

**SAUDI PHARMACEUTICAL INDUSTRIES AND MEDICAL
APPLIANCES CORPORATION
(A Saudi Joint Stock Company)
INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS (UNAUDITED)
FOR THREE MONTHS PERIOD ENDED 31 MARCH 2019 AND
INDEPENDENT AUDITOR'S REVIEW REPORT**

SAUDI PHARMACEUTICAL INDUSTRIES AND MEDICAL APPLIANCES CORPORATION
(Saudi Joint Stock Company)
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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Independent Auditors' Review Report

To the shareholders of Saudi Pharmaceutical Industries and Medical Appliances Corporation
(A Saudi Joint Stock Company)

Review of Interim Condensed Consolidated Financial Statements

We have reviewed the accompanying interim condensed consolidated statement of financial position of Saudi Pharmaceutical Industries and Medical Appliances Corporation, ("the Company") and its subsidiaries (collectively referred as the "Group") as at 31 March 2019 and the related interim condensed consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the three-month period then ended, and a summary of significant accounting policies and other selected explanatory notes from 1 to 21.

Management is responsible for the preparation and fair presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 – ("IAS 34") "Interim Financial Reporting" endorsed in the Kingdom of Saudi Arabia.

Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

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

Basis of Qualified Conclusion

The Group is yet to complete its impact assessment with respect to IFRS 16 "Leases", which is effective from 1 January 2019. As a result we believe that the Group has not included property and long term debt for certain lease obligations that should be capitalized in order to conform with IFRS 16 and that therefore the Group's property, long term debt of certain lease obligations and the related profit or loss impact may be materially misstated for the three months' period ended 31 March 2019. The Group is in the process of assessing the impact of this new standard and expects to complete the assessment and record the relevant adjustments in the second quarter of 2019.

The Group has recognized goodwill of SR 198 million in the interim condensed consolidated financial statements. This goodwill was initially recognized at the time of the acquisition of SPIMACO Egypt for Pharmaceutical Industry (SR 51 million) in 2015, and the Qassim Medical Service Company (SR 147 million) in 2016. In both case the Group did not carry out the fair value measurement of identifiable assets and identifiable liabilities within the measurement period in accordance with IFRS 3 – "Business Combinations". Additionally, the Group did not provide us with an impairment test of goodwill related to SPIMACO Egypt for Pharmaceutical Industry to conform with IAS 36 – "Impairment of Assets". Accordingly, we were unable to determine whether there was any necessary adjustment to goodwill in the accompanying interim condensed consolidated financial statements.

Qualified Conclusion

Based on our review, with the exception of matters described in the preceding paragraphs, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements do not present fairly, in all material respects, the interim consolidated financial position of the Group as at 31 March 2019, and of its interim consolidated financial performance and its interim consolidated cash flows for the three-month period then ended in accordance with IAS 34 endorsed in the Kingdom of Saudi Arabia.

For Dr. Mohamed Al-Amri & Co.



Gihad Al-Amri
Certified Public Accountant
Registration No. 362



Riyadh on: 3 Ramadan 1440 (H)
Corresponding to: 8 May 2019 (G)

SAUDI PHARMACEUTICAL INDUSTRIES AND MEDICAL APPLIANCES CORPORATION
(Saudi Joint Stock Company)
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2019
(SAUDI RIYALS)

	Note	31 March 2019 (Unaudited)	31 December 2018 (Restated)
ASSETS			
Current assets:			
Cash and cash equivalents		231,069,924	267,732,952
Trade and other receivables	8	1,406,267,828	1,284,058,903
Inventories		446,332,220	480,093,794
Prepayments and other assets		224,582,572	228,382,865
		<u>2,308,252,544</u>	<u>2,260,268,514</u>
Non-current assets:			
Investment in equity instruments - FVOCI	10	984,115,197	873,905,333
Equity accounted associates and joint venture	9	57,891,198	70,426,756
Intangible assets		27,136,998	25,597,077
Goodwill		198,283,078	198,283,078
Property, plant and equipment		1,458,347,607	1,404,303,080
Deferred tax assets		16,273,391	16,301,282
		<u>2,742,047,469</u>	<u>2,588,816,606</u>
TOTAL ASSETS		<u>5,050,300,013</u>	<u>4,849,085,120</u>
EQUITY AND LIABILITIES			
EQUITY			
Equity attributable to the owners of the parent:			
Share capital		1,200,000,000	1,200,000,000
Statutory reserve		360,684,866	360,684,866
General reserve		150,000,000	150,000,000
Consensual reserve		96,274,794	96,274,794
Fair value reserve		601,053,055	474,343,191
Retained earnings		350,422,471	379,264,179
Foreign currency translation reserve		(22,336,079)	(23,050,875)
		<u>2,736,099,107</u>	<u>2,637,516,155</u>
Non-controlling interest		<u>173,612,252</u>	<u>174,782,102</u>
TOTAL EQUITY		<u>2,909,711,359</u>	<u>2,812,298,257</u>
Current liabilities:			
Current portion of long term loans and short term borrowings	11	409,207,097	392,680,665
Zakat and income tax payable		77,811,679	67,396,217
Accounts payable and other liabilities		486,752,735	452,301,934
Dividends payable		152,346,375	152,705,449
Provisions	12	55,222,456	40,909,890
		<u>1,181,340,342</u>	<u>1,105,994,155</u>
Non-current liabilities:			
Long-term loans and borrowings	11	611,124,747	615,784,644
Employees' end of service benefits		310,319,783	297,211,448
Deferred income		37,803,782	17,796,616
		<u>959,248,312</u>	<u>930,792,708</u>
TOTAL LIABILITIES		<u>2,140,588,654</u>	<u>2,036,786,863</u>
TOTAL EQUITY AND LIABILITIES		<u>5,050,300,013</u>	<u>4,849,085,120</u>

