

**Saudi Pharmaceutical Industries and Medical Appliances Corporation  
(SPIMACO-ADDWAEIH) and Its Subsidiaries  
(A Saudi Joint Stock Company)  
Riyadh – Saudi Arabia  
Consolidated Financial Statements  
For the year ended December 31, 2016  
Together With Independent Auditors' Report**



**Crowe Horwath™**

**Al Azem & Al Sudairy**

**CPA's & Consultants**

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**Saudi Pharmaceutical Industries and Medical Appliances Corporation  
(SPIMACO-ADDWAEIH) and Its Subsidiaries  
(A Saudi Joint Stock Company)  
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Consolidated Financial Statements  
For the year ended December 31, 2016  
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<b><u>Table of Contents</u></b>	<b><u>Page</u></b>
Independent Auditors' report	1
Consolidated Balance Sheet	2
Consolidated Statement of Income	3
Consolidated Statement of Cash Flows	4
Consolidated Statement of Changes in Shareholders' Equity	5
Notes to the Consolidated Financial Statements	6 –24

## INDEPENDENT AUDITORS' REPORT

### TO: THE SHAREHOLDERS

**SUADI PHARMACEUTICAL INDUSTRIES AND MEDICAL  
APPLIANCES CORPORATION (SPIMACO - ADDWAEIH)  
(A SAUDI JOINT STOCK COMPANY)**

**Scope of Audit:** We have audited the accompanying consolidated balance sheet of **Saudi Pharmaceutical Industries & Medical Appliances Corporation (SPIMACO - ADDWAEIH) (A Saudi Joint Stock Company)** ("the Company") and its subsidiaries (collectively the "Group") as at 31 December 2016 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended and the attached notes (1) through (33) which form an integral part of the consolidated financial statements. These consolidated financial statements are the responsibility of the Group's management in accordance with Article (126) of the Regulations for Companies. Our responsibility is to express our opinion on these consolidated financial statements based on our audit and the information and explanations we obtained which we considered necessary for the purposes of our audit.


We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

**Unqualified Opinion:** In our opinion, the consolidated financial statements taken as a whole:

- 1) Present fairly, in all material respects, the consolidated financial position of the **Saudi Pharmaceutical Industries & Medical Appliances Corporation (SPIMACO- ADDWAEIH) (A Saudi Joint Stock Company)** ("the Company") and its subsidiaries (collectively the "Group") as at 31 December 2016, and the consolidated results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Group; and
- 2) Comply with the requirements of the Regulations for Companies and the Company's By-laws with respect to the preparation and presentation of the consolidated financial statements.



**AlAzem & AlSudairy  
Certified Public Accountants**

  
**Abdullah M. AlAzem  
License No. 335**

10 Jumada Al Akhar 1438H (March 9, 2017)  
Riyadh, Kingdom of Saudi Arabia



**Saudi Pharmaceutical Industries and Medical Appliances Corporation**  
**(SPIMACO-ADDWAEIH) and Its Subsidiaries**  
(A Saudi Joint Stock Company)  
**Consolidated Balance Sheet**  
**As of December 31, 2016**  
(Saudi Riyal)

<b>Assets</b>	<b>Note</b>	<b>2016</b>	<b>2015</b>
Current assets:			
Cash and cash equivalents	4	439,931,547	255,690,888
Accounts receivable, net	5	1,350,951,014	1,149,493,579
Inventory, net	7	422,673,874	366,845,976
Due from related parties	6(a)	63,520,501	53,509,374
Prepayments and other debit balances, net	8	164,979,909	163,714,374
Total current assets		2,442,056,845	1,989,254,191
Non-current assets:			
Investments in available for sale securities	9	1,081,181,899	918,397,924
Investments in associates and others	10	69,981,519	341,377,388
Property, plant and equipment, net	11	977,532,686	504,808,972
Intangible assets, net	12	18,067,979	19,447,554
Goodwill	13	251,097,917	51,154,217
Total non-current assets		2,397,862,000	1,835,186,055
<b>Total assets</b>		<b>4,839,918,845</b>	<b>3,824,440,246</b>
<b>Liabilities and Owners' Equity</b>			
Current liabilities:			
Due to related parties	6(b)	27,005,679	11,154,831
Accounts payable, accruals and other credit balances	15	415,808,489	339,609,348
Current portion of Islamic banking facilities and long-term loans	14	113,871,283	301,455,600
Provision for Zakat and income tax	16	72,887,369	79,710,515
Shareholders accrued dividend	17	164,820,196	151,887,036
Total current liabilities		794,393,016	883,817,330
Non-current liabilities:			
Islamic banking facility and long-term loans	14	670,761,398	-
Provision for end of service benefits	18	239,738,377	213,167,456
Total liabilities		1,704,892,791	1,096,984,786
<b>Owners' equity :</b>			
<b>Shareholders' equity</b>			
Share capital	19	1,200,000,000	1,200,000,000
Statutory reserve	20	515,684,866	478,015,691
Consensual reserve	21	81,366,340	62,531,753
General reserve	22	-	220,000,000
Retained earnings		467,069,861	299,333,676
Unrealized gain from revaluation of investments in available for sale securities	9	661,361,307	428,220,782
Government grants (restricted)	24	31,038,150	-
Unrealized gain from revaluation of investments in companies		50,122,725	-
Translation differences of financial statements		(33,731,855)	(28,160,787)
<b>Total shareholders' equity</b>		<b>2,972,911,394</b>	<b>2,659,941,115</b>
Non-controlling interest	23	162,114,660	67,514,345
<b>Total owners' equity</b>		<b>3,135,026,054</b>	<b>2,727,455,460</b>
<b>Total liabilities and owners' equity</b>		<b>4,839,918,845</b>	<b>3,824,440,246</b>

