 1,155.3 |
| Statutory reserve | 23 | **185.5** | 185.5 |
| Foreign currency translation reserve | | **(160.7)** | (146.5) |
| Cash flow hedging reserve | | **(1.5)** | - |
| Accumulated losses | | **(221.9)** | (293.2) |
| **Equity attributable to shareholders of the Parent** | | **956.7** | 901.1 |
| Non-controlling interests | 24 | **7.1** | 168.8 |
| **Total equity** | | **963.8** | 1,069.9 |

Sh Saqer Humaid Al Qasimi
Chairman

Dr. Essam Farouk
Chief Executive Officer

The attached notes 1 to 38 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At 31 December 2021

| | *Notes* | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Provision for employees' end of service benefits | 25 | **79.8** | 59.4 |
| Bank and other borrowings | 26 | **665.0** | 220.9 |
| Deferred tax liability | 11 | **4.0** | 3.7 |
| Lease liabilities | 32 | **67.8** | - |
| | | **816.6** | 284.0 |
| **Current liabilities** | | | |
| Trade payables and accruals | 27 | **550.1** | 338.5 |
| Bank and other borrowings | 26 | **54.4** | 390.9 |
| Deferred revenue | 28 | **-** | 207.0 |
| Derivative financial instrument | 37 | **1.5** | - |
| Lease liabilities | 32 | **31.9** | - |
| | | **637.9** | 936.4 |
| Liabilities directly associated with the assets held for sale | 14(f) | **8.0** | 37.0 |
| | | **645.9** | 973.4 |
| **Total liabilities** | | **1,462.5** | 1,257.4 |
| **TOTAL EQUITY AND LIABILITIES** | | **2,426.3** | 2,327.3 |

Sh Saqer Humaid Al Qassimi
Chairman

Dr. Essam Farouk
Chief Executive Officer

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

| | *Attributable to the equity holders of the Parent* | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | ***Share capital AED million*** | ***Statutory reserve AED million*** | ***Foreign currency translation reserve AED million*** | ***Cashflow hedge reserve AED million*** | ***Accumulated losses AED million*** | ***Total AED million*** | ***Non-controlling interests AED million*** | ***Total equity AED million*** |
| As at 1 January 2020 | 1,158.5 | 185.5 | (142.2) | - | (503.2) | 698.6 | 179.4 | 878.0 |
| Share capital reduction (note 22(a)) | (503.2) | - | - | - | 503.2 | - | - | - |
| Share capital issued against right shares (note 22(b)) | 500.0 | - | - | - | - | 500.0 | - | 500.0 |
| Loss for the year | - | - | - | - | (293.2) | (293.2) | (24.2) | (317.4) |
| Other comprehensive loss | - | - | (4.3) | - | - | (4.3) | - | (4.3) |
| Total comprehensive loss for the year | - | - | (4.3) | - | (293.2) | (297.5) | (24.2) | (321.7) |
| Movement in non-controlling interests (note 24) | - | - | - | - | - | - | 13.6 | 13.6 |
| As at 31 December 2020 | 1,155.3 | 185.5 | (146.5) | - | (293.2) | 901.1 | 168.8 | 1,069.9 |
| Profit for the year | - | - | - | - | 64.4 | 64.4 | (5.0) | 59.4 |
| Other comprehensive income | - | - | (7.3) | (1.5) | - | (8.8) | - | (8.8) |
| Total comprehensive income for the year | - | - | (7.3) | (1.5) | 64.4 | 55.6 | (5.0) | 50.6 |
| Movement in non-controlling interests (note 24) | - | - | - | - | - | - | 1.1 | 1.1 |
| Non-controlling interests derecognised on disposal of subsidiaries (note 24) | - | - | - | - | - | - | (136.5) | (136.5) |
| Transfer of foreign currency reserve to accumulated losses on disposal of a subsidiary | - | - | (6.9) | - | 6.9 | - | - | - |
| Other movement in non-controlling interests | - | - | - | - | - | - | (21.3) | (21.3) |
| **As at 31 December 2021** | **1,155.3** | **185.5** | **(160.7)** | **(1.5)** | **(221.9)** | **956.7** | **7.1** | **963.8** |

The attached notes 1 to 38 form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
For the year ended 31 December 2021

| | Notes | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit/(loss) before tax for the year before tax from continuing operations | | **42.6** | (273.5) |
| Profit/(loss) for the year from discontinued operations | | **17.9** | (45.7) |
| Loss before tax for the year | | **60.5** | (319.2) |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | 16(b) | **75.9** | 93.2 |
| Depreciation of right of use asset | 32 | **17.8** | - |
| Amortisation of intangible assets | 17 | **11.1** | 5.1 |
| Impairment of property, plant and equipment | 16(d) | **-** | 37.7 |
| Impairment of assets held for sale | | **-** | 0.5 |
| Share of loss/(profit) from investment in an associate | 14(e) | **31.4** | (6.1) |
| Gain on bargain purchase | 13(a) | **(59.3)** | - |
| Loss on remeasurement of previously existing interest of an associate | 12(d) | **7.9** | - |
| Other income on accrued liabilities | 6 | **(65.9)** | - |
| Gain on disposal of subsidiaries | 14 | **(28.0)** | - |
| Allowance for slow-moving inventories | 18(a) | **16.4** | 46.4 |
| Allowance/(reversal) for expected credit loss on receivables | 20(a) | **2.0** | 1.9 |
| Loss/(gain) on revaluation of financial asset at fair value through profit or loss (FVTPL) | 19 | **-** | 2.3 |
| Provision for employees' end of service benefits | 25 | **10.5** | 11.3 |
| Gain on rent concession | 32 | **(2.3)** | - |
| Finance income | 9 | **(2.4)** | (2.1) |
| Finance costs | 10 | **23.7** | 34.0 |
| | | **99.3** | (95.0) |
| **Changes in working capital** | | | |
| Trade and other receivables | | **349.8** | 18.6 |
| Inventories | | **(72.3)** | (47.1) |
| Trade payables, accruals and deferred revenue | | **(322.4)** | (32.8) |
| **Cash used in operations** | | **54.4** | (156.3) |
| Employees' end of service benefits paid | 25 | **(8.6)** | (11.9) |
| **Net cash flows from/(used in) operating activities** | | **45.8** | (168.2) |
| **INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment | 15 | **(44.4)** | (16.1) |
| Proceeds from sale of financial asset at FVTPL | | **0.2** | 0.1 |
| Proceeds from divestment of subsidiaries | | **93.8** | - |
| Consideration paid for acquisition of interest in a subsidiary - net | 13(c) | **(126.5)** | - |
| Deposits having maturities after three months and less than one year | | **(16.3)** | - |
| Finance income received | | **2.4** | 2.1 |
| **Net cash flows used in investing activities** | | **(90.8)** | (13.9) |

# CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the year ended 31 December 2021

| | Notes | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|---|
| **FINANCING ACTIVITIES** | | | |
| Proceeds from bank borrowings | 26(e) | **665.0** | 160.0 |
| Repayment of bank borrowings | 26(e) | **(550.0)** | (450.5) |
| Received from a divested subsidiary | | **51.0** | - |
| Increase in share capital | 22(b) | **-** | 500.0 |
| Increase in non-controlling interest | 23(b) | **1.1** | 13.6 |
| Repayment of lease liabilities | 32 | **(23.9)** | - |
| Interest paid | | **(21.7)** | (34.0) |
| **Net cash from financing activities** | | **121.5** | 189.1 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **76.5** | 7.0 |
| Currency translation differences | | **(7.2)** | 7.9 |
| Cash and cash equivalents at 1 January | | **73.7** | 58.8 |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** | 21 | **143.0** | 73.7 |

The attached notes 1 to 38 form an integral part of these consolidated financial statements.

## 1. ACTIVITIES

Gulf Pharmaceutical Industries P.S.C is a public shareholding company (the "Company" or "Parent 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 30 March 1980 and the Emiri decree No.9/80 on 4 May 1980.

The Company's registered office address is P.O. Box. 997 Ras Al Khaimah, United Arab Emirates (UAE). The Company commenced its commercial activities effective from November 1984. The Company's ordinary shares are listed on the Abu Dhabi Securities Exchange.

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

Information on the Group's structure is provided in note 2. Information on related party relationships of the Group is provided in note 29.

The consolidated financial statements were authorised for issue in accordance with the resolution of the Board of Directors on 17 March 2022.

## 2. GROUP INFORMATION

These consolidated financial statements reflect the operations of the Group as at 31 December 2021. By virtue of shareholders and other agreements, the Company holds directly or indirectly (through nominees) a controlling interest and has the power to govern the financial and operating policies in each of the subsidiaries listed below (collectively referred to as the "Group" and individually referred to as "Group Entities"):

| *Serial No.* | *Name of subsidiary* | *Country of incorporation* | *Percentage of Ownership 2021* | *2020* | *Subsidiary activity* |
|---|---|---|---|---|---|
| ***Direct subsidiaries*** | | | | | |
| 1. | Mena Cool Transportation F.Z.E. | United Arab Emirates | **100%** | 100% | Transportation |
| 2. | Julphar Pharmaceuticals P.L.C. (note (f)) | Ethiopia | **55%** | 55% | Manufacturing medicines |
| 3. | Gulf Inject L.L.C. (note (b)) | United Arab Emirates | - | 100% | Manufacturing medical supplies |
| 4. | Alpha Pharma L.L.C. (note (d)) | Kingdom of Saudi Arabia | - | 51% | Manufacturing medicines |
| 5. | Julphar SES L.L.C. (note (a)) | Egypt | **99.8%** | 99.8% | General trading |
| 6. | Julphar Diabetes L.L.C. (note (a)) | United Arab Emirates | **100%** | 100% | Manufacturing medicines |
| 7. | Julphar Company for Trading and Distribution L.L.C. (note (a)) | Egypt | **99.8%** | 99.8% | General trading |
| 8. | Mena Cool Machinery Trading (note (a)) | United Arab Emirates | **100%** | 100% | General trading |

## 2. GROUP INFORMATION (continued)

| *Serial No.* | *Name of subsidiary* | *Country of incorporation* | *Percentage of Ownership* **2021** | *2020* | *Subsidiary activity* |
|---|---|---|---|---|---|
| ***Direct subsidiaries (continued)*** | | | | | |
| 9. | Julphar Life L.L.C. (note (a)) | United Arab Emirates | **100%** | 100% | General trading |
| 10. | Julphar Pakistan Private Limited (note (a) and (g)) | Pakistan | **100%** | 100% | Distributor of Julphar's products in Pakistan |
| 11. | Julphar Tunisie (note (a)) | Tunisia | **99%** | 99% | Distributor of Julphar's products in Tunisia |
| 12. | Julphar Gulf Pharmaceuticals Kenya Limited (note (a)) | Kenya | **99.99%** | 99.99% | Distributor of Julphar's products in Kenya |
| 13. | Planet Pharmacies L.L.C (note (e)) | United Arab Emirates | **100%** | 40% (note (e)) | Distribution, wholesale and retail trading of medicines and cosmetic products. |
| ***Indirect subsidiaries*** | | | | | |
| *Subsidiary of Mena Cool Machinery Trading* | | | | | |
| 1. | Julphar General Trading L.L.C. (note (a) and (g)) | United Arab Emirates | **100%** | 100% | General trading |
| *Subsidiary of Julphar General Trading L.L.C.* | | | | | |
| 1. | Julphar Bangladesh Limited (note (b)) | Bangladesh | **-** | 50.5% | Manufacturing medicines |
| *Subsidiary of Julphar Company for Trading and Distribution L.L.C* | | | | | |
| 1. | Julphar Egypt Company L.L.C. (note (g)) | Egypt | **100%** | 100% | Distributors of Julphar's products in Egypt |
| *Subsidiary of Julphar Egypt Company L.L.C.* | | | | | |
| 1. | Julphar Plus (note (c) and (g)) | Egypt | **100%** | 100% | Manufacturing and distribution of medicines |
| *Subsidiaries of Planet Pharmacies L.L.C.* | | | | | |
| 1. | Julphar Drug Store Sharjah | United Arab Emirates | **100%** | 100% | Trading in medicines and medical equipment |
| 2. | Julphar Drug Store LLC (Abu Dhabi) | United Arab Emirates | **100%** | 100% | Trading in medicines and medical equipment |

**2. GROUP INFORMATION (continued)**

| *Serial No.* | *Name of subsidiary* | *Country of incorporation* | *Percentage of Ownership* ***2021*** | *2020* | ***Subsidiary activity*** |
|---|---|---|---|---|---|
| ***Indirect subsidiaries (continued)*** | | | | | |
| *Subsidiaries of Planet Pharmacies L.L.C. (continued)* | | | | | |
| 3. | Awafi Drug Store | United Arab Emirates | **100%** | 100% | Trading in medicines and medical equipment |
| 4. | Julphar Healthy Services | United Arab Emirates | **100%** | 100% | Facilities management services, health treatment undertaking services and hospitals management |
| 5. | Health First Investment LLC | United Arab Emirates | **100%** | 100% | Investment in commercial, industrial, and healthcare enterprises and their management. |
| 6. | Health First Pharmacy LLC (Abu Dhabi) | United Arab Emirates | **100%** | 100% | Trading in medicines and medical equipment |
| 7. | Kawakeb Al Saydaliyat Company LLC | Kingdom of Saudi Arabia | **100%** | 100% | Trading in medicines and medical equipment |
| 8. | Planet Pharmacies LLC | Sultanate of Oman | **100%** | 100% | Trading in medicines and medical equipment |
| 9. | Future Medical Co. Ltd | Sultanate of Oman | **100%** | 100% | Trading in medicines and medical equipment |
| *Subsidiaries of Julphar Healthy Services* | | | | | |
| 1. | Scientific Pharmacy LLC | Sultanate of Oman | **100%** | 100% | Trading in medicines and medical equipment |
| *Subsidiaries of Health First Investment LLC* | | | | | |
| 1. | Masafi Pharmacy | United Arab Emirates | **100%** | 100% | Trading in medicines and medical equipment |
| 2. | Aleilmia Pharmacy | United Arab Emirates | - | 100% | Trading in medicines and medical equipment |