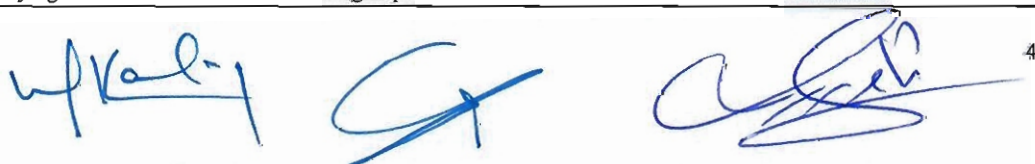
The accompanying notes from 1 to 21 form an integral part of these interim condensed consolidated financial statements

SAUDI PHARMACEUTICAL INDUSTRIES AND MEDICAL APPLIANCES CORPORATION
(Saudi Joint Stock Company)
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE THREE MONTHS ENDED 31 MARCH 2019
(SAUDI RIYALS)

	Note	Three months ended	
		31 March 2019 (Unaudited)	31 March 2018 (Unaudited)
Revenue from sale of products		313,825,400	346,093,259
Revenue from sale of services		42,245,090	44,700,122
Total revenue		356,070,490	390,793,381
Cost of sales		(196,772,730)	(193,476,813)
Gross income		159,297,760	197,316,568
Selling and marketing expenses		(84,812,020)	(85,344,851)
General and administrative expenses		(37,864,199)	(31,756,078)
Research and development expenses		(8,204,595)	(9,482,196)
Impairment loss on trade receivables		(7,881,854)	(3,072,022)
Impairment of receivable from associate		(21,248,101)	-
Other income		3,875,860	1,867,251
Operating income		3,162,851	69,528,672
Finance cost		(6,018,859)	(6,365,431)
Dividends received from investments in equity instruments		-	7,002,450
Share of profit from equity accounted associates & joint venture		2,699,915	1,658,535
(Loss) / income before zakat and income tax		(156,093)	71,824,226
Zakat and income tax		(12,995,251)	(15,979,251)
Net (loss) / income for the period		(13,151,344)	55,844,975
Attributable to:			
Owners of the parent		(12,341,708)	55,229,985
Non-controlling interests		(809,636)	614,990
		(13,151,344)	55,844,975
Earnings per share			
Basic & diluted	14	(0.10)	0.46

The accompanying notes from 1 to 21 form an integral part of these interim condensed consolidated financial statements



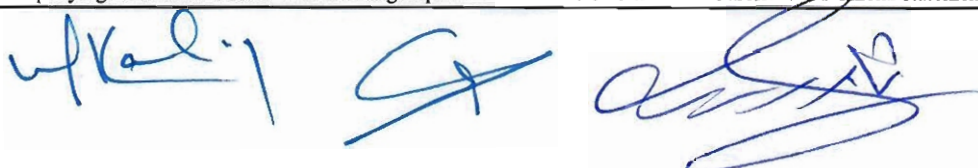
SAUDI PHARMACEUTICAL INDUSTRIES AND MEDICAL APPLIANCES CORPORATION
(Saudi Joint Stock Company)
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

INTERIM CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED 31 MARCH 2019.
(SAUDI RIYALS)

	<u>31 March 2019</u> (Unaudited)	<u>31 March 2018</u> (Unaudited)
Net (loss) / income for the period	(13,151,344)	55,844,975
Items that are or may be reclassified subsequently to profit or loss:		
Exchange difference on translation of foreign operations	<u>714,796</u>	<u>6,488,086</u>
Items that will not be reclassified to profit or loss:		
Changes in fair value of investment in equity instruments	126,709,864	209,423,594
Impairment of investment in equity instruments	<u>(16,500,000)</u>	<u>-</u>
	<u>110,209,864</u>	<u>209,423,594</u>
Total other comprehensive income for the period	<u>110,924,660</u>	<u>215,911,680</u>
Total comprehensive income for the period	<u>97,773,316</u>	<u>271,756,655</u>
Attributable to:		
Owners of the parent	98,582,952	271,141,665
Non-controlling interests	<u>(809,636)</u>	<u>614,990</u>
	<u>97,773,316</u>	<u>271,756,655</u>

The accompanying notes from 1 to 21 form an integral part of these interim condensed consolidated financial statements

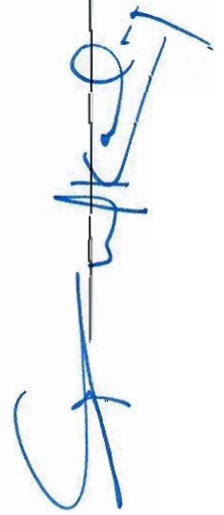
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SAUDI PHARMACEUTICAL INDUSTRIES AND MEDICAL APPLIANCES CORPORATION
(Saudi Joint Stock Company)
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED 31 MARCH 2019.
(SAUDI RIYALS)

	Share Capital	Statutory reserve	General reserve	Consensual Reserve	FV movement in FVOCI investments	Retained Earnings	Foreign currency changes	Total attributable to the owners of the parent	Non-controlling interests	Total Equity
Balance as at 1 January 2019 (Restated)	1,200,000,000	360,684,866	150,000,000	96,274,794	474,343,191	379,264,179	(23,050,875)	2,637,516,155	174,782,102	2,812,298,257
Loss for the period	-	-	-	-	-	(12,341,708)	-	(12,341,708)	(809,636)	(13,151,344)
Other comprehensive income for the period	-	-	-	-	126,709,864	(16,500,000)	714,796	110,924,660	-	110,924,660
Total comprehensive income for the period	-	-	-	-	126,709,864	(28,841,708)	714,796	98,582,952	(809,636)	97,773,316
Changes in non-controlling interest	-	-	-	-	-	-	-	-	(360,214)	(360,214)
Balance as at 31 March 2019	1,200,000,000	360,684,866	150,000,000	96,274,794	601,053,055	350,422,471	(22,336,079)	2,736,099,107	173,612,252	2,909,711,359
Balance as at 1 January 2018 (Restated)	1,200,000,000	360,684,866	150,000,000	91,234,616	597,033,273	285,074,174	(27,531,318)	2,656,495,611	166,862,016	2,823,357,627
Profit for the period	-	-	-	-	-	55,229,985	-	55,229,985	614,990	55,844,975
Other comprehensive income for the period	-	-	-	-	209,423,594	-	6,488,086	215,911,680	-	215,911,680
Total comprehensive income for the period	-	-	-	-	209,423,594	55,229,985	6,488,086	271,141,665	614,990	271,756,655
Changes in non-controlling interest	-	-	-	-	-	-	-	-	(176,988)	(176,988)
Balance as at 31 March 2018	1,200,000,000	360,684,866	150,000,000	91,234,616	806,456,867	340,304,159	(21,043,232)	2,927,637,276	167,300,018	3,094,937,294



The accompanying notes from 1 to 21 form an integral part of these interim condensed consolidated financial statements

SAUDI PHARMACEUTICAL INDUSTRIES AND MEDICAL APPLIANCES CORPORATION
(Saudi Joint Stock Company)
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

INTERIM CONDENSED CONSOLIDATED STATEMENT CASH FLOWS
FOR THE THREE MONTHS ENDED 31 MARCH 2019.
(SAUDI RIYALS)