**2. GROUP INFORMATION (continued)**

| *Serial No.* | *Name of subsidiary* | *Country of incorporation* | *Percentage of Ownership* **2021** | *2020* | *Subsidiary activity* |
|---|---|---|---|---|---|
| ***Indirect subsidiaries (continued)*** | | | | | |
| *Subsidiaries of Planet Pharmacies L.L.C. (continued)* | | | | | |
| *Subsidiary of Kawakeb Al Saydaliyat Company LLC* | | | | | |
| 1. | Zahrat Al Rawdah Pharmacies Limited Liability Company | Kingdom ofSaudi Arabia | **100%** | 100% | Retail and wholesale trading in medicines and cosmetics |
| *Subsidiaries of Zahrat Al Rawdah Pharmacies Limited Liability Company* | | | | | |
| 1. | Rawdah Jeddah Medical Establishment | Kingdom ofSaudi Arabia | **100%** | 100% | Retail and wholesale trading in medicines and cosmetics |
| 2 | Shahaad Zahrat Al Rawdah | Kingdom ofSaudi Arabia | **100%** | 100% | Retail and wholesale trading in medicines and cosmetics |
| *Subsidiaries of Future Medical Co. Ltd* | | | | | |
| 1. | Rukan Zahrat Al Rawdah Pharmacy Establishment | Kingdom ofSaudi Arabia | **100%** | 100% | Retail and wholesale trading in medicines and cosmetics |
| 2 | Rahiq Zahrat Al Rawdah Pharmacy Establishment | Kingdom ofSaudi Arabia | **100%** | 100% | Retail and wholesale trading in medicines and cosmetics |

a) These subsidiaries are not operational, and the financial results are immaterial to the overall consolidated financial statements of the Group.

b) During the year ended 31 December 2019, the management has classified these subsidiaries as disposal group held for sale (note 14). The sale of Julphar Bangladesh Limited and Gulf Inject L.L.C was completed during the year ended 31 December 2021 (note 14(a) and note 14(b)).

c) On 19 November 2020, shareholders of M/s Julphar Plus, through nominee agreement, agreed to transfer the absolute and full ownership to M/s Julphar Egypt Company LLC. This nominee arrangement has been accounted for as an acquisition of assets, as it does not constitute a business under IFRS 3 Business Combinations.

d) On 9 May 2021, a Sale and Purchase Agreement ("SPA") with M/s Cigalah Healthcare Company Limited ("Cigalah") was entered, whereby the Parent Company agreed to sell its 51% shareholding in Alpha Pharma L.L.C to Cigalah. For the year ended 31 December 2021, the results of Alpha Pharma L.L.C. has been presented as discontinued operations (note 14(c)).

e) On 8 July 2021, the Parent Company purchased remaining 60% shareholding in Planet Pharmacies L.L.C ("Planet") from M/s Pharma SPV Ltd and accordingly with effect from 1 July 2021 the results of Planet are consolidated in these interim condensed consolidated financial statements (note 12 and note 13).

f) During the year ended 31 December 2021, the management has classified the subsidiary as disposal group held for sale (note 14(d)).

g) Certain % of the Group's ownership stake in these entities is held through beneficial ownership arrangement with the legal owner.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Basis of preparation

The consolidated financial statements have been presented in United Arab Emirates Dirhams (AED), which is the Parent Company's functional currency and presentation currency of the consolidated financial statements. All values are rounded to the nearest million except where otherwise indicated.

The consolidated financial statements have been prepared on a historical cost basis except for financial assets measured at fair value through profit or loss (note 19) and derivative financial instruments measured at fair value.

The consolidated financial statements provide comparative information in respect of the previous period.

### 3.2 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and in compliance with the applicable provisions of the Articles of Association of the Company and UAE Federal Law No. (2) of 2015 (as amended).

Federal Decree-Law No. 26 of 2020 which amends certain provisions of Federal Law No. 2 of 2015 on Commercial Companies was issued on 27 September 2020 and the amendments came into effect on 2 January 2021.

### 3.3 Basis of consolidation

Subsidiaries are entities controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses 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. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary. Non-controlling interests (NCI) are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.3 Basis of consolidation (continued)

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent and to the non-controlling interests, even if this results in the non-controlling interest having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interests and other components of equity, while any resultant gain or loss is recognised in consolidated statement of comprehensive income. Any investment retained is recognised at fair value (note 14).

### 3.4 Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of new standards effective as of 1 January 2021 as mentioned below. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. These new standards and interpretations are disclosed below.

**a) New and amended standards effective for annual period beginning on or after 1 January 2021**

- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments and interpretations apply for the first time in 2021, but do not have any material impact on the consolidated financial statements of the Group.

### 3.5 Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The management is currently assessing the impact of adopting the below standards, amendments and interpretations on the Group's consolidated financial statements in the period of their initial application and intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

- Covid-19-Related Rent Concessions beyond 30 June 2021 – Amendments to IFRS 16 effective for annual periods beginning on or after 1 April 2021)
- IFRS 17 Insurance Contracts (effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17)
- Classification of Liabilities as Current or Non-current - Amendments to IAS 1(effective from annual periods beginning on or after 1 January 2023 and must be applied retrospectively)
- Reference to the Conceptual Framework – Amendments to IFRS 3 (effective from annual periods beginning on or after 1 January 2022 and apply prospectively)
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 (effective from annual periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment)
- Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37 (effective from annual periods beginning on or after 1 January 2022. The amendments must be applied prospectively to contracts for which an entity has not yet fulfilled all of its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). Earlier application is permitted and must be disclosed.)
- Definition of Accounting Estimates - Amendments to IAS 8 (effective from annual periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.)
- Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2 (effective from annual periods beginning on or after 1 January 2023with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.5 Standards issued but not yet effective (continued)

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (In December 2015, the IASB decided to defer the effective date of the amendments until such time as it has finalised any amendments that result from its research project on the equity method. The amendments must be applied prospectively. Early application is permitted and must be disclosed).
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12 (effective for annual periods beginning on or after 1 January 2023)

*Annual Improvements 2018-2020 cycle (issued in May 2020)*
- IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter (effective from annual periods beginning on or after 1 January 2022 with earlier application permitted)
- IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities (effective from annual periods beginning on or after 1 January 2022 with earlier application permitted)
- IAS 41 Agriculture – Taxation in fair value measurements (effective from annual periods beginning on or after 1 January 2022 with earlier application permitted)

### 3.6 Summary of significant accounting policies

**Business combinations and goodwill**
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets, including those assets that meet the definition of, and recognition criteria for intangible assets in IAS 38, and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss (note 13(a)).

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

For the business combination achieved in stages, the Group is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate (note 12(d)).

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.6 Summary of significant accounting policies (continued)

**Acquisition of controlling interest in an entity that is not a business**
When the Group acquires controlling interest in an entity that is not considered a business, the Group identifies and recognises the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for intangible assets in IAS 38) and liabilities assumed. Asset or a group of assets that does not constitute a business is recognised at cost, which is the amount of consideration paid or payable, plus any non-controlling interest recognised related to that asset or a group of assets. The cost of the Group is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Acquisition of an asset or a group of assets that does not constitute a business does not give rise to goodwill or gain on bargain purchase.

**Investment in an associate**
An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence is similar to those necessary to determine control over subsidiaries. The Group's investment in its associate is accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

The consolidated statement of profit or loss reflects the Group's share of the results of operations of the associate on its face. Unrealized gains and losses resulting from transactions between the Group and the associate is eliminated to the extent of the interest in the associate. At each reporting end, the investment in associate is considered for evidence of any impairment. In case of impairment the difference between carrying amount and fair value is recognised in consolidated statement of profit and loss.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the consolidated statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognizes the loss within 'Share of profit of an associate' in the consolidated statement of profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

**Current versus non-current classification**
The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is classified as current when it is:

- Expected to be realised or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.6 Summary of significant accounting policies (continued)**

**Current versus non-current classification (continued)**
All other assets are classified as non-current.

A liability is classified as current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

**Fair value measurement**
The Group measures financial instruments such as financial assets at fair value through profit or loss, and non-financial assets such as a disposal group held for sale, at fair value at each statement of financial position date.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the consolidated financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group's management determines the policies and procedures for both recurring fair value measurement, such as unquoted financial assets, and for non-recurring measurement, such as assets held for sale in discontinued operations.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.6 Summary of significant accounting policies (continued)

**Fair value measurement (continued)**
At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be remeasured or re-assessed as per the Group's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The management also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above. Fair value related disclosure for financial instruments that are measured at fair value or where fair values are disclosed, are summarised in note 34.

**Revenue from contracts with customers**
The Group is in the business of manufacturing and selling of medicines, drugs and various other types of pharmaceutical and medical compounds in addition to cosmetic compounds. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring then to the customer.

*Sale of goods*
Revenue from sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the medicines at the customer's location.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of goods, the Group considers the effects of variable consideration.

*Variable consideration*
If the variable consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Contracts with the sale of goods provide customers with a right to return the goods when the goods actually expire. The rights of return give rise to variable consideration.

*Rights of return*
The Group uses the expected value method to estimate the variable consideration. The Group then applies the requirements on constraining estimates of variable consideration in order to determine the amount of variable consideration that can be included in the transaction price and recognised as revenue. A refund liability is recognised for the goods that are expected to be returned (i.e., the amount not included in the transaction price). A right of return asset (and corresponding adjustment to cost of sales) is also recognised for the right to recover the goods from the customer.

*Loyalty discounts*
Some of the Group's subsidiaries have a loyalty programme for retail customers which allows customers to accumulate discounts on every purchase that can be redeemed against goods and services. The loyalty discounts give rise to a separate performance obligation as they provide a material right to the customer.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.6 Summary of significant accounting policies (continued)

**Revenue from contracts with customers (continued)**
***Customer option that provides a material right***
*Free goods*
Free goods are issued to customers as sales incentives. The free goods give rise to a separate performance obligation as they provide a material right to the customer that the customer would not receive without entering into that contract.

A portion of the transaction price is allocated to the separate performance obligation based on relative stand-alone selling price and recognised as deferred revenue until the free goods are provided. The Group recognises revenue for the option when those future goods or services are transferred to the customer.

***Contract balances***
*Trade receivables*
A receivable is recognised if an amount of consideration that is unconditional is due from the customer (i.e., only the passage of time is required before payment of the consideration is due).

*Contract liabilities*
A contract liability is recognised if a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

***Assets and liabilities arising from rights of return***
*Rights of return assets*
A right-of-return asset is recognised for the right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods and any potential decreases in value. The Group updates the measurement of the asset for any revisions to the expected level of returns and any additional decreases in the value of the returned products.

*Refund liabilities*
A refund liability is recognised for the obligation to refund some or all of the consideration received (or receivable) from a customer. The Group's refund liabilities arise from customers' right of return. The liability is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

**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 carrying amount.

**Value added tax**
Expenses and assets are recognised net of the amount of value added tax, except:

- When the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable; and
- When receivables and payables are stated with the amount of value added tax included

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

**Property, plant and equipment**
Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.6 Summary of significant accounting policies (continued)

**Property, plant and equipment (continued)**
The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Property, plant and equipment are depreciated on a straight-line basis over the assets' estimated useful lives as follows:

| | ***Life (years)*** |
|---|---|
| Buildings | 10 to 50 years |
| Plant and machinery | 3 to 17 years |
| Installations | 4 to 25 years |
| Motor vehicles | 3 to 10 years |
| Furniture and fixtures | 4 to 10 years |
| Tools and equipment | 3 to 10 years |
| Leasehold improvements | 4 to 25 years |

Capital work-in-progress is not depreciated and is stated at cost. When ready for intended use, capital work in progress is transferred to an appropriate category of property, plant and equipment and depreciated in accordance with Group's policy.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of comprehensive income when the asset is derecognised**.**

**Intangible assets**
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of profit or loss in the expense category consistent with the function of the intangible asset.

An intangible asset is derecognised upon disposal (i.e., at the date of the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss.

*Research and development costs*
Research and development costs are charged to the consolidated statement of profit or loss in the period in which they are incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.6 Summary of significant accounting policies (continued)

**Intangible assets (continued)**
*Research and development costs (continued)*
Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete, and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

*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 recognised 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.

*Trade names*
Trade names acquired are recognised initially at fair value. Trade names are assessed to have an indefinite useful life and are assessed for impairment at least on an annual basis.

*Customer and supplier relations*
Customer and supplier relations represent the value attributed to the long-term relationships held with existing customers and suppliers at the date of acquisition and are amortised over their useful economic life. Amortisation is calculated using the straight-line method to allocate the costs over its estimated useful life of 10 years and 15.5 years for customer relations and supplier relations respectively.

*Hospital relations*
Hospital relations represent the value attributed to the relationships with the hospitals and clinics for managing and operating the pharmacies within the hospitals and clinics. Amortisation is calculated using the straight-line method to allocate the costs over its estimated useful life of 4.5 years.

*Loyalty program*
Loyalty program is operated by the Group to generate a base of customers to provide the Group with repeat sales over the forecast period. Amortisation is calculated using the straight-line method to allocate the costs over its estimated useful life of 6.5 years.

*Computer Software*
Acquired computer software is capitalized and it amortised using the straight-line basis over the useful life of 3 years.

| | ***Useful lives*** | ***Amortisation method*** | ***Internally generated or acquired*** |
|---|---|---|---|
| Licenses and permits | 5 to 20 years | Amortised on a straight-line basis | Acquired |
| Trade name | Infinite | No amortisation | Acquired |
| Customer and supplier relations | 10 to 15.5 years | Amortised on a straight-line basis | Acquired |
| Hospital relations | 4.5 years | Amortised on a straight-line basis | Acquired |
| Loyalty program | 6.5 years | Amortised on a straight-line basis | Acquired |
| Computer software | 3 years | Amortised on a straight-line basis | Acquired |

**Inventories**
Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for, as follows:

- Raw materials and packing materials: purchase cost on a first-in/first out basis; and
- Finished goods and work-in-progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity but excluding borrowing costs.

Inventories are initially valued at standard cost, which approximates to historical cost determined on a moving average basis. At the reporting date, the management determines the variances between the actual cost and the standard cost of the inventory items and recognise the variances within the cost of goods sold.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.6 Summary of significant accounting policies (continued)

**Inventories (continued)**
Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Raw materials and packing materials held for use in the production of inventories are not written down below cost if the final finished goods in which they are to be used is expected to be sold at or above cost.