	<u>31 March 2019</u> (Unaudited)	<u>31 March 2018</u> (Unaudited)
Cash flows from operating activities:		
(Loss) / income for the period before zakat and income tax	(156,093)	71,824,226
<i>Adjustments to reconcile before zakat and tax to net cash flow</i>		
Depreciation	10,844,309	10,619,596
Amortization	1,273,691	629,452
Share of profit from equity accounted associates & joint venture	(2,699,915)	(1,658,535)
(Gain) / Loss on disposal of property, plant and equipment	(52,340)	507,478
Provision for discounts and sales returns	14,312,566	14,350,266
Impairment loss on trade receivable	7,881,854	3,072,022
Provision for employees' end of service benefits	17,272,556	12,797,066
Dividends income	-	(7,002,450)
Finance cost charged	6,018,859	6,365,431
	<u>54,695,487</u>	<u>111,504,552</u>
Working capital changes:		
Trade and other receivables	(130,090,779)	(179,658,105)
Inventories	33,761,574	44,598,184
Prepayments and other assets	3,800,293	(15,003,097)
Accounts payable and other liabilities	34,450,801	(25,613,218)
	<u>(3,382,624)</u>	<u>(64,171,684)</u>
Cash used in operating activities		
Finance cost paid	(6,018,859)	(6,365,431)
Zakat and income tax paid	(1,027,466)	-
Employees' end of service benefits paid	(4,164,221)	(4,668,723)
Net cash used in operating activities	<u>(14,593,170)</u>	<u>(75,205,838)</u>
Cash flows from investing activities:		
Purchase of property, machinery and equipment	(64,980,130)	(66,882,297)
Proceeds from disposal of property, machinery and equipment	143,634	-
Net change in intangible assets	(2,813,612)	(14,298)
Net change in investments	15,235,473	1,946,179
Net cash used in investing activities	<u>(52,414,635)</u>	<u>(64,950,416)</u>
Cash flows from financing activities:		
Net change in Islamic banking facilities and long term loans	11,866,535	90,574,645
Dividends paid	(359,074)	(96,216)
Net change in deferred income	20,007,166	(404,468)
Net change in non-controlling interest	(1,169,850)	438,003
Net cash generated from financing activities	<u>30,344,777</u>	<u>90,511,964</u>
Decrease in cash and cash equivalents during the Period	<u>(36,663,028)</u>	<u>(49,644,290)</u>
Cash and cash equivalents at the beginning of the Period	<u>267,732,952</u>	<u>356,683,420</u>
Cash and cash equivalents at the end of the Period	<u>231,069,924</u>	<u>307,039,130</u>
Non-cash transactions		
Changes in investment in equity instruments - FVOCI	<u>126,709,864</u>	<u>209,423,594</u>
Impairment investment in equity instruments - FVOCI	<u>(16,500,000)</u>	<u>-</u>

The accompanying notes from 1 to 21 are an integral part of these interim condensed consolidated financial statements

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SAUDI PHARMACEUTICAL INDUSTRIES AND MEDICAL APPLIANCES CORPORATION
(Saudi Joint Stock Company)
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2019
(SAUDI RIYALS)

1. LEGAL STATUS AND NATURE OF OPERATIONS

Saudi Pharmaceutical Industries and Medical Appliances Corporation (SPIMACO- ADDWAEIH) ("the Company"), is a Saudi Joint Stock Company formed pursuant to the Ministerial Resolution No. 884 dated 10 Jumada Al-Awwal 1406H corresponding to 21 January 1986G. These interim condensed consolidated financial statements ("interim financial statements") comprise the Company and its subsidiaries (together referred to as the "Group").

The Company operates under CR. No. 1131006650, issued to its head office, situated in Buraidah city- King Abdul Aziz Road- Industrial City of Al-Qassim dated 6 Rajab 1406H corresponding to 16 March 1986G, with the following branches:

Branch	CR. No.
Riyadh	1010134224
Jeddah	4030086146
Khobar	2051058378

The Group is primarily involved in manufacturing, production, development and marketing of medicinal products and pharmaceutical formulations, production supplies, medical equipment and supplies, basic and intermediary med-petrochemicals and their derivatives, and any investments in related industries, inside and outside the Kingdom of Saudi Arabia.

The Group's financial year starting from 1 January from each Gregorian year and ending 31 December in the same year.

1.1 Interest in subsidiaries

Name of subsidiaries	Country of incorporation	Percentage of ownership	
		31 March 2019	31 December 2018
ARAC Healthcare Company (ARAC)	Saudi Arabia	100%	100%
Pharmaceutical Industries Company for Distribution (*)	Saudi Arabia	100%	100%
Dammam Pharmaceutical Company	Saudi Arabia	85%	85%
Qassim Medical Service Company	Saudi Arabia	57.2%	57.2%
ARACOM Medical Company	Saudi Arabia	100%	100%
AI-WATAN Arabian Medical Company	Saudi Arabia	80%	100%
ANORA Trading Company	Saudi Arabia	99%	-
SPIMACO Saudi Foundation - Algeria	Algeria	100%	100%
SPIMACO Egypt Company for Marketing (*)	Egypt	100%	100%
SPIMACO Egypt Company for Distribution (*)	Egypt	100%	100%
SPIMACO Egypt Company (*)	Egypt	100%	100%
SPIMACO Egypt for Pharmaceutical industries – (formerly known as "MEIVO")	Egypt	50.2%	50.2%
Moroccan Arab Company for Pharmaceuticals ("I PHARMA")	Morocco	70.7%	70.7%

(*) These companies are yet to start their operations.