The Group reviews the inventory quantities on hand and recognises a provision for those inventories no longer deemed to be fully recoverable. The cost of inventories may no longer be recoverable if those inventories are slow moving, discontinued, defective due to quality issues, damaged, if they become obsolete, expired, or if their selling prices or estimated forecast of product demand decline. If actual market conditions are less favourable than previously projected, or if liquidation of the inventory which is no longer deemed to be fully recoverable is more difficult than anticipated, additional provisions are recognised.

*Goods-in-transit*
Goods-in-transit are valued at purchase price, freight value and other charges incurred thereon up to the reporting date.

*Spare parts and consumables*
Spare parts and consumables that are acquired as part of an equipment purchase and only to be used in connection with this specific equipment and are integral to the functionality of the related equipment are capitalised and amortised as part of that equipment when used. In all other cases, spare parts and consumables are carried as inventory and recognised in the consolidated statement of profit or loss as consumed.

**Impairment of non-financial assets**
The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded entities or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group’s cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the consolidated statement of profit or loss and other comprehensive income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of profit or loss and other comprehensive income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.6 Summary of significant accounting policies (continued)**

**Leases**

*Right-of-use assets*

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term as follows.

| | ***Life (years)*** |
|---|---|
| Offices and pharmacies | 10 to 50 years |

Right-of-use assets are subject to impairment.

*Lease liabilities*

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

*Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the lease of low-value assets recognition exemption to leases that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

**Financial instruments - initial recognition and subsequent measurement**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

**i) Financial assets**

***Initial recognition and measurement***

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.6 Summary of significant accounting policies (continued)**

**Financial instruments - initial recognition and subsequent measurement (continued)**
**i) Financial assets (continued)**
***Initial recognition and measurement (continued)***
In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include bank balances, trade receivables, due from related parties, receivable from divested subsidiary, other receivables and financial assets at fair value though profit or loss.

***Subsequent measurement***
For purposes of subsequent measurement, financial assets are classified in the following categories:

- Financial assets at amortised cost
- Financial assets at fair value through OCI with recycling of cumulative gains and losses
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition
- Financial assets at fair value through profit or loss

*Financial assets at amortised cost*
This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's bank balances, trade receivables, receivable from a divested subsidiary, due from related parties and other receivables are financial assets measured at amortised cost.

*Financial assets at fair value through profit or loss*
Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of profit or loss.

This category includes listed equity investments and unquoted investments which the Group had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments and unquoted investments are also recognised as revenue in the consolidated statement of profit or loss when the right of payment has been established.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.6 Summary of significant accounting policies (continued)**

**Financial instruments - initial recognition and subsequent measurement (continued)**
**i) Financial assets (continued)**
***Subsequent measurement (continued)***
Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of profit or loss.

Dividends on investments are recognised as other income in the consolidated statement of profit or loss when the right of payment has been established.

***Derecognition***
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

***Impairment of financial assets***
The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk but instead recognizes a loss allowance based on lifetime ECL's at each reporting date. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The expected credit losses are recognised in the consolidated statement of comprehensive income.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.6 Summary of significant accounting policies (continued)**

**Financial instruments - initial recognition and subsequent measurement (continued)**
**ii) Financial liabilities**
***Initial recognition and measurement***
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include due to related parties, trade payables and accruals, bank borrowings and lease liabilities.

***Subsequent measurement***
The measurement of financial liabilities depends on their classification, as described below:

*Financial liabilities at fair value through profit or loss*
The Group has no financial liability classified at fair value through profit or loss.

*Financial liabilities at amortised cost (loans and borrowings)*
This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the consolidated statement of comprehensive income when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the consolidated statement of comprehensive income.

This category generally applies to bank borrowings, due to related parties, trade payables, accruals and lease liabilities.

***Derecognition***
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of comprehensive income.

**iii) Offsetting of financial instruments**
Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and the Group intends to settle on a net basis.

**Derivative financial instruments and hedge accounting**
***Initial recognition and subsequent measurement***
The Group uses derivative financial instruments, such as interest rate swaps, to hedge its interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as:
- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment
- Hedges of a net investment in a foreign operation

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.6 Summary of significant accounting policies (continued)

**Derivative financial instruments and hedge accounting (continued)**
***Initial recognition and subsequent measurement (continued)***
The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

*Cash flow hedges*
The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

**Cash and cash equivalents**
Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and on hand and short-term highly liquid deposits with a maturity of three months or less, that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits.

**Employee's end of service benefits**
*Employees' benefits to non-UAE nationals' employees*
Accruals are 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, 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.

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.

*Pension and social security policy with the UAE*
The Group is a member of the pension scheme operated by the federal Pension General and Social Security Authority. Contributions for eligible UAE national employees are made and charged to the consolidated statement of profit or loss in accordance with the provisions of the applicable law. The Group has no further payment obligations once the contribution has been paid. The Group has categorized the contribution policy as defined contribution plan.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.6 Summary of significant accounting policies (continued)**

**Taxes**

*Current tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

*Deferred tax*

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss,
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss,
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

*Zakat*

Zakat is calculated by the Group in accordance with the Regulations of the General Authority of Zakat and Tax ("GAZT") in the Kingdom of Saudi Arabia and on an accrual basis. The provision is charged to the consolidated statement of profit or loss. Differences, if any, resulting from the final assessments are adjusted in the year of their finalisation.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.6 Summary of significant accounting policies (continued)

**Foreign currencies**
The Group's consolidated financial statements are presented in AED, which is also the Parent's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

*i) Transactions and balances*
Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recognised in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

In determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Group initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of advance consideration.

*ii) Group companies*
On consolidation, the assets and liabilities of foreign operations are translated into AED at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

**Non-current assets held for sale and discontinued operations**
The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.6 Summary of significant accounting policies (continued)

**Non-current assets held for sale and discontinued operations (continued)**
Assets and liabilities classified as held for sale are presented separately as current items in the consolidated statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations
- Is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the consolidated statement of profit or loss.

**Borrowing costs**
Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready are capitalised as part of the cost of that asset. Other borrowing costs are recognised as an expense in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

**Provisions**
Provisions are recognised when the Group has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured and presented in the consolidated statement of profit or loss net of any reimbursement.

**Cash dividend**
The Company recognises a liability to pay a dividend when the distribution is authorised and the distribution is no longer at the discretion of the Company. As per the corporate laws of UAE, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

**Contingencies**
Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

### 3.7 Significant accounting judgements, estimates and assumptions

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that may affect the reported amount of revenues, expenses, assets and liabilities and the accompanying disclosures and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

**Judgements**
In the process of applying the Group's accounting policies, management has made the following judgements which have the most significant effect on the amounts recognised in the consolidated financial statements:

***Spare parts and consumables as inventory***
The Group has determined that it has very large number of minor items of spare parts and consumables and concluded that these items are recognised as inventory. These are expensed out when consumed.

***Determining the lease term of contracts with renewal and termination options – Group as lessee***
The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.7 Significant accounting judgements, estimates and assumptions (continued)**

**Judgements (continued)**
***Determining the lease term of contracts with renewal and termination options – Group as lessee (continued)***
The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

The Group included the renewal period as part of the lease term for leases of plant and machinery with shorter non-cancellable period (i.e., three to five years). The Group typically exercises its option to renew for these leases because there will be a significant negative effect on production if a replacement asset is not readily available. The renewal periods for leases of plant and machinery with longer non-cancellable periods (i.e., 10 to 15 years) are not included as part of the lease term as these are not reasonably certain to be exercised. In addition, the renewal options for leases of motor vehicles are not included as part of the lease term because the Group typically leases motor vehicles for not more than five years and, hence, is not exercising any renewal options. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

***Assets held for sale***
During the year ended 31 December 2021, the Group has signed a term sheet with a third party for the sale of its 55% of shareholding of Julphar Pharmaceutical PLC ("Julphar Ethiopia"). The Board considered the subsidiary to meet the criteria to be classified as held for sale at that date for the following reasons:

- Julphar Ethiopia is available for immediate sale and can be sold to the buyer in its current condition
- The actions to complete the sale were initiated and expected to be completed within one year from the date of initial classification
- A potential buyer has been identified and negotiations as at the reporting date are at an advance stage

For more details on discontinued operations refer note 14.

***Classification of financial assets***
The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The Group makes an assessment of the objective of a business model in which an asset is held because this best reflects the way the business is managed, and information is provided to the management. The information considered included:

- the stated policies and objectives for the financial asset and the operation of those policies in practise;
- how the performance of the financial asset is evaluated and reported to the Group's management;
- the risks that affect the performance of the business mode (and the financial assets held within that business model) and how those risks are managed; and
- the frequency, volume and time of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

***Distinguishing between business combination and acquisition of an asset or a group of assets***
The Group distinguishes a transaction or other event as business combination i.e. obtaining control of one or more businesses, and acquisition of an asset or a group of assets, based on management's judgement on whether a particular set of assets and activities consist of inputs and processes applied to those inputs, which together are or will be used to create outputs.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.7 Significant accounting judgements, estimates and assumptions (continued)

**Estimates and assumptions**
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

***Provision for stock losses***
The Group's management determines the amount of provision for stock as follows:

1. Raw materials - Raw materials with near expiry are assessed for use in the production or for any alternative options. If the raw materials are deemed not to be usable, provision for expiry is recorded in the consolidated statement of financial position.

2. Packaging materials - Packaging materials which are for discontinued products or inactive are assessed for any other alternative options. If the packaging materials are deemed not to be usable, provision is recorded in the consolidated statement of financial position.

3. Finished Goods - Finished goods with less than 1 year shelf life are deemed not to be usable or sold in the market as per Ministry regulations. Full provision for finished goods with less than 1 year shelf life is recorded in the consolidated statement of financial position.

4. Other inventories – Includes goods in transit, consumables, work-in-progress, and spare parts are assessed for obsolescence or for any other alternative uses. If these are deemed not to be usable/obsolete, provision is recorded in the consolidated statement of financial position.

At the reporting date, provision for stock losses were AED 55.7 million (2020: AED 56.0 million) (note 18). Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the consolidated statement of profit or loss.

***Fair value of financial instruments***
When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the dividend growth mode (DGM). The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

***Impairment of non-financial assets***
Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculations are based on available data from binding sales transactions, for similar assets or observable market prices less incremental costs of disposing of the asset and using cost approach adjusted for obsolescence that market participant buyers would consider. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested.

***Useful lives of property, plant and equipment***
The Group’s management determines the estimated useful lives of its property, plant and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. The Group’s management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the Group’s management believes the useful lives differ from previous estimates.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.7 Significant accounting judgements, estimates and assumptions (continued)

**Estimates and assumptions (continued)**

***Provision for expected credit losses on financial assets***

When measuring ECL, probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

When measuring ECL, the Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Operation's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

***Deferred tax***

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits.

***Revenue recognition and 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 sometime 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.

Deferred revenue is computed on the basis of estimated standalone selling price. The estimated standalone selling price is dependent on value of debit notes received and the estimated standalone selling prices of goods sold. An increase or decrease in the estimated standalone selling price by 3% will decrease / increase the loss for the year with a corresponding decrease / increase in the amount of deferred revenue as at 31 December 2021 by AED nil (2020: AED 2.2 million).

In respect of sales to a distributor, a key consideration in respect of revenue recognition is to determine whether the Group has effectively transferred the control in goods to the distributors. Accordingly, in the Group's judgement the revenue is recognized when the control is effectively transferred to distributor on account of following:

a) the distributor is primarily responsible for fulfilling the promise to provide the specified good or service to the end customers;
b) the distributor has inventory risk before the specified good or service has been transferred to the end customer or after transfer of control to the customer; and
c) the distributor has discretion in establishing the price for the specified good or service.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.7 Significant accounting judgements, estimates and assumptions (continued)

**Estimates and assumptions (continued)**
***Estimating sales return liability***
The Group estimates the sales return liability based on historic data of past 3 years by analysing sales return on a monthly basis and by using a statistical model for forecasting sales returns. The model uses the historical return data of each product to come up with expected return percentages. These percentages are applied to determine the expected value of the sales return liability.

***Estimating the incremental borrowing rate for lease***
The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The Group estimates the IBR using observable inputs (such as market interest rates etc.) when available and is required to make certain entity-specific estimates (such as the Group's economic environment).

***Useful lives of intangible assets***
The Group's management estimates the useful lives of intangible assets based on the period during which the assets are expected to be available for use and also estimates their recoverability to assess if there has been an impairment. The amounts and timing of recorded expenses for amortization and impairments of intangible assets for any period are affected by these estimates. The estimates are reviewed at least annually and are updated if expectations change as a result of commercial obsolescence, generic threats and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's intangible assets in the future.

## 4. REVENUE FROM CONTRACTS WITH CUSTOMERS

### 4.1 Disaggregated revenue information

| | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|
| Gross sales | **1,208.6** | 660.6 |
| Less: commission | **(40.6)** | (39.5) |
| Net Sales | **1,168.0** | 621.1 |
| Less: net sales relating to discontinued operations (note 14(e)) | **(24.8)** | (48.1) |
| | **1,143.2** | 573.0 |

The Group derives its revenue from sale of medicines, drugs and various other types of pharmaceuticals and medical compounds in addition to cosmetic compounds. The revenue is recognised on the basis of at "point in time" revenue recognition criteria. The geographical split of gross revenue is as follows:

| | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|
| **Geographic information** | | |
| UAE | **356.3** | 91.2 |
| Other GCC countries | **330.9** | 136.0 |
| Other countries | **480.8** | 393.9 |
| | **1,168.0** | 621.1 |
| Less: net sales relating to discontinued operations (note 14(e)) | **(24.8)** | (48.1) |
| | **1,143.2** | 573.0 |

## 4. REVENUE FROM CONTRACTS WITH CUSTOMERS (continued)

### 4.2 Contract balances

| | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|
| **Contract assets** | | |
| Trade receivables (note 20) | **477.0** | 433.2 |
| Due from a related party (note 20) | **-** | 174.2 |
| | **477.0** | 607.4 |

| | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|
| **Contract liabilities** | | |
| Refund liabilities (note 27) | **34.5** | 128.3 |
| Rebate and accruals (note 27) | **23.3** | 17.4 |
| Advances from customers (note 27) | **8.5** | 31.0 |
| Deferred revenue (note 28) | **-** | 207.0 |
| Commissions payable (note 27) | **39.0** | 35.4 |
| | **105.3** | 419.1 |

### 4.3 Performance obligations

The performance obligation on sales of goods is satisfied upon delivery and payment is generally due within 6 to 12 months from delivery.