SAUDI PHARMACEUTICAL INDUSTRIES AND MEDICAL APPLIANCES CORPORATION
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(SAUDI RIYALS)

1.2 Interest in associates

Name of associates	Country of incorporation	Percentage of interest	
		31 March 2019	31 December 2018
Arabian Medical Products Manufacturing Company (ENAYAH)	Saudi Arabia	51%	51%
CAD Middle East Pharmaceutical Company	Saudi Arabia	44.05%	44.05%
Tassili Arab Pharmaceutical Company (TAPHCO)	Algeria	22%	22%

2. STATEMENT OF COMPLIANCE

These interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as endorsed in Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants SOCPA ("IFRSs"). These interim financial statements should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended 31 December 2018 ('last annual financial statements'). The accompanying financial statements do not include all the information that is required to prepare a complete set of financial statements in accordance with International Financial Reporting Standards as endorsed by SOCPA. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements.

Changes to significant accounting policy are described in note 8.

3. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO EXISTING STANDARDS

3.1 New standards, interpretations and amendments adopted

In preparing the Group's interim condensed consolidated financial statements, the significant accounting policies adopted are based on IFRSs effective on 31 March 2019.

IFRS 16 Leases - New (effective for accounting period beginning on or after 1 January 2019)

IFRS 16 Leases specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

Management has yet to assess the impact of this new standard on the Company's interim financial statements.

3.2 Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted them in preparing these interim financial statements.

i. Annual improvements 2015 - 2017 Cycle

There were four amendments as part of the 2015 - 2017 Annual Improvements Cycle. These were made to IFRS 3 Business Combinations and IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs.

- IFRS 3: A company re-measures its previously held interest in a joint operation when it obtains control of the business.
- IFRS 11: A company does not re-measure its previously held interest in a joint operation when it obtains joint control of the business.
- IAS 12: A company accounts for all income tax consequences of dividend payments in the same way.
- IAS 23: A company treats as part of general borrowings any borrowing originally made to develop a specific asset when that asset is ready for its intended use or sale.

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(SAUDI RIYALS)

ii. Plan Amendment, Curtailment or Settlement – Amendments to IAS 19.

This amendment clarifies that it is now mandatory that the current service cost and the net interest for the period after the re-measurement are determined using the assumptions used for the re-measurement for a plan amendment, curtailment or settlement. In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

iii. IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 clarifies how to apply the recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments, addressing four specific issues:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity should make about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit or loss, tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances.

iv. Prepayment Features with Negative Compensation – Amendments to IFRS 9

The amendment was issued to address the concerns about how IFRS 9 classifies particular pre-payable financial assets. It amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments. However, the calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of an early repayment gain.

v. Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28

This amendment clarifies that IFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e. adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

These above amendments had no impact on these interim condensed consolidated financial statements of the Group.

4. BASIS OF PREPARATION

These interim financial statements have been prepared using the measurement bases specified by IFRS0s for each type of asset, liability, income and expense.

The preparation of interim financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires Group management to exercise judgment in applying the Group's accounting policies. The areas where significant judgments and estimates have been made in preparing the interim financial statements and their effect are disclosed in note 5.

These interim financial statements have been prepared on the historical cost basis, except for the following:

- Equity instruments at fair value through other comprehensive income; and
- Defined benefits plan is measured at the present value of future obligations using Projected Unit Credit Method.

Furthermore, these interim financial statements are prepared using the accrual basis of accounting and the going concern concept.

5. USE OF JUDGEMENT AND ESTIMATES

In preparing these interim condensed consolidated financial statements, management has made judgements and estimates that effect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements.

SAUDI PHARMACEUTICAL INDUSTRIES AND MEDICAL APPLIANCES CORPORATION
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(SAUDI RIYALS)

5.1 Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

Significant valuation issues are reported to the Group's audit committee.

When measuring the fair value of an asset or liability, the Group uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

If the inputs used to measure the fair value of an asset or liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the low level input that is significant to the entire measurement.

The Group recognizes transfers between the levels of the fair value hierarchy at the end of the reporting year during which the change has occurred.

6. BASIS OF CONSOLIDATION OF THE FINANCIAL STATEMENTS

The interim condensed consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 March 2019.

Business combination

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in these financial statements from the date on which control commences until the date on which control ceases.

Non-controlling interests (NCI)

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

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Interests in equity-accounted investees

The Group's interests in equity-accounted investees comprise of interests in associates and joint ventures.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and the joint venture are accounted for using the equity method. They are initially recognized at cost, which includes transaction costs. Subsequent to initial recognition, these financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

7. FUNCTIONAL AND PRESENTATION CURRENCY

These interim condensed consolidated financial statements are presented in Saudi Riyal ("SR"), which is the Group's functional and presentation currency. All amounts shown in these financial statements are rounded to the nearest Saudi Riyals, unless otherwise stated.