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are, as follows (note 28):

| | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|
| Within one year | **-** | 207.0 |

The Group generally grants its customers the right of return within a period of 14 days from the date of purchase only for non-medicine items in retail sales. However, the Group does not record a provision for sales returns and allowance as these returns are insignificant to overall consolidated financial statements.

## 5. COST OF REVENUE

| | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|
| Raw materials consumed and third-party purchases | **526.1** | 189.6 |
| Salaries and wages | **101.7** | 97.6 |
| Depreciation of property, plant and equipment (note 16) | **63.5** | 65.6 |
| Consumption of laboratory items | **55.8** | 28.7 |
| Electricity and water | **27.2** | 27.8 |
| Others | **7.3** | 8.1 |
| | **781.6** | 417.4 |
| Less: cost of sales relating to discontinued operations (note 14(e)) | **(21.8)** | (29.5) |
| | **759.8** | 387.9 |

## 6. OTHER INCOME

| | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|
| Liabilities written back (note below and note 20(b)) | **65.9** | - |
| Retail space listing income | **27.5** | - |
| Rent concession (note 32) | **2.3** | - |
| Cafeteria operating income | **1.3** | 1.3 |
| Exchange gain | **0.7** | 1.9 |
| Sale of raw materials | **-** | 0.2 |
| Other income | **19.4** | 3.3 |
| | **117.1** | 6.7 |
| Less: other income relating to discontinued operations (note 14(e)) | **(7.1)** | (2.8) |
| | **110.0** | 3.9 |

During the year ended 31 December 2021, the associate of the Parent Company waived its rights in relation to the bonus goods and other compensations. As a result, the Group released accruals in the amount of AED 32.8 million on the write back of liabilities. In addition, the Parent Company recorded it's 40% share of loss of the associate company which resulted in nil impact in the consolidated financial statements of the Group.

## 7. SELLING AND DISTRIBUTION EXPENSES

| | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|
| Salaries, wages and related expenditures | **154.6** | 128.2 |
| Advertisement and promotion | **29.6** | 10.9 |
| Freight charges | **16.9** | 11.7 |
| Research and development expenditures | **14.2** | 19.8 |
| Sales expenses | **10.6** | 73.0 |
| Penalties on sales | **8.3** | 25.4 |
| Rent expense (note 32) | **7.7** | - |
| Scrapping | **5.2** | 46.7 |
| Product registration | **3.9** | 3.8 |
| Marketing materials | **2.3** | 9.4 |
| Depreciation of property, plant and equipment (note 16) | **2.2** | 3.3 |
| Others | **17.2** | 16.4 |
| | **272.7** | 348.6 |
| Less: selling and distribution expenses relating to discontinued operations (note 14(e)) | **(3.5)** | (16.4) |
| | **269.2** | 332.2 |

## 8. GENERAL AND ADMINISTRATIVE EXPENSES

| | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|
| Salaries, wages and related expenditures | **83.8** | 35.9 |
| Depreciation of right of use assets (note 32) | **17.8** | - |
| Legal and professional | **20.2** | 15.4 |
| Amortisation (note 17) | **11.1** | 5.1 |
| Depreciation of property, plant and equipment (note 16) | **10.2** | 24.3 |
| Value added tax expense | **9.5** | 6.0 |
| Utilities | **5.6** | 5.1 |
| Services | **4.5** | 5.5 |
| Bank charges and commission | **4.0** | 1.5 |
| Transportation and visa charges | **2.5** | 2.5 |
| Loss on exchange | **1.8** | 1.6 |
| Technical know-how | **0.5** | 1.5 |
| Donation expenses (note below) | **-** | 0.1 |
| Others | **24.9** | 7.8 |
| | **196.4** | 112.3 |
| Less: general and administrative expenses relating to discontinued operations (note 14(e)) | **(13.7)** | (47.5) |
| | **182.7** | 64.8 |

Donation expenses represent the expenses incurred by the Group as part of its corporate social responsibility activities.

## 9. FINANCE INCOME

| | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|
| Interest income on fixed deposits | **2.5** | 2.2 |
| Less: finance income relating to discontinued operations (note 14(e)) | **(0.1)** | (0.1) |
| | **2.4** | 2.1 |

## 10. FINANCE COSTS

| | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|
| Interest on bank overdraft | **3.3** | 8.4 |
| Interest on lease liabilities (note 32) | **2.4** | - |
| Interest on bank and other loans | **18.4** | 27.7 |
| | **24.1** | 36.1 |
| Less: finance cost relating to discontinued operations (note 14(e)) | **(0.4)** | (2.1) |
| | **23.7** | 34.0 |

## 11. INCOME TAX AND ZAKAT

The major components of income tax expense for the years ended 31 December 2021 and 2020 are:

| | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|
| **Current income tax** | | |
| Current year | **3.3** | 0.4 |
| **Deferred tax charge/(credit)** | | |
| Current year charge/(credit) | **0.5** | (1.8) |
| Total income tax charge/(credit) reported in the consolidated statement of profit or loss | **3.8** | (1.4) |
| Less: income tax and zakat expense relating to discontinued operations (note 14(e)) | **(2.7)** | (0.4) |
| | **1.1** | (1.8) |

Component of deferred tax are as follows:

| | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|
| Difference in accounting and tax base of intangible assets | **20.9** | 16.4 |
| **Deferred tax liability** | **4.0** | 3.7 |
| Deferred tax asset mainly on account temporary differences | **0.5** | 1.8 |
| **Total deferred tax liabilities, net** | **(3.5)** | (1.9) |

A significant part of the Group's operations are carried out in non taxable jurisdictions and presently the Group's operations in the UAE are not subject to corporation tax. However, the Group's operations in other countries including Egypt, Kingdom of Saudi Arabia, Sultanate of Oman and Ethiopia are subject to taxation at the rates applicable in the respective countries. As income tax relates only to certain overseas subsidiaries companies and at varying rates, providing information on effective tax rates is not relevant.

## 12. INVESTMENT IN AN ASSOCIATE

a) On 8 July 2021, the Parent Company purchased the remaining 60% shareholding in Planet Pharmacies L.L.C ("Planet"), which is engaged in the distribution, wholesale and retail trading of medicines and cosmetic products in UAE, KSA and Oman, thereby obtaining a 100% shareholding and control of Planet (note 13). As a result of the 100% acquisition of Planet by Julphar, Planet has become one of the guarantors to the lenders under the AED 1.01billion Debt Restructuring Facility and is bound by terms of the facility. Planet signed the Guarantor Accession Deed in this respect on 20 October 2021 because of which Planet agrees to perform all obligations expressed to be assumed by a guarantor under the facility (note 26(b)(i)).

b) Before obtaining control, the Group had a 40% shareholding in Planet which was accounted for using the equity method as follows:

| *Name of associate* | *Place of incorporation and operation* | *Percentage of ownership* | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|---|---|
| Planet Pharmacies L.L.C. | United Arab Emirates | 40% | - | 270.6 |

**12. INVESTMENT IN AN ASSOCIATE (continued)**

c) Movements in the account of net investment in an associate during the year were as follows:

| | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|
| Balance at the beginning of the year | **270.6** | 264.5 |
| Share of associate's consolidated (loss)/profit for the period from 1 January to 30 June/year | **(31.4)** | 6.1 |
| Loss on remeasurement of previously existing interest of an associate (note 12(d)) | **(7.9)** | - |
| Investment in an associate derecognized on obtaining control (note 13(a)) | **(231.3)** | - |
| At the end of the year | **-** | 270.6 |

d) The Parent Company's investment in Planet was revalued at AED 231.3 million as at 1 July 2021 resulting in an impairment loss of AED 7.9 million as compared to its carrying value of AED 239.2 as of that date. Thereafter the investment in an associate was derecognized and it was consolidated in these consolidated financial statements with effect from 1 July 2021 (note 13(a)).

e) The following table illustrates the summarised consolidated financial information of Group's Investment in Planet based on management accounts.

| | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|
| Current assets | - | 819.4 |
| Non-current assets | - | 561.2 |
| Current liabilities | - | (379.7) |
| Non-current liabilities | - | (102.9) |
| Equity | - | 898.0 |
| Group's share in equity 40% (2020: 40%) | - | 359.2 |

f) The following table illustrates the summarised consolidated financial information of Group's Investment in Planet based on management accounts (continued):

| | ***2021* AED millions*** | *2020 AED millions* |
|---|---|---|
| Revenue from contracts with customers | **449.7** | 846.5 |
| Cost of sales | **(352.6)** | (658.1) |
| Administrative expenses | **(188.0)** | (160.1) |
| Finance (cost)/income | **(1.4)** | (3.9) |
| (Loss)/profit for the period/year | **(92.3)** | 24.4 |
| Group's share of (loss)/profit for the period/year | **(31.4)** | 6.1 |

** Represents for the period from 1 January 2021 to 30 June 2021*

**12. INVESTMENT IN AN ASSOCIATE (continued)**

g) Reconciliation between equity accounting and movement on investment in associate is as follows:

| | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|
| At 31 December | - | 270.6 |
| Unrealised profit on assets contributed towards acquisition and establishment of associate | - | 88.6 |
| Closing balance | - | 359.2 |

**13. BUSINESS COMBIINATION**

a) ***Acquisition of additional shareholding Planet Pharmacies L.L.C***

On 8 July 2021, the Parent Company purchased remaining 60% shareholding in Planet Pharmacies L.L.C ("Planet") at a consideration of AED 286 million, thereby obtaining 100% shareholding and control in Planet.

This further acquisition of 60% shareholding was made as part of strategic efforts to further increase shareholder value by extending Julphar's existing manufacturing and marketing capabilities into the distribution and retail segments across UAE, KSA and Oman. The acquisition has been accounted for using the acquisition method. The consolidated financial statements include the results of Planet for the six months period from the acquisition date (i.e. 1 July 2021).

The purchase of remaining 60% shareholding in Planet resulted in the gain on bargain purchase of AED 59.3 million as follows:

| | ***AED millions*** |
|---|---|
| Acquisition-date fair values of identifiable net assets acquired (note 13(b)) | **576.6** |
| Purchase consideration transferred (note 13(c)) | **(286.0)** |
| Acquisition-date fair value of initial 40% interest (note 12(d)) | **(231.3)** |
| **Gain on bargain purchase** | **59.3** |

**13. BUSINESS COMBIINATION (continued)**

b) ***Assets acquired and liabilities assumed***

i) The fair values of the identifiable assets and liabilities of Planet as at the date of acquisition were:

| | ***Fair value recognized on acquisition AED millions*** |
|---|---|
| **Assets** | |
| Property, plant and equipment (note 16) | **21.0** |
| Right of use assets (note 32) | **109.1** |
| Intangible assets (note 17 and (ii) below) (provisional) | **173.3** |
| Deferred tax asset | **0.5** |
| Inventories | **309.2** |
| Trade and other receivables (note (iii) below) | **403.7** |
| Cash and cash equivalents | **159.5** |
| | **1,176.3** |
| **Liabilities** | |
| Provision for employees' end of service benefits (note 25) | **20.4** |
| Deferred tax liability | **1.4** |
| Lease liabilities (note 32) | **112.6** |
| Trade payables and accruals | **462.9** |
| Bank borrowings (note 26(e)) | **2.4** |
| | **599.7** |
| **Total identifiable net assets at fair value** | **576.6** |

ii) The fair value of the intangible assets acquired has not been completed by the date these consolidated financial statements were approved for issue by the Board of Directors. Thus, intangible assets may need to be subsequently adjusted, with a corresponding adjustment to the gain on bargain purchase prior to 8 July 2022 (one year after the transaction).

iii) The fair value of the trade receivables amounts to AED 365.8 million. The gross amount of trade receivables is AED 410.6 million and it is expected that the full contractual amounts can be collected.

iv) From the date of acquisition, Planet contributed AED 444.2 million of revenue and AED 22.2 million to profit before tax from continuing operations of the Group. If the business combination had taken place at the beginning of the year, revenue from continuing operations would have been AED 893.9 million and profit before tax from continuing operations for the Group would have been AED 72.8 million (before consolidation eliminations).

c) ***Analysis of cashflows on acquisition***

| | ***AED millions*** |
|---|---|
| Net cash acquired with the subsidiary | **159.5** |
| Consideration paid for acquisition of additional interest | **(286.0)** |
| **Net cash flow on acquisition** | **(126.5)** |

## 14. DISPOSAL GROUPS HELD FOR SALE AND DISCONTINUED OPERATIONS

### a) Gulf Inject L.L.C.

During the year ended 31 December 2019, the Board of Directors of the Company decided to sell Gulf Inject L.L.C. ("Gulf Inject"), a wholly owned subsidiary.

During the year ended 31 December 2021, the Group entered into a Sale & Purchase Agreement with respect to its investment in Gulf Inject. The legal formalities relating to the disposal of Gulf Inject have been fulfilled and the sale of Gulf Inject was completed during the year ended 31 December 2021. Accordingly, a gain of AED 19.0 million was recorded by the Group on the derecognition.

With Gulf Inject being classified as a discontinued operation, the results of Gulf Inject has not been presented in the segment information (note 31).

The net cash flows generated/ (incurred) by Gulf Inject are as follows:

| | ***2021**** <br> ***AED*** <br> ***millions*** | *2020* <br> *AED* <br> *millions* |
|---|---|---|
| Operating | **10.3** | 10.2 |
| Investing | **(9.1)** | (0.6) |
| Financing | **(0.1)** | (7.4) |
| **Net cash inflow** | **1.1** | 2.2 |

** Represents eight months of activity prior to the sale on 31 August 2021.*

***Basic and diluted loss per share***
Basic and diluted loss per share is disclosed in note 15.

### b) Julphar Bangladesh Limited

During the year ended 31 December 2019, the Board of Directors of the Company decided to sell Julphar Bangladesh Limited ("Julphar Bangladesh"). The Company owns 50.5% of Julphar Bangladesh.

During the year ended 31 December 2020, the Group entered into a Sale & Purchase Agreement with respect to its investment in Julphar Bangladesh. The legal formalities relating to the disposal of Julphar Bangladesh have been fulfilled and the sale of Julphar Bangladesh was completed during the year ended 31 December 2021. Accordingly, a gain of AED 0.5 million was recorded by the Group on the derecognition.

With Julphar Bangladesh being classified as a discontinued operation, the results of Julphar Bangladesh has not been presented in the segment information (note 31).

The net cash flows generated by Julphar Bangladesh are as follows:

| | ***2021**** <br> ***AED*** <br> ***millions*** | *2020* <br> *AED* <br> *millions* |
|---|---|---|
| Operating | **0.1** | 2.5 |
| Investing | **(0.1)** | (0.7) |
| Financing | **-** | (1.7) |
| **Net cash inflow** | **-** | 0.1 |

** Represents three months of activity prior to the sale on 31 March 2021*

***Basic and diluted loss per share***
Basic and diluted loss per share is disclosed in note 15.

## 14. DISPOSAL GROUPS HELD FOR SALE AND DISCONTINUED OPERATIONS (continued)

### c) Alpha Pharma L.L.C

On 9 May 2021, a Sale and Purchase Agreement ("SPA") was entered into, whereby the Group agreed to sell its 51% shareholding in Alpha Pharma L.L.C to Cigalah.

The legal formalities relating to the disposal of Alpha Pharma are in process which included amongst other things obtaining the approval from the General Authority for Competition ("GPA") in the Kingdom of Saudi Arabia ("KSA") which has been received subsequent to the year end. The other legal formalities have not yet been fulfilled. The management believed that these legal formalities did not preclude control having been transferred to Cigalah. Therefore, the related carrying values of net assets and non-controlling interests of Alpha Phama have been derecognized during the year ended 31 December 2021. Accordingly, a gain of AED 8.5 million was recognized by the Group on the derecognition.

With Alpha Pharma being classified as a discontinued operation, the results of Alpha Pharma have not been presented in the segment information (note 31). The comparative consolidated statement of comprehensive income of the Group has been reclassified to show the discontinued operation of Alpha Pharma separately from continuing operations in 2021 and 2020.

The net cash flows (incurred)/generated by Alpha Pharma are as follows:

| | ***2021**** <br> ***AED*** <br> ***millions*** | *2020* <br> *AED* <br> *millions* |
|---|---|---|
| Operating | **(7.0)** | (34.9) |
| Investing | **-** | (4.0) |
| Financing | **15.4** | 39.3 |
| **Net cash inflow** | **8.4** | 0.4 |

*Represents four months of activity prior to the sale on 9 May 2021.

***Basic and diluted loss per share***
Basic and diluted loss per share is disclosed in note 15.

### d) Julphar Pharmaceuticals P.L.C.

During the year ended 31 December 2021, the Board of Directors of the Company decided to sell Julphar Pharmaceuticals P.L.C. ("Julphar Ethiopia"). The sale of Julphar Ethiopia is expected to be completed within a year from the reporting date. Accordingly, Julphar Ethiopia has been classified as a disposal group held for sale and as a discontinued operation.

With Julphar Ethiopia being classified as a discontinued operation, the results of Julphar Ethiopia has not been presented in the segment information (note 31). There was no write-down of carrying amount immediately before and after the classification of the disposal group as held for sale. The comparative consolidated statement of comprehensive income of the Group has been represented to show the discontinued operation of Julphar Ethiopia separately from continuing operations in 2021 and 2020.

The net cash flows incurred by Julphar Ethiopia are as follows:

| | ***2021*** <br> ***AED*** <br> ***millions*** | *2020* <br> *AED* <br> *millions* |
|---|---|---|
| Operating | **(0.1)** | 0.5 |
| Investing | **(0.4)** | (0.6) |
| Financing | **(0.1)** | (0.2) |
| Net cash outflow | **(0.6)** | (0.3) |

***Basic and diluted loss per share***
Basic and diluted loss per share is disclosed in note 15.

## 14. DISPOSAL GROUPS HELD FOR SALE AND DISCONTINUED OPERATIONS (continued)

### e) The results of the discontinued operation for the year are presented below:

| | *For the year ended 31 December 2021* | | | | | *For the year ended 31 December 2020* | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | ***Gulf Inject LLC*** AED millions*** | ***Julphar Bangladesh Limited** AED millions*** | ***Alpha Pharma LLC* AED millions*** | ***Julphar Pharmaceuticals PLC AED millions*** | ***Total AED millions*** | *Gulf Inject LLC AED millions* | *Julphar Bangladesh Limited AED millions* | *Alpha Pharma LLC AED millions* | *Julphar Pharmaceuticals PLC AED millions* | *Total AED millions* |
| Revenue from contracts with customers | **12.0** | **1.8** | **1.3** | **9.7** | **24.8** | 26.5 | 13.4 | - | 8.2 | 48.1 |
| Cost of sales | **(8.8)** | **(1.0)** | **(6.1)** | **(5.9)** | **(21.8)** | (16.6) | (7.5) | - | (5.4) | (29.5) |
| **GROSS PROFIT/(LOSS)** | **3.2** | **0.8** | **(4.8)** | **3.8** | **3.0** | 9.9 | 5.9 | - | 2.8 | 18.6 |
| Other income | **3.1** | **3.6** | **0.3** | **0.1** | **7.1** | 0.4 | 2.4 | - | - | 2.8 |
| Selling and distribution expenses | **(1.1)** | **(2.0)** | **(0.2)** | **(0.2)** | **(3.5)** | (1.9) | (13.9) | (0.6) | - | (16.4) |
| General and administrative expenses | **(0.2)** | **-** | **(12.4)** | **(1.1)** | **(13.7)** | (3.0) | - | (43.1) | (1.4) | (47.5) |
| Impairment of financial asset | **-** | **-** | **-** | **-** | **-** | (0.3) | - | - | - | (0.3) |
| **OPERATING PROFIT/(LOSS)** | **5.0** | **2.4** | **(17.1)** | **2.6** | **(7.1)** | 5.1 | (5.6) | (43.7) | 1.4 | (42.8) |
| Finance income | **0.1** | **-** | **-** | **-** | **0.1** | 0.1 | - | - | - | 0.1 |
| Finance costs | **(0.1)** | **(0.2)** | **(0.1)** | **-** | **(0.4)** | - | (1.7) | (0.4) | - | (2.1) |
| Impairment loss recognized on the remeasurement to fair value less cost to sell | - | - | - | - | - | - | (0.5) | - | - | (0.5) |
| **PROFIT/(LOSS) BEFORE TAX FOR THE PERIOD FROM DISCONTINUED OPERATIONS** | **5.0** | **2.2** | **(17.2)** | **2.6** | **(7.4)** | 5.2 | (7.8) | (44.1) | 1.4 | (45.3) |
| Income tax | **-** | **-** | **(1.9)** | **(0.8)** | **(2.7)** | - | - | - | (0.4) | (0.4) |
| **PROFIT/(LOSS) FOR THE PERIOD FROM DISCONTINUED OPERATIONS** | **5.0** | **2.2** | **(19.1)** | **1.8** | **(10.1)** | 5.2 | (7.8) | (44.1) | 1.0 | (45.7) |
| Profit/(loss) attributable to: | | | | | | | | | | |
| Equity holders of the Parent | **5.0** | **1.1** | **(12.2)** | **1.0** | **(5.1)** | 5.2 | (3.9) | (22.5) | 0.5 | (20.7) |
| Non-controlling interests | **-** | **1.1** | **(6.9)** | **0.8** | **(5.0)** | - | (3.9) | (21.6) | 0.5 | (25.0) |
| | **5.0** | **2.2** | **(19.1)** | **1.8** | **(10.1)** | **5.2** | **(7.8)** | **(44.1)** | **1.0** | **(45.7)** |

*Represents four months of activity prior to the sale on 9 May 2021.
**Represents three months of activity prior to the sale on 31 March 2021.
***Represents eight months of activity prior to the sale on 31 August 2021.

There was no amount included in the accumulated other comprehensive income and reserves related to the disposal group at the date of the classification as held for sale.

## 14. DISPOSAL GROUPS HELD FOR SALE AND DISCONTINUED OPERATIONS (continued)

**f)** The major classes of assets and liabilities of the disposal group classified as held for sale as at 31 December 2021 are as follows:

| | ***2021*** | *2020* | | |
|---|---|---|---|---|
| | ***Julphar Pharmaceuticals PLC AED millions*** | *Gulf Inject LLC AED millions* | *Julphar Bangladesh Limited AED millions* | *Total AED millions* |
| **ASSETS** | | | | |
| Property, plant and equipment | **3.5** | 23.2 | 33.9 | 57.1 |
| Intangible assets | **-** | - | 8.7 | 8.7 |
| Inventories | **6.8** | 5.9 | 4.0 | 9.9 |
| Trade and other receivables | **3.8** | 15.6 | 8.6 | 24.2 |
| Bank balances and cash | **9.7** | 2.4 | 0.9 | 3.3 |
| **Assets held for sale** | **23.8** | 47.1 | 56.1 | 103.2 |
| **LIABILITIES** | | | | |
| Provision for employees' end of service benefits | **-** | 0.6 | 2.3 | 2.9 |
| Trade payables and accruals | **8.0** | 4.6 | 29.5 | 34.1 |
| **Liabilities directly associated with assets held for sale** | **8.0** | 5.2 | 31.8 | 37.0 |
| **Net assets directly associated with assets held for sale** | **15.8** | 41.9 | 24.3 | 66.2 |
| Less: net assets attributable to non-controlling interests | **(7.1)** | - | (12.0) | (12.0) |
| **Group's share of net assets directly associated with disposal group** | **8.7** | 41.9 | 12.3 | 54.2 |

## 15. BASIC LOSS PER SHARE (EPS)

a) Basic EPS is calculated by dividing the profit/(loss) for the year attributable to equity holders of the Parent by the weighted average number of outstanding shares during the year

| | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|
| Profit/(loss) for the year attributable to the equity holders of the Parent: | | |
| Continuing operations | **41.5** | (272.5) |
| Discontinued operations | **22.9** | (20.7) |
| **Profit/(loss) for the year attributable to the equity holders of the Parent** | **64.4** | (293.2) |
| Weighted average number of shares (note (d)) | **1,155.3** | 1,057.9 |

## 15. BASIC LOSS PER SHARE (EPS) (continued)

| | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|
| Basic profit/(loss) per share attributable to the equity holders of the Parent (in UAE fils) | **5.6** | (27.7) |
| Basic profit/(loss) per share from continuing operations attributable to the equity holders of the Parent (in UAE fils) | **3.6** | (25.8) |

b) To calculate EPS for discontinued operations, the weighted average number of shares is as per the table above. The following table provides the loss amount used:

| | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|
| Profit/(loss) for the year attributable to the equity holders of the Parent from discontinued operations | **22.9** | (20.7) |
| Basic profit/(loss) per share from discontinued operations attributable to the equity holders of the Parent (in UAE fils) | **2.0** | (2.0) |

c) The Group does not have any potential equity shares and accordingly the basic and diluted earnings per share is the same.

d) The weighted average number of shares takes into account the weighted average effect of changes in ordinary shares during 2020 (note 22 (a) and (b)).

## 16. PROPERTY PLANT AND EQUIPMENT

| | *Land AED millions* | *Buildings AED millions* | *Plant and machinery AED millions* | *Installations AED millions* | *Motor vehicles AED millions* | *Furniture and fixtures AED millions* | *Tools and equipment AED millions* | *Leasehold improvements AED millions* | *Capital - work-in progress AED millions* | *Total AED millions* |
|---|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | | |
| At 1 January 2020 | 44.3 | 623.9 | 1,147.7 | 128.9 | 30.9 | 17.2 | 19.9 | 9.3 | - | 2,022.1 |
| Additions | - | 0.2 | 5.8 | 0.8 | 0.5 | 0.1 | 0.9 | - | 7.8 | 16.1 |
| Transfer from CWIP | - | - | 2.6 | 1.4 | - | - | - | - | (4.0) | - |
| Disposals | - | - | - | - | (0.7) | - | - | - | - | (0.7) |
| Exchange differences | (0.4) | (0.2) | 0.3 | - | - | (0.1) | - | - | - | (0.4) |
| At 31 December 2020 | 43.9 | 623.9 | 1,156.4 | 131.1 | 30.7 | 17.2 | 20.8 | 9.3 | 3.8 | 2,037.1 |
| Additions | - | - | 18.8 | 0.2 | 0.3 | 5.6 | 1.0 | 1.2 | 17.3 | 44.4 |
| Transfer from CWIP | - | - | 0.4 | 0.2 | - | 0.3 | - | - | (0.9) | - |
| Acquired on business combination (note 13(b)(i)) | - | - | - | - | 1.2 | 10.2 | 5.6 | 3.0 | 1.0 | 21.0 |
| Reclassified to assets held for sale (note 14(d)) | (0.2) | (1.9) | (5.7) | - | (0.4) | (0.1) | (1.2) | - | (0.7) | (10.2) |
| Derecognized on disposal of a subsidiary | (15.4) | (156.4) | (86.2) | - | (0.3) | (3.2) | (3.5) | - | - | (265.0) |
| Transfers | (24.6) | 40.5 | - | (0.7) | 0.1 | - | (15.3) | - | - | - |
| Exchange differences | - | (0.5) | (1.4) | - | (0.1) | - | (0.3) | - | (0.2) | (2.5) |
| At 31 December 2021 | **3.7** | **505.6** | **1,082.3** | **130.8** | **31.5** | **30.0** | **7.1** | **13.5** | **20.3** | **1,824.8** |
| **Depreciation and impairment** | | | | | | | | | | |
| At 1 January 2020 | - | 231.6 | 607.7 | 112.3 | 30.9 | 16.1 | 0.6 | 8.1 | - | 1,007.3 |
| Charge for the year (note (b)) | - | 26.4 | 57.7 | 5.2 | 0.5 | 0.6 | 2.3 | 0.5 | - | 93.2 |
| Impairment for the year (note (d)) | - | - | 37.7 | - | - | - | - | - | - | 37.7 |
| Disposals | - | - | - | - | (0.7) | - | - | - | - | (0.7) |
| Exchange differences | - | - | (1.6) | - | (0.1) | - | - | - | - | (1.7) |
| At 31 December 2020 | - | 258.0 | 701.5 | 117.5 | 30.6 | 16.7 | 2.9 | 8.6 | - | 1,135.8 |
| Charge for the year (note (b)) | - | 20.2 | 48.1 | 3.6 | 0.4 | 1.9 | 1.0 | 0.7 | - | 75.9 |
| Reclassified to assets held for sale (note 14(d)) | - | (0.8) | (4.6) | - | (0.3) | (0.1) | (0.9) | - | - | (6.7) |
| Derecognized on disposal of a subsidiary | - | (11.1) | (9.7) | - | (0.3) | (1.0) | (1.9) | - | - | (24.0) |
| Exchange differences | - | (0.1) | (1.2) | - | - | - | (0.2) | - | - | (1.5) |
| At 31 December 2021 | **-** | **266.2** | **734.1** | **121.1** | **30.4** | **17.5** | **0.9** | **9.3** | **-** | **1,179.5** |
| **Net book value:** | | | | | | | | | | |
| **At 31 December 2021** | **3.7** | **239.4** | **348.2** | **9.7** | **1.1** | **12.5** | **6.2** | **4.2** | **20.3** | **645.3** |
| At 31 December 2020 | 43.9 | 365.9 | 454.9 | 13.6 | 0.1 | 0.5 | 17.9 | 0.7 | 3.8 | 901.3 |