8. TRADE AND OTHER RECEIVABLES

	31 March 2019	31 December 2018
Trade receivables from third parties	1,470,601,438	1,334,585,058
Impairment loss on trade receivables	(119,219,307)	(111,337,453)
	1,351,382,131	1,223,247,605
Due from related parties, net	54,885,697	60,811,298
	1,406,267,828	1,284,058,903

9. EQUITY ACCOUNTED ASSOCIATES AND JOINT VENTURE

	31 March 2019	31 December 2018
Arabian Medical Products Manufacturing Company (ENAYAH) - Joint Venture	56,222,404	68,757,962
Tassili Arab Pharmaceutical Company (TAPHCO) – Associate	1,668,794	1,668,794
	57,891,198	70,426,756

10. INVESTMENTS IN EQUITY INSTRUMENTS - FVOCI

	31 March 2019	31 December 2018
Fair value of investments:		
National Industrialization Company (TASNEE)	265,741,242	265,741,242
Saudi Industrial Investment Group (SIIG)	107,370,900	107,370,900
Investment in mutual fund - Riyadh Equity Fund 2	9,950,000	9,950,000
Arabian Industrial Fibers Company (IBN RUSHD)	16,500,000	16,500,000
Impairment	(16,500,000)	-
	383,062,142	399,562,142
Unrealized gain on investments	601,053,055	474,343,191
	984,115,197	873,905,333

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11. TERM LOANS AND BORROWINGS

	<u>31 March 2019</u>	<u>31 December 2018</u>
Current		
Islamic financing (Murabaha)	360,000,000	360,000,000
Government loans	35,846,604	24,900,550
Term loan	13,360,493	7,780,115
	<u>409,207,097</u>	<u>392,680,665</u>
Non-current		
Islamic financing (Murabaha)	286,417,295	498,333,333
Government Loans	324,707,452	104,100,000
Term loan	-	13,351,311
	<u>611,124,747</u>	<u>615,784,644</u>

Islamic financing (Murabaha)

On 26 Jumada I 1437 (corresponding to 06 March 2016) the Group signed an Islamic financing contract with a local bank amounting SR 1,660 million. This financing will be repaid in quarterly and Semi-annually installments for 7 and 5 years with a grace year of 2 years. The Group aims to finance the working capital and capital expenditure requirement. A promissory note with a total of SR 1,660 million was signed by the Group for the financing bank.

The volume of murabaha financing obtained by the Group is approximately SR 625 million (31 December 2018: SR 858.3 million) and (31 March 2018: SR 750 million), of which SR 1,035 million represents the unused portion as at March 31, 2019 (31 December 2018 SR 801.7 million) and (31 March 2018: SR 910 million)

The covenants of some of credit facilities require the Group to maintain certain level of financial indicators and some other requirements.

Government loans –(‘Saudi Industrial Development Fund’ and ‘Ministry of Finance’)

During the period, SPIMACO - ADDWAEIH obtained a loan from the Saudi Industrial Development Fund (SIDF) amounting to 258 million and will be repaid in 6 years. This financing is secured by a mortgage on fixed assets of the project covering the entire value of the loan.

During the period, a subsidiary of the Group obtained a loan from the Saudi Industrial Development Fund (SIDF) secured by a mortgage on all the fixed assets of the project and a guarantee provided by the Company.

A subsidiary of the Group, which was acquired and consolidated in the financial statements for the year ended 31 December 2016, was granted loan by the Ministry of Finance which is secured by mortgaging the land granted by the Ministry of Finance and National Economy.

During the three month period ended 31 March, 2019, the Group capitalized financial charges amounted to SR 1.17 million (31 December 2018: SR 4.45 million)

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12. PROVISIONS

The movement in provisions for sales discounts and sales returns during the year is as follows:

	<u>31 March 2019</u>	<u>31 December 2018</u>
Sales discounts		
At the beginning of the year	34,817,626	35,605,399
Charge for the year	29,784,287	111,808,823
Adjusted during the year	<u>(14,102,213)</u>	<u>(112,596,596)</u>
At the end of the year	<u>50,499,700</u>	<u>34,817,626</u>
Sales returns		
At the beginning of the year	6,092,264	11,706,806
Paid / Adjusted during the year	<u>(1,369,508)</u>	<u>(5,614,542)</u>
At the end of the year	<u>4,722,756</u>	<u>6,092,264</u>
Total	<u>55,222,456</u>	<u>40,909,890</u>

13. SEGMENT INFORMATION

For management purposes, the Group is organized into two reportable segments, as follows:

<u>Segment</u>	<u>Description of activities</u>
Investments	This segment is engaged in investing activity in associates, joint venture and investments in securities.
Medical and pharmaceutical production	This segment is engaged in manufacturing, production, development and marketing of pharmaceutical raw materials and medical appliance and production of consumables medical appliances.