**16. PROPERTY PLANT AND EQUIPMENT (continued)**

a) Certain property, plant and equipment of the Group are mortgaged against bank facilities (note 26).

b) The above depreciation charge has been allocated in the consolidated statement of income as follows:

| | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|
| Cost of sales (note 5) | **63.5** | 65.6 |
| General and administrative expenses (note 8) | **10.2** | 24.3 |
| Selling and distribution expenses (note 7) | **2.2** | 3.3 |
| | **75.9** | 93.2 |

c) The factory and its related buildings of the Parent Company are constructed on plots of land amounting to AED 3.7 million (2020: AED 3.7 million) which are owned by the Government of Ras Al Khaimah.

d) During the year 2020, an impairment loss of to AED 37.7 million was recognised against certain property, plant and equipment, to adjust the carrying value to its recoverable amount as a result of accumulated reported net losses and utilization of assets below the capacity. This was recognised in the consolidated statement of profit or loss as 'impairment of property, plant and equipment'. The recoverable amount as at 31 December 2021 amounting to to AED 252.2 million (2020: AED 281.0 million) was based on fair value less cost of disposal determined using cost approach (i.e. depreciated replacement cost method) for certain property, plant and equipment. The valuation has been performed by an accredited independent valuer and are based on the replacement cost less allowance for depreciation or loss of value arising from condition, utility, age, wear and tear and obsolescence.

e) **Impairment testing of a CGU**

For this purpose, management used the cash flow projections of the business unit based on the financial budgets duly approved by the Board of Directors covering a period of five years. The discount rate applied to the cash flow projections during the year is 15,5% (2020: 15.5%). The expected growth rate in revenue over the next 5 years is 5% to 25% per annum (2020: 5% to 34% per annum). The terminal growth budgeted beyond 5 years is 2%.

*Key assumptions used in the value in use calculation*

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of property, plant and equipment.

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margin achieved in the past two years before the budgeted year, increased for expected efficiency improvements. The budgeted gross margin amounted to 50% (2020: 46%).

Discount rate – The discount rate for the year calculated to reflect both the time value of money and the risks specific to the assets, estimated from market data was 15.5% (2020: 15.5%).

Sensitivity to changes in assumptions

Management believes that any reasonably possible changes in key assumptions used to determine the recoverable amount segments will not result in any impairment of property, plant and equipment.

f) Capital work-in-progress mainly includes significant modification/enhancement of plant of the Parent Company.

## 17. INTANGIBLE ASSETS

| | *Licenses and permits AED millions* | *Trade name AED millions* | *Supplier relations AED millions* | *Customers relations AED millions* | *Loyalty program AED millions* | *Hospital relations AED millions* | *Others AED millions* | *Total AED millions* |
|---|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | | |
| At 1 January 2020 and 2021 | 33.4 | - | - | - | - | - | 7.7 | 41.1 |
| Acquired on business combination (note 13(b)(i)) | - | 53.2 | 26.8 | 35.6 | 22.2 | 35.5 | - | 173.3 |
| At 31 December 2021 | 33.4 | 53.2 | 26.8 | 35.6 | 22.2 | 35.5 | 7.7 | 214.4 |
| **Accumulated amortisation:** | | | | | | | | |
| At 1 January 2020 | 15.7 | - | - | - | - | - | 5.3 | 21.0 |
| Charge for the year (note 8) | 2.8 | - | - | - | - | - | 2.3 | 5.1 |
| At 31 December 2020 | 18.5 | - | - | - | - | - | 7.6 | 26.1 |
| Charge for the year (note 8) | 2.8 | - | 0.9 | 1.8 | 1.7 | 3.9 | - | 11.1 |
| At 31 December 2021 | 21.3 | - | 0.9 | 1.8 | 1.7 | 3.9 | 7.6 | 37.2 |
| **Net book value:** | | | | | | | | |
| **At 31 December 2021** | **12.1** | **53.2** | **25.9** | **33.8** | **20.5** | **31.6** | **0.1** | **177.2** |
| At 31 December 2020 | 14.9 | - | - | - | - | - | 0.1 | 15.0 |

The acquired intangible assets are provisionally valued as at 31 December 2021 (note 13(b)(ii)).

## 18. INVENTORIES

| | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|
| Raw materials (note (b)) | **146.8** | 127.8 |
| Packing materials (note (b)) | **64.0** | 47.4 |
| Work-in-progress | **16.4** | 18.6 |
| Finished goods | **420.6** | 97.8 |
| Goods in transit | **9.0** | 15.8 |
| Consumables | **18.6** | 18.5 |
| Spare parts | **41.0** | 34.3 |
| | **716.4** | 360.2 |
| Less: provision for stock losses (note (a)) | **(55.7)** | (56.0) |
| | **660.7** | 304.2 |
| Less: inventories attributable to assets held for sale (note 14(f)) | **(6.8)** | (9.9) |
| | **653.9** | 294.3 |

**18. INVENTORIES (continued)**

a) The movement in the Group's provision for stock losses is as follows:

| | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|
| At 1 January | **56.0** | 18.0 |
| Charge during the year | **16.4** | 46.4 |
| Written-off during the year | **(38.4)** | (8.4) |
| Acquired on business combination during the year | **21.7** | - |
| At 31 December | **55.7** | 56.0 |

b) Includes raw materials and packing materials amounting to AED 5.8 million (2020: AED 9.2 million) held by a third party.

**19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

Majority of financial assets at fair value through profit or loss are denominated in AED and are held for trading in listed and non-listed equity securities and include the following:

| | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|
| In UAE markets | **19.5** | 19.6 |
| In other GCC markets | - | 0.1 |
| | **19.5** | 19.7 |

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

| | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|
| At 1 January | **19.7** | 22.1 |
| Disposals during the year | **(0.2)** | (0.1) |
| Loss on revaluation during the year | - | (2.3) |
| | **19.5** | 19.7 |

As at 31 December 2021, the investments amounting to AED 19.5 million (2020: AED 19.7 million), AED 19.5 million (2020: AED 19.5 million) relates to an investment in unquoted equity security of an entity which is engaged in manufacturing of packing materials. The Group has 7.25% equity investment in the entity. Management has performed a valuation and recorded the investment at fair value. Fair value less costs of disposal has been computed using dividend growth model (2020: discounted cashflows technique). They are classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk (note 34)

## 20. TRADE AND OTHER RECEIVABLES

| | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|
| Trade receivables | **649.4** | 851.0 |
| Less: allowance for expected credit losses (note (a)) | **(172.4)** | (417.8) |
| | **477.0** | 433.2 |
| Due from a related party | **-** | 174.2 |
| Advances to suppliers | **49.5** | 23.4 |
| Prepayments | **9.5** | 9.2 |
| Rebates, commission and discount receivable from suppliers | **2.5** | - |
| Value added tax receivable | **13.3** | 17.1 |
| Other receivables | **33.9** | 14.8 |
| | **585.7** | 671.9 |
| Less: trade and other receivables attributable to assets held for sale (note 14(f)) | **(3.8)** | (24.2) |
| | **581.9** | 647.7 |

a) Movement in the provision for expected credit losses during the year was as follows:

| | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|
| At 1 January | **417.8** | 415.9 |
| Charge for the year | **2.0** | 1.9 |
| Written off during the year | **(292.2)** | - |
| Acquired on business combination during the year | **44.8** | - |
| At end of the year | **172.4** | 417.8 |

b) During 2018, the Saudi Food and Drug Authority (SFDA) had imposed a temporary suspension to export the Parent Company's products to the Kingdom of Saudi Arabia (KSA). The Company deals with an exclusive distributor in KSA and therefore all products sold in KSA are exported to that distributor. As a consequence of this ban, the trading activities between the Parent Company and its Saudi distributor had diminished significantly. Furthermore, the respective receivable ageing had deteriorated and therefore, in 2018 management booked a provision amounting to AED 287.1 million related to receivable balances outstanding from this distributor.

During the year ended 31 December 2021, the management of the Parent Company negotiated with the distributor for the settlement of outstanding balances and agreed to settle at a consideration of AED 15.4 million. Accordingly, a gain of AED 33.1 million was recognised during the year ended 31 December 2021 and recorded under 'other income' in the consolidated statement of profit or loss on the settlement of all outstanding balances.

On settlement with the Saudi distributor, the management of the Parent Company has netted of all trade receivables and liabilities balances upto 31 May 2021 and has written back the related provisions in the consolidated financial statements.

c) Information regarding trade receivable is given credit risk (note 33).

d) A provision has been made for the estimated impairment amounts of trade receivables of AED 172.4 million (2020: AED 417.8 million). This provision has been determined based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

## 20. TRADE AND OTHER RECEIVABLES (continued)

e) For amount due from a related party, an impairment provision has been assessed on the basis of historical default rate adjusted with forward looking factor. Based on the outstanding amount, history of default and subsequent collection, there is no impact of expected credit loss.

f) For the remaining receivables, the provision has been booked on the basis of expected credit loss model. Information about the Group's financial assets subject to IFRS 9's expected credit loss model and the Group's impairment methodology can be found in note 3.7.

g) The ageing analysis of trade receivables is as follows:

| | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|
| 0 – 180 days | **452.4** | 247.7 |
| 181 – 365 days | **17.8** | 10.8 |
| More than 365 days | **179.2** | 592.5 |
| | **649.4** | 851.0 |

h) The Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The carrying amounts of the Group's trade and other receivables are denominated in AED, USD and EGP.

i) The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables. The other classes within trade and other receivables do not contain impaired assets.

## 21. CASH AND CASH EQUIVALENTS

| | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|
| Current accounts | **148.2** | 75.9 |
| Short term bank deposits | **17.4** | - |
| Cash in hand | **3.4** | 1.1 |
| | **169.0** | 77.0 |
| Less: cash and bank balances attributable to assets held for sale (note 14(f)) | **(9.7)** | (3.3) |
| Bank balances and cash | **159.3** | 73.7 |
| Less: term deposits having maturities after three months and less than one year | **(16.3)** | - |
| Cash and cash equivalents | **143.0** | 73.7 |

Term deposits carry interest at commercial rates.

## 22. SHARE CAPITAL

| | **2021** **AED** **millions** | *2020* *AED* *millions* |
|---|---|---|
| *Authorised, issued and fully paid* | | |
| 1,155,227,811 ordinary shares (2020: 1,155,227,811 ordinary shares at par value of AED 1 | **1,155.3** | 1,155.3 |

a) The Company's Board of Directors in its meeting held on 16 January 2020, decided to restructure the capital base of the Company by reducing the issued share capital by extinguishing the accumulated losses as at 31 December 2019 of AED 503.2 million. Accordingly, the capital reduction was approved in the Annual General Meeting by the shareholders on 9 April 2020. During the year ended 31 December 2020, the decrease in capital was approved by the relevant authorities and regulators and registered with the relevant authorities and hence the capital reduced to AED 655.3 million, before the increase in capital detailed in note (b) below.

b) During 2020, the Company's Board of Directors in its meeting held on 16 January 2020, after the capital reduction also decided to increase capital of the Company by up to AED 500 million through right issue. Accordingly, the capital increase was also approved in the Annual General Meeting by the shareholders on 9 April 2020. During the year ended 31 December 2020, AED 500 million were raised to increase the share capital through a public right issue offering that happened between 29 June 2020 to 12 July 2020, representing at AED 1 per share. The transaction was completed on 28 July 2020 and the new share capital has reached AED 1,155.3 million.

## 23. STATUTORY RESERVE

In accordance with United Arab Emirates Federal Commercial Companies Law No. 2 of 2015 (as amended), the Parent Company has established a statutory reserve by appropriation of 10% of profit for each year. As the Company had accumulated losses as at 31 December 2021, therefore, no additional appropriation has been made in the statutory reserve. This reserve is not available for distribution except in the circumstances stipulated by the law.

## 24. NON-CONTROLLING INTERESTS

| | **2021** **AED** **millions** | *2020* *AED* *millions* |
|---|---|---|
| Non-controlling interests | **7.1** | 168.8 |

During the year ended 31 December 2021, the minority party in one of the Group's subsidiary in KSA had injected capital amounting to AED 1.1 million (2020: AED 13.6 million).

Further, during the year ended 31 December 2021, the non-controlling interests of the Group's subsidiaries, Julphar Bangladesh and Alpha Pharma amounting to AED 136.5 million, has been derecognized on account of disposal of subsidiaries.

## 25. PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS

Movement in the provision for employees' end of service indemnity is as follows:

| | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|
| At 1 January | **59.4** | 62.9 |
| Provided during the year | **10.5** | 11.3 |
| Paid during the year | **(8.6)** | (11.9) |
| Derecognized on disposal of subsidiary | **(1.9)** | - |
| Acquired on business combination during the year (note 13(b)(i)) | **20.4** | - |
| At 31 December | **79.8** | 62.3 |
| Less: employees' end of service benefits attributable to liability directly associated with assets held for sale (note 14(f)) | - | (2.9) |
| | **79.8** | 59.4 |

## 26. BANK AND OTHER BORROWINGS

| | *Interest rate(%)* | *Maturity* | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|---|---|
| **Current interest bearing bank borrowings** | | | | |
| Bank overdraft | 3m EIBOR+3% | On demand | **-** | 156.8 |
| Bank overdraft and trust receipts | 3m EIBOR+2% | On demand | **54.4** | - |
| ***Bank & other loans (note (a))*** | | | | |
| AED 300 million loan | 3m EIBOR+2.75% | 31 May 2026 | - | 70.8 |
| AED 150 million loan | 1m EIBOR+2.5% | 31 December 2021 | - | 137.7 |
| AED 50 million loan | 3m EIBOR+1.65% | 28 April 2021 | - | 15.8 |
| SAR 10 million loan | SIBOR+2% | 16 May 2021 | - | 9.8 |
| Total current interest bearing loans and borrowings | | | **54.4** | 390.9 |
| **Non-current interest bearing bank borrowings** | | | | |
| ***Bank & other loans (note (a))*** | | | | |
| AED 750 million loan | 3m EIBOR+2.50% | 17 July 2030 | **665.0** | - |
| AED 300 million loan | 3m EIBOR+2.75% | 31 May 2026 | - | 220.9 |
| Total interest bearing bank borrowings | | | **719.4** | 611.8 |

a) The bank & other loans comprise of

| | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|
| Syndicated loan (note b(i)) | **665.0** | - |
| Ijara loans (note b(ii)) | - | 137.7 |
| Other loans (note b(iii)) | - | 317.3 |
| | **665.0** | 455.0 |

**26. BANK AND OTHER BORROWINGS (continued)**

b) The principal features of the bank borrowings are as follows:

i) Syndicated Loan

During the year ended 30 December 2021, the Parent Company entered into a syndicated loan arrangement with a consortium of local banks. The total syndicated facility comprises of Ijarah Term Loan Facility of AED 150 million, Conventional Working Capital Finance Facility of AED 260 million and Conventional Facility of AED 600 million with total facility size of AED 1.01 billion. As of the reporting date, the Company had an undrawn facility of AED 295.3 million. The drawdown term loan of AED 665 million (AED 150 million from Ijarah Facility and AED 515 million from Conventional Facility) as of the reporting date is payable in quarterly instalments starting from 30 July 2023.

As per the terms of the agreement, the Parent Company was obliged to pay all the existing liabilities. Accordingly, the Parent Company had repaid the existing loan from the proceeds of the drawdown value. This loan restructurings did not meet the criteria of modifications of financial liabilities, hence no impact taken to the consolidated financial statements.

The Group has obtained AED 1.01 billion banking facilities against the following securities:

- Negative pledge over all assets except or otherwise specified as permitted assets.
- Assignment of insurance policy over its business and assets (including Secured Assets and the assets that represent Ijara Assets from time to time).
- Assignment of receivables of key customers upto 75% and undertaking to route them annually through Obligor's collection account with the Bank.
- General Mortgage over Property, Plant & Equipment and Inventory.
- Corporate guarantee of a subsidiary (note 12(a))

The Group's syndicated loan agreement is subject to covenant clauses, whereby the Company is required to meet certain key financial ratios and will be applicable for testing from the year ended 31 December 2022.

ii) Ijara Loan

The Group had taken Ijara loans for general corporate borrowing purposes. Loans were secured against the assets financed and were repayable in periodic instalments. The Group had pledged certain assets (approximately equivalent to Ijara Loan amount) against the loan. During the year ended 31 December 2021, the liability was repaid in full by the Group.

The Group had obtained banking facilities against the following securities:

- Negative pledge over certain assets.
- Assignment of receivables for at least AED 152 million equivalent and undertaking to route them annually through Obligor's collection account with the Bank.
- Assignment of insurance policy over certain assets.

ii) Other loans:

The Group had 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. Interest on these loans were calculated on a monthly/quarterly basis. During the year ended 31 December 2021, the liability was repaid in full by the Group.

iii) During 2019, the Group obtained a loan facility from a shareholder amounting to AED 150 million and an additional loan of AED 150 million during 2020. The loan was secured through pledge of moveable assets of the Parent Company and carried interest at EIBOR+3.5%. No bank guarantees were received from/provided to related parties against balances due from/ to them. During the year ended 31 December 2020, the loan was fully repaid.

## 26. BANK AND OTHER BORROWINGS (continued)

c) Bank overdraft:

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

d) The Group's bank borrowings are denominated in the following currencies as at 31 December:

| | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|
| AED | **719.4** | 602.0 |
| SAR | **-** | 9.8 |
| | **719.4** | 611.8 |

e) Movement in borrowings is as follows:

| | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|
| At the beginning of the year | **611.8** | 902.8 |
| Less: loans repaid during the year | **(550.0)** | (450.5) |
| Add: new drawdowns | **665.0** | 160.0 |
| Add: acquired on business combination (note 13(b)(i)) | **2.4** | - |
| Less: exchange gain | **-** | (0.5) |
| Less: derecognised on disposal of subsidiary | **(9.8)** | - |
| At the end of the year | **719.4** | 611.8 |

## 27. TRADE PAYABLES AND ACCRUALS

| | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|
| Accounts payable | **283.3** | 100.5 |
| Refund liabilities (note 4) | **34.5** | 128.3 |
| Commissions payable (note 4) | **39.0** | 35.4 |
| Advances from customers (note 4) | **8.5** | 31.0 |
| Rebate and accruals | **23.3** | 17.4 |
| Unclaimed dividend | **14.8** | 16.6 |
| Employee benefits payable | **35.9** | 14.8 |
| Accrued expenses | **53.2** | 9.2 |
| Due to a related party | **-** | 2.2 |
| Provision for income tax and zakat | **5.9** | - |
| Real Estate Transaction tax | **3.2** | - |
| Others | **56.5** | 17.2 |
| | **558.1** | 372.6 |
| Less: trade payables and accruals attributable to liability directly associated to assets held for sale (note 14(f)) | **(8.0)** | (34.1) |
| | **550.1** | 338.5 |

## 28. DEFERRED REVENUE

The Group provides bonus goods to its distributors 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 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 is estimated at the time of sale based on available information and historical experience.

During the year ended 31 December 2021 the bonus goods obligation has completely been settled. The net amount of deferred revenue as at 31 December 2021 was AED nil (2020: AED 207.0 million).

## 29. RELATED PARTY BALANCES AND TRANSACTIONS

Related parties comprise the Company's major 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. Pricing policies and terms of these transactions are approved by the Group's management, or its Board of Directors.

Transactions with related parties under common ownership and management control are eliminated on consolidation.

### *a) Due from a related party*

| | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|
| Planet Pharmacies L.L.C. (previously held associate) (note 20) | **-** | 174.2 |

**Terms and conditions with related parties**

For amount due from a related party, an impairment provision has been assessed on the basis of historical default rate adjusted with forward looking factor. Based on the outstanding amount, history of default and subsequent collection, the impact of expected credit loss is immaterial and hence no provision has been booked in respect of this receivable balance. No bank guarantees are provided to/taken from related parties against balances due to/from them.

### *b) 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:

| | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|
| Sales to previously held associate | **56.4** | 102.5 |
| Accrued liabilities written back | **32.8** | - |
| Repayment of shareholder loan including finance cost | - | 308.0 |
| Loan obtained from a shareholder | - | 150.0 |

## 29. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

### *c) Compensation of key management personnel of the Group*

The remuneration of the key management personnel of the Group is as follows:

| | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|
| Short-term benefits | **11.8** | 7.5 |

## 30. COMMITMENTS AND CONTINGENT LIABILITIES

| | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|
| Capital commitments | **23.2** | 16.2 |
| Letters of credit | **17.3** | 41.3 |
| Letters of guarantee | **36.3** | 46.1 |

## 31. SEGMENT INFORMATION

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

a. Manufacturing
b. Planet
c. Investments
d. Others

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.

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.

**31. SEGMENT INFORMATION (continued)**

| | ***For the year ended 31 December 2021*** | | | | | *For the year ended 31 December 2020* | | | |
|---|---|---|---|---|---|---|---|---|---|
| | ***Manufacturing AED millions*** | ***Planet AED millions*** | ***Investments AED millions*** | ***Other segments AED millions*** | ***Total AED millions*** | ***Manufacturing AED millions*** | ***Investments AED millions*** | ***Other segments AED millions*** | ***Total AED millions*** |
| Segment revenue | **699.0** | **444.2** | **-** | **-** | **1,143.2** | 573.0 | - | - | 573.0 |
| Segment result | **77.9** | **13.9** | **(29.0)** | **(21.3)** | **41.5** | (243.9) | 4.1 | (31.9) | (271.7) |
| Depreciation expense of property, plant and equipment | **73.0** | **2.9** | **-** | **-** | **75.9** | 93.2 | - | - | 93.2 |
| Depreciation expense of right of use assets | **-** | **17.8** | **-** | **-** | **17.8** | - | - | - | - |
| Amortization Expense | **2.8** | **8.3** | **-** | **-** | **11.1** | 5.1 | - | - | 5.1 |
| Share of associate's (loss)/profit | **-** | | **(31.4)** | **-** | **(31.4)** | - | 6.1 | - | 6.1 |

| | ***31 December 2021*** | | | | | *31 December 2020* | | | |
|---|---|---|---|---|---|---|---|---|---|
| | ***Manufacturing AED millions*** | ***Planet AED millions*** | ***Investments AED millions*** | ***Other segments AED millions*** | ***Total AED millions*** | ***Manufacturing AED millions*** | ***Investments AED millions*** | ***Other segments AED millions*** | ***Total AED millions*** |
| Segment assets | **1,002.1** | **1,221.6** | **19.5** | **159.3** | **2,402.5** | 1,860.1 | 290.3 | 73.7 | 2,224.1 |
| Segment liabilities | **359.5** | **375.6** | **-** | **719.4** | **1,454.5** | 608.6 | - | 611.8 | 1,220.4 |

**31. 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 Group holds assets. In accordance with IFRS 8, the non-current assets reported below exclude financial instruments.

| | ***2021*** | | | | |
|---|---|---|---|---|---|
| | ***Total AED millions*** | ***UAE AED millions*** | ***Oman AED millions*** | ***Saudi Arabia AED millions*** | ***Others AED millions*** |
| Non-current assets | | | | | |
| Property, plant and equipment | **645.3** | **632.1** | **3.1** | **10.1** | **-** |
| Intangible assets | **177.2** | **70.4** | **9.4** | **85.4** | **12.1** |
| Revenue | **1,143.2** | **356.3** | **45.1** | **131.6** | **610.2** |

| | *2020* | | | | |
|---|---|---|---|---|---|
| | *Total AED millions* | *UAE AED millions* | *Saudi Arabia AED millions* | *Egypt AED millions* | *Others AED millions* |
| Non-current assets | | | | | |
| Property, plant and equipment | 638.4 | 637.4 | - | 1.0 | - |
| Intangible assets | 15.0 | 0.7 | - | 14.3 | - |
| Revenue | 573.0 | 91.2 | 87.3 | 77.0 | 317.5 |

The Group's sales to top 2 customers individually are more than 10% of the total external sales. Total amount of sales for the year ended 31 December 2021 to these customers amounts to AED 272.4 million (2020: Top 5 customers AED 439.4 million). These revenues are included under manufacturing segment.

There are no other non-current assets included in "Others" which are more than 10% of the total segment non-current assets. Sales in "Others" include Iraq amounting to AED 108.7 million (2020: Iraq amounting to AED 108.7 million and Lebanon amounting to AED 74.9 million) which are more than 10% of the total sales.

## 32. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Group has lease contracts for various offices and pharmacies. Leases generally have lease terms between 1 year and 5 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets.

Set out below are the carrying amounts of right-of-use assets recognised and the movement during the year are as follow:

| | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|
| At 1 January | **-** | - |
| Acquired on business combination (note 13(b)(i)) | **109.1** | - |
| Additions | **12.8** | - |
| Remeasurement | **2.6** | - |
| Disposals | **(3.0)** | - |
| Depreciation (note 8) | **(17.8)** | - |
| | **103.7** | - |

Set out below are the carrying amounts of lease liabilities and the movement during the year are as follow:

| | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|
| At 1 January | **-** | - |
| Acquired on business combination (note 13(b)(i)) | **112.6** | - |
| Additions | **11.5** | - |
| Remeasurement | **2.6** | - |
| Rent concession (note 6) | **(2.3)** | - |
| Accretion of interest (note 10) | **2.4** | - |
| Disposals | **(3.2)** | - |
| Payments | **(23.9)** | - |
| | **99.7** | - |
| **Classified in to**: | | |
| Current | **31.9** | - |
| Non-current | **67.8** | - |
| **At 31 December** | **99.7** | - |

The following are the amounts recognised in consolidated statement of comprehensive income:

| | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|
| Depreciation expense of right-of-use assets (note 8) | **17.8** | - |
| Interest expense on lease liabilities included in finance costs (note 10) | **2.4** | - |
| Variable lease payment recognised as rent expenses (note 7) | **7.7** | - |
| Rent concessions (note 6) | **(2.3)** | - |
| | **25.6** | - |

## 32. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (continued)

The Group had total cash outflows of AED 23.9 million in the year ended 31 December 2021 which relates to payment of lease liabilities including finance expenses component. The weighted average incremental borrowing rate is used at the rate of 5% per annum.

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised. The maturity analysis of lease liabilities are disclosed in note 33.

## 33. RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign 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.

**Market risk**
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk. Financial instruments affected by market risk include bank borrowings, trade and other payables, trade receivables, bank balances and other receivables and investments in equity instruments.

The sensitivity analysis in the following sections relate to the position as at 31 December in 2021 and 2020.

The sensitivity of the relevant consolidated statement of profit or loss item or equity is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 31 December 2021 and 2020.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

**a) Interest rate risk**
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's un-hedged debt obligations with floating interest rates.

The following table demonstrates the sensitivity of the consolidated statement of profit or loss to reasonably possible changes in interest rates, with all other variables held constant.

The sensitivity of the consolidated statement of profit or loss is the effect of the assumed changes in interest rates on the Group's profit for one year, based on the floating rate financial liabilities held at 31 December 2021 and 31 December 2020. The effect of a decrease in interest rates on the variable rate instruments (excluding hedged debt obligations) is expected to be equal and opposite to the effect of the increases as shown below:

| | *Bank and other borrowings AED millions* | *Increase/ decrease in basis points* | *Effect on profit for the year AED millions* |
|---|---|---|---|
| ***2021*** | | | |
| | **269.4** | **+50** | **(1.3)** |
| | | **-50** | **1.3** |
| 2020 | | | |
| | 611.8 | +50 | (3.1) |
| | | -50 | 3.1 |

**b) Foreign currency risk**
Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities.

**33. RISK MANAGEMENT (continued)**

**Market risk (continued)**

***b)*** **Foreign currency risk (continued)**

The Group manages its currency risk by regularly assessing current and expected foreign currency exchange rate movements and Group's foreign currencies payable.