The Board of Directors (BOD), which has been identified as the Chief Operating Decision Maker (CODM), monitors the operating results of its reportable segments separately for the purpose of making decisions about resource allocation and performance assessment. Transactions between the operating segments are on terms approved by the management. Inter segment revenue, if any, are eliminated upon consolidation and reflected in adjustments and elimination column. All other eliminations are part of detailed reconciliations are mentioned on the next page:

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13. SEGMENT INFORMATION (continued)

For the three month ended 31 March 2019	Investments	Medical and pharmaceutical production	Reconciliation and de- recognition	Total
Revenues				
External revenues	-	624,091,462	(264,145,112)	359,946,350
Inter-segment revenue	-	-	-	-
Total revenues	-	624,091,462	(264,145,112)	359,946,350
Income / (Expenses)				
Operating expenses	(27,266,960)	(539,806,358)	216,388,960	(350,684,358)
Depreciation and amortization	-	(12,118,000)	-	(12,118,000)
Share of profit from associates and joint ventures	2,699,915	-	-	2,699,915
Segment profit	(24,567,045)	72,167,104	(47,756,152)	(156,093)
Segment assets	1,240,289,473	3,810,010,540	-	5,050,300,013
Segment liabilities	1,020,331,844	1,120,256,810	-	2,140,588,654
Investments in associates and joint ventures	57,891,198	-	-	57,891,198

**For the three month ended 31
March 2018**

Revenues				
External Revenues	7,002,450	450,189,497	(57,491,092)	399,700,855
Total revenues	7,002,450	450,189,497	(57,491,092)	399,700,855
Income / (Expenses)				
Operating expenses	(6,365,431)	(379,564,822)	67,681,910	(318,248,343)
Depreciation and amortization	-	(11,249,048)	-	(11,249,048)
Share of profit from associates and joint ventures	1,658,535	-	-	1,658,535
Segment profit	2,295,554	59,337,854	10,190,818	71,824,226
Segment assets	1,565,103,879	3,559,077,810	-	5,124,181,689
Segment liabilities	894,958,204	1,056,970,395	-	1,951,928,599
Investments in associates and joint ventures	100,419,817	-	-	100,419,817

Adjustments and eliminations

Finance income and costs are not allocated to individual segments as the underlying instruments are managed on a group basis.

Zakat and certain financial assets and liabilities are not allocated to those segments as they are also managed on a group basis, and capital expenditure consists of additions of vehicles.

Inter-segment revenues are eliminated on consolidation.

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13. SEGMENT INFORMATION (continued)

<u>Data according to geographical distribution</u>	<u>31 March 2019</u>	<u>31 March 2018</u>
Revenues		
Kingdom of Saudi Arabia	307,967,293	342,604,747
Middle East and Asia	40,542,151	39,045,183
Africa	14,136,821	19,671,687
	<u>362,646,265</u>	<u>401,321,617</u>
	<u>31 March 2019</u>	<u>31 December 2018</u>
Non-current assets		
Kingdom of Saudi Arabia	2,603,991,938	2,519,723,019
Middle East and Asia	5,419,562	4,917,747
Africa	132,635,969	64,175,840
	<u>2,742,047,469</u>	<u>2,588,816,606</u>

The above segments are in accordance with geographical division. In addition, the classification of revenues is in accordance with International Financial Reporting Standards No. (15).

14. EARNINGS PER SHARE

	<u>31 March 2019</u>	<u>31 March 2018</u>
(Loss)/profit for the period attributable to shareholders of Company	<u>(12,341,708)</u>	<u>55,229,985</u>
Weighted average number of ordinary shares outstanding	<u>120,000,000</u>	<u>120,000,000</u>
Earnings per share (SAR)		
- Basic and Diluted EPS	<u>(0.10)</u>	<u>0.46</u>

15. RELATED PARTIES

A related party is a person or entity that is related to the entity that is preparing its financial statements. The following are the details of major related party balances and transactions during the period:

Balances with related parties:

	<u>31 March 2019</u>	<u>31 March 2018</u>
Due from related parties		
Arabia Medical Products Manufacturing Company (ENAYAH)	22,827,259	2,427,259
Tassili Arab Pharmaceutical Company (TAPHCO)	32,058,437	32,059,645
CAD Middle East Pharmaceutical Company	-	26,324,394
	<u>54,885,696</u>	<u>60,811,298</u>

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Other related party transactions

	31 March 2019	31 March 2018
Sales	-	4,013,162
Purchases	3,570	1,001,319
Expenses	-	132,780
Finance expense	88,234	-
Guarantees given on the behalf of subsidiaries	121,000,000	121,000,000

16. COMMITMENTS AND CONTINGENCIES

Capital commitments

As at 31 March 2019, the Group has capital commitments of SR 29 million (31 December 2018: 28.3 SR million).

Contingencies

As at 31 March 2019, the Group has letters of guarantees totaling SR 134 million (31 December 2018: SR 131 million).

17. FAIR VALUATION AND FINANCIAL INSTRUMENTS

The table mentioned below shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value:

	Carrying amount			Fair value			
	FVOCI – equity instrument	Financial assets at amortized cost	Total carrying amount	Level 1	Level 2	Level 3	Total
31 March 2019							
Financial assets measured at fair value							
Equity investment at FVOCI	984,115,197	-	984,115,197	984,115,197	-	-	984,115,197
Current:							
Cash and cash equivalents	-	231,069,924	231,069,924	-	-	-	231,069,924
Trade receivables	-	1,351,382,131	1,351,382,131	-	-	-	1,351,382,131
Due from related parties	-	54,885,697	54,885,697	-	-	-	54,885,697
Total financial assets	984,115,197	1,637,337,752	2,621,452,949	984,115,197	-	-	2,621,452,949
Financial liabilities							
Non-current:							
Loans and borrowings	-	611,124,747	611,124,747	-	-	-	611,124,747
	-	611,124,747	611,124,747	-	-	-	611,124,747
Current:							
Loans and borrowings	-	409,207,097	409,207,097	-	-	-	409,207,097
Accounts and other payable	-	394,904,889	394,904,889	-	-	-	394,904,889
Total financial liabilities	-	1,415,236,733	1,415,236,733	-	-	-	1,415,236,733

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17. FAIR VALUATION AND FINANCIAL INSTRUMENTS (continued)

31 December 2018	Carrying amount			Fair value			
	FVOCI – equity instrument	Financial assets at amortized cost	Total Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value							
Equity investment at FVOCI	873,905,333	-	873,905,333	857,405,333	-	16,500,000	873,905,333
Current:							
Cash and cash equivalents	-	267,732,952	267,732,952	-	-	-	267,732,952
Trade receivables	-	1,223,247,605	1,223,247,605	-	-	-	1,223,247,605
Due from related parties	-	60,811,298	60,811,298	-	-	-	60,811,298
Total financial assets	873,905,333	1,551,791,855	2,425,697,188	857,405,333	-	16,500,000	2,425,697,188
Financial liabilities							
Non-current:							
Term loans	-	615,784,644	615,784,644	-	-	-	615,784,644
	-	615,784,644	615,784,644	-	-	-	615,784,644
Current:							
Term loans and borrowings	-	392,680,665	392,680,665	-	-	-	392,680,665
Accounts and other payable	-	365,507,791	365,507,791	-	-	-	365,507,791
Total financial liabilities	-	1,373,973,100	1,373,973,100	-	-	-	1,373,973,100

18. PRIOR YEAR RETAINED EARNING RESTATEMENT

The Company entered into an agreement with AstraZeneca UK Limited (“AUL”) on 18 June 2018, to build and operate a plant to produce specialized pharmaceutical products, mainly related to cancer patients. As per the agreement AUL will fund the Company to build the plant and make payments to the Company on meeting certain milestones as per the terms of the agreement. The Company recognized the payments received from AUL as grant income for the year ended 31 December 2018. The Company reviewed the agreement again in the first quarter of 2019 and decided that the payments received from AUL to build the plant should not be treated as grant income and also that it should not be recognized as income in the Company’s financial statements until the plant is ready to operate. The Group restated its financial information related to this agreement and the impact is stated as follows:

Retained earnings as reported on 31 December 2018	383,692,488
Error rectified during period	<u>(4,428,309)</u>
Retained earnings as at 31 December 2018 (restated)	<u>379,264,179</u>

19. RECLASSIFICATIONS

Certain comparative figures have been reclassified to comply with the current year presentation of the financial statements.

20. SUBSEQUENT EVENTS

The Board of Directors have proposed, for shareholder’s approval at the General Assembly Meeting held on 2 April 2019, a dividend of SR 120 million (SR 1 per share) for the second half of the year ended 31 December 2018.

21. APPROVAL ON THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements have been approved by the board of directors on 3 Ramadan 1440H (corresponding to 8 May 2019).