Foreign exchange risk arises on sales, purchases and recognised assets or liabilities that are primarily denominated in a currency that is not entity's functional currency.

The table below demonstrates the sensitivity to a reasonable possible change of the AED currency rate against the foreign currencies, with all other variables held constant, on the consolidated statement of comprehensive income (due to changes in the fair value of currency sensitive monetary assets and liabilities).

The effect of decreases in currency rates is expected to be equal and opposite to the effect of the increases shown.

| | *Balance receivable/ (payable)* | *Increase in exchange rate to the AED* | *Effect on profit AED m* |
|---|---|---|---|
| ***2021*** | | | |
| **Euro** | **(5.2)** | **+5%** | **(0.3)** |
| | | **-5%** | **0.3** |
| *2020* | | | |
| Euro | (2.9) | +5% | (0.1) |
| | | -5% | 0.1 |
| CHF | (1.9) | +5% | (0.1) |
| | | -5% | 0.1 |

**c) Price risk**

The Group's listed equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. However, the Group is not exposed to price risk since it has no listed equity securities at the reporting date.

**Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group is exposed to credit risk on its bank balances and receivables as follows.

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. They are generally due for settlement within 90 -180 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Details about the Group's impairment policies is disclosed in note 3.7.

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 these receivables. To measure the expected credit losses, trade receivables are grouped based on shared credit risk characteristics and the days past due. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. For forward looking factor, long term macroeconomic factor has not been considered as the maturity of invoices is typically less than one year and accordingly historical rates are adjusted only on the basis deterioration in the future economic conditions.

The collateral factored through loss given default estimates and hence are not used to adjust exposure while computing expected credit loss. The Group limits its exposure to credit risk by investing with counterparties that have credible market reputation. The Group's management does not expect any significant counterparty to fail to meet its obligations.

**33. RISK MANAGEMENT (continued)**

**Credit risk (continued)**
Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

| | ***2021*** | | |
|---|---|---|---|
| | ***Gross value AED millions*** | ***Allowance for expected credit losses AED millions*** | ***Expected credit loss (ECL)*** |
| Trade receivables with general provision | **527.0** | **50.0** | **9.5%** |
| Specific provision for receivables | **122.4** | **122.4** | **100%** |
| | **649.4** | **172.4** | |

| | *2020* | | |
|---|---|---|---|
| | *Gross value AED millions* | *Allowance for expected credit losses AED millions* | *Expected credit loss (ECL)* |
| Trade receivables with general provision | 441.5 | 8.3 | 1.9% |
| Specific provision for receivables | 409.5 | 409.5 | 100% |
| | 851.0 | 417.8 | |

*Financial instruments and cash deposit*
Credit risk from balances with banks and other financial institutions is managed by the Group by investing surplus funds only with approved and reputable counterparties and within credit limits assigned to each counterparty. Bank deposits, and term deposits are limited to high-credit-quality financial institutions. Accordingly, the ECL as at the reporting date against bank balances is minimal. Credit risk on other financial assets are assessed to be minimal based on historical default and the fact that they are held with counterparties with creditworthiness evaluated to be good by the Company's internal process.

*Due from related parties and other receivables*
For due from related parties and other receivables, the management has separately assessed the balance and the computed impact is immaterial.

With respect to credit risk arising from other financial assets including deposits and other receivables, the Group's exposure to credit risk arises from default of the counter party with a maximum exposure equal to the carrying amount of these assets.

***Excessive risk concentration***
Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

**33. RISK MANAGEMENT (continued)**

**Liquidity risk**
The table below summarises the maturity profile of the Group's financial liabilities. The contractual maturities of the financial liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date. The maturity profile is monitored by management to ensure that adequate liquidity is maintained. The maturity profile of the liabilities at the reporting date based on contractual repayment arrangements was as follows:

***2021***

| | ***Less than 1 year AED millions*** | ***1 to 5 years AED millions*** | ***Total AED millions*** |
|---|---|---|---|
| Trade payables and accruals | **549.0** | **-** | **549.0** |
| Bank borrowings | **74.3** | **734.4** | **808.8** |
| Lease liabilities | **37.4** | **68.6** | **106.0** |
| | **660.7** | **803.0** | **1,463.8** |

*2020*

| | *Less than 1 year AED millions* | *1 to 5 years AED millions* | *Total AED millions* |
|---|---|---|---|
| Trade accounts payable | 147.0 | - | 147.0 |
| Bank borrowings | 401.0 | 220.9 | 621.9 |
| | 548.0 | 220.9 | 768.8 |

**Capital 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 bank 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:

| | ***2021 AED millions*** | *2020 AED millions* |
|---|---|---|
| Bank borrowings | **719.4** | 611.8 |
| Less: cash and cash equivalents | **(159.3)** | (73.7) |
| Net debt | **560.1** | 538.1 |
| Total equity | **963.8** | 1,069.9 |
| Net debt to equity ratio (times) | **0.6** | 0.5 |

## 33. RISK MANAGEMENT (continued)

**Capital management (continued)**
In order to achieve this overall objective, the Group's capital management, among other things, aims to ensure that it meets financial covenants attached to the banks and other borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2021 and 2020.

## 34. 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 fair value of financial assets and financial liabilities are not materially different from their carrying values at reporting date since assets and liabilities not already measured at fair value have either short-term maturities or in the case of borrowings are frequently repriced and the prevalent interest rates reflect risks associated with the borrowings.

*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 annual consolidated financial statements for the year ended 31 December 2020.

*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*** | | | | ***Significant unobservable input*** | |
|---|---|---|---|---|---|---|
| ***Financial assets*** | ***2021 AED millions*** | *2020 AED millions* | ***Fair value hierarchy*** | ***Valuation techniques and key inputs*** | ***2021*** | *2020* |
| Unquoted equity investments | **19.5** | 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) | ▪ Cost of equity<br>▪ Growth rate<br>▪ Discount for lack of marketability | ▪ Discount rate<br>▪ Growth rate<br>▪ Discount for lack of marketability |
| Quoted equity investments | - | 0.2 | Level 1 | Quoted prices (unadjusted) in active markets for identical assets or liabilities | None | None |
| | **19.5** | 19.7 | | | | |

## 34. FAIR VALUE MEASUREMENTS (continued)

*Fair value of a disposal group held for sale are measured at fair value less cost to sell*
Disposal group held for sale is measured at fair value at the end of the reporting period. The following table gives information about how the fair value of the disposal group is determined:

| | *Fair Value as at* | | | | |
|---|---|---|---|---|---|
| ***Disposal Group*** | ***2021 AED million*** | *2020 AED million* | ***Fair Value hierarchy*** | ***Valuation techniques and key inputs*** | ***Significant unobservable input*** |
| Julphar Bangladesh Limited | - | 27.6 | Level 3 | Value based on the binding sales offer | None |

| | *Fair Value as at* | | |
|---|---|---|---|
| ***Derivative financial instrument*** | ***2021 AED million*** | *2020 AED million* | ***Fair Value hierarchy*** |
| Interest rate cap | **1.5** | - | Level 2 |

*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:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

## 35. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

| | ***1 January 2021 AED millions*** | ***Cash inflows AED millions*** | ***Cash outflows AED millions*** | ***Other changes AED millions*** | ***31 December 2021 AED millions*** |
|---|---|---|---|---|---|
| Bank overdraft and trust receipts | **156.8** | **-** | **(102.4)** | **-** | **54.4** |
| Bank borrowings | **455.0** | **665.0** | **(447.6)** | **(7.4)** | **665.0** |
| | **611.8** | **665.0** | **(550.0)** | **(7.4)** | **719.4** |

| | *1 January 2020 AED* | *Cash inflows AED* | *Cash outflows AED* | *Other changes AED* | *31 December 2020 AED* |
|---|---|---|---|---|---|
| Bank overdraft | 271.1 | - | (114.3) | - | 156.8 |
| Bank borrowings | 631.7 | 160.0 | (336.2) | (0.5) | 455.0 |
| | 902.8 | 160.0 | (450.5) | (0.5) | 611.8 |

## 36. MATERIAL PARTLY-OWNED SUBSIDIARIES

Financial information of subsidiaries that have material non-controlling interests is provided below:

**Portion of equity interest held by non-controlling interests:**

| *Name* | *Place of incorporation and operation* | *2021 Percentage of ownership* | *2020 Percentage of ownership* |
|---|---|---|---|
| Julphar Pharmaceuticals PLC | Ethiopia | **55%** | 55% |
| Alpha Pharma L.L.C. | Saudi Arabia | **-** | 51% |

| | *2021 AED millions* | *2020 AED millions* |
|---|---|---|
| **Accumulated balances of material non-controlling interests:** | | |
| Julphar Pharmaceuticals PLC | **7.1** | 8.1 |
| Alpha Pharma L.L.C. | **-** | 126.2 |
| **Profit/(loss) allocated to material non-controlling interests:** | | |
| Julphar Pharmaceuticals PLC | **0.8** | 0.5 |
| Alpha Pharma L.L.C. | **-** | (21.6) |

The summarised financial information of these subsidiaries is provided below. This information is based on amounts before inter-company eliminations.

| | *2021* | | *2020* | |
|---|---|---|---|---|
| | *Julphar Pharmaceuticals PLC AED millions* | *Alpha Pharma LLC AED millions* | *Julphar Pharmaceuticals PLC AED millions* | *Alpha Pharma LLC AED millions* |
| **Summarised statement of profit or loss** | | | | |
| Revenue from contracts with customers | **9.7** | **1.3** | 8.2 | - |
| Cost of sales | **(5.9)** | **(6.1)** | (5.4) | - |
| Selling, distribution, administrative, research and development expenses | **(1.3)** | **(9.4)** | (1.4) | (43.7) |
| Finance cost | - | **(0.1)** | - | (0.4) |
| Other income | **0.1** | **0.3** | - | - |
| **Profit/(loss) before tax** | **2.6** | **(14.0)** | 1.4 | (44.1) |
| Income tax | **(0.8)** | **(1.9)** | (0.4) | - |
| **Profit/(loss) for the year** | **1.8** | **(15.9)** | 1.0 | (44.1) |
| **Total comprehensive income/(loss) for the year** | **1.8** | **(15.9)** | 1.0 | (44.1) |
| Attributable to non-controlling interests | **0.8** | **(6.9)** | 0.5 | (21.6) |

## 36. MATERIAL PARTLY-OWNED SUBSIDIARIES (continued)

| | ***2021*** | *2020* | |
|---|---|---|---|
| | ***Julphar Pharmaceuticals PLC AED millions*** | *Julphar Pharmaceuticals PLC AED millions* | *Alpha Pharma LLC AED millions* |
| **Summarised statement of financial position** | | | |
| Property, plant and equipment (non-current assets) | **3.5** | 4.4 | 258.4 |
| Other assets (non-current assets) | **-** | - | 2.6 |
| Deferred tax asset (non-current asset) | **-** | - | 0.2 |
| Inventories (current assets) | **6.8** | 4.7 | 5.0 |
| Trade and other receivables (current assets) | **3.8** | 6.5 | 3.2 |
| Bank balances and cash (current assets) | **9.7** | 12.9 | 2.6 |
| Bank borrowing | - | - | (9.8) |
| Trade payables and other accruals (current liabilities) | **(8.0)** | (10.5) | (4.7) |
| **Total equity** | **15.8** | 18.0 | 257.5 |
| Attributable to: | | | |
| Equity holders of the Parent | **8.7** | 9.9 | 131.3 |
| Non-controlling interest | **7.1** | 8.1 | 126.2 |

| | ***2021*** | | *2020* | |
|---|---|---|---|---|
| | ***Julphar Pharmaceuticals PLC AED millions*** | ***Alpha Pharmacy LLC AED millions*** | *Julphar Pharmaceuticals PLC AED millions* | *Alpha Pharmacy LLC AED millions* |
| **Summarised statement of cash flow** | | | | |
| Operating | **(0.1)** | **(7.0)** | 0.4 | (34.9) |
| Investing | **(0.4)** | **-** | (0.4) | (4.0) |
| Financing | **(0.1)** | **15.4** | (0.4) | 39.3 |

## 37. DERIVATIVE FINANCIAL INSTRUMENT

During the year ended 31 December 2021, the Group entered into an "Interest Rate Cap" ("IR Cap") agreement to hedge its exposure to the variability in cash flows arising from interest payment on syndicated loans from local banks.

The Company entered into IR Cap, that effectively fix the interest rate on 68% of its available facilities. Under the terms of this contract, the Group pays a floating rate of interest up to the pre-determined capped rate of interest on the principal balance.

There is an economic relationship between the hedged item and the hedging instrument as the terms of the interest rate cap match the terms of the syndicated loans (i.e., notional amount, maturity, payment and reset dates). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the interest rate cap is identical to the hedged risk component. To test the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instrument against the changes in fair value of the hedged item attributable to the hedged risk.

## 37. DERIVATIVE FINANCIAL INSTRUMENT (continued)

The hedge ineffectiveness can arise from:

- Different interest rate curve applied to discount the hedged item and hedging instrument
- Differences in timing of cash flows of the hedged item and hedging instrument
- The counterparties' credit risk differently impacting the fair value movements of the hedging instrument and hedged item

For the purpose of hedge accounting, IRS is classified as cash flow hedge. The fair value and notional amount of the hedge are as follows:

| | *2021* | |
|---|---|---|
| | ***Negative fair value AED millions*** | ***Notional amount AED millions*** |
| Interest rate cap | **1.5** | **450.0** |

The interest rate cap is assessed to be effective and as at 31 December 2021, an unrealized loss of AED 1.5 million has been included in equity as cash flow hedge reserve.

The amount shown as cash flow hedge reserve under equity as at 31 December 2021 is mainly expected to affect profit or loss during the period until maturity of IR Cap.

There was no ineffectiveness recognised in the consolidated statement of profit or loss as the same was immaterial to the overall consolidated financial statements.

## 38. SUBSEQUENT EVENTS

Other than the events disclosed in these consolidated financial statements, there were no other subsequent events from the reporting date to the date the consolidated financial statements were authorised for issue that would require adjustment of the balances in the consolidated financial statements nor require additional disclosures in the notes to the consolidated financial statements.