The accompanying notes from 1 to 33 are an integral part of these consolidated financial statements

**Saudi Pharmaceutical Industries and Medical Appliances Corporation**  
**(SPIMACO- ADDWAEIH) and Its Subsidiaries**  
(A Saudi Joint Stock Company)  
**Consolidated Statement of Income**  
**For the year ended December 31, 2016**  
(Saudi Riyal)

	<u>Note</u>	<u>2016</u>	<u>2015</u>
Sales		<b>1,841,194,347</b>	1,705,050,888
Cost of sales		<b>(931,813,558)</b>	(856,449,582)
Gross profit		<b>909,380,789</b>	848,601,306
Selling, marketing and distribution expenses	25	<b>(594,321,312)</b>	(477,591,227)
General and administrative expenses	26	<b>(123,452,552)</b>	(83,628,622)
Research and development expenses	27	<b>(31,305,871)</b>	(25,346,800)
Income from main operation		<b>160,301,054</b>	262,034,657
Gains on sale of investments			
in available for sale securities	9	<b>263,300,286</b>	-
Dividends received from investee companies	28	<b>25,439,813</b>	75,880,621
Company's share of (losses)/profits of associates and other	10	<b>(17,980,719)</b>	6,454,648
Finance expenses		<b>(26,926,540)</b>	(2,827,002)
Profit on sale of investment in associated and other		-	151,306,808
Impairment losses on investment		-	(118,500,000)
Other income	29	<b>6,048,984</b>	1,750,398
Net income before non-controlling interests' share in net income of subsidiaries		<b>410,182,878</b>	376,100,130
Share of non- controlling interest in net income of subsidiaries	23	<b>(33,491,131)</b>	(19,046,252)
<b>Net income for the year</b>		<b>376,691,747</b>	357,053,878
Number of ordinary shares		<b>120,000,000</b>	120,000,000
The share of income from main operating		<b>1.34</b>	2.18
The share of net income	3	<b>3.14</b>	2.98

The accompanying notes from 1 to 33 are an integral part of these consolidated financial statements



**Saudi Pharmaceutical Industries and Medical Appliances Corporation**
**(SPIMACO- ADDWAEIH) and Its Subsidiaries**

(A Saudi Joint Stock Company)

**Consolidated Statement of Cash Flows**
**For the year ended December 31, 2016**

(Saudi Riyal)

<b>Cash Flows from Operating Activities:</b>	<b>2016</b>	<b>2015</b>
Net income for the year	376,691,747	357,053,878
Adjustment to reconcile net income to		
Net cash flows provided by (used in) operating activities:		
Depreciation	25,620,443	24,255,243
Amortization	2,124,313	1,034,648
Company's share of (losses)/profits of associates and other	17,980,719	(6,454,648)
Gain on disposal of property, plant and equipment	(144,936)	(379,815)
Profit on sale of investments in available for sale securities	(263,300,286)	-
Profit on sale of investments in associated and other	-	(151,306,808)
Provision for end of service benefits	34,319,153	32,577,632
Provision for slow moving inventory	-	318,524
Impairment losses on investments in companies	-	118,500,000
Dividends received from investee companies	(25,439,813)	(75,880,621)
	167,851,340	299,718,033
Changes in the components of working capital:		
Accounts receivable	(125,166,511)	(265,275,490)
Inventory	(50,743,537)	(79,219,912)
Net change in related parties balances	15,867,089	2,477,129
Prepayments and other debit balances	(845,444)	(33,766,705)
Accounts payable, accruals and other credit balances	67,851,981	89,195,801
Cash generated from operating activities	74,814,918	13,128,856
End of service benefits paid	(12,090,885)	(14,267,284)
Net change in Zakat and income tax	(53,315,987)	(37,330,289)
<b>Net cash flows provided by (used in) operating activities</b>	<b>9,408,046</b>	<b>(38,468,717)</b>
<b>Cash Flows from Investing Activities:</b>		
Purchase of property, plant and equipment	(393,678,154)	(224,718,945)
Net assets transfer form subsidiary companies	(126,785,797)	-
Proceeds from disposal of property, plant and equipment	585,912	724,582
Net change in intangible assets	(744,738)	(12,229,329)
Net change in loans granted to associates	(10,027,368)	(2,221,691)
Net change in goodwill	(149,820,975)	(51,154,217)
Proceeds from sale of associated companies	333,656,836	243,584,242
Dividends received from companies	25,439,813	75,880,621
Net change in investments	27,844,082	(25,422,245)
<b>Net cash flows (used in) provided by investing activities</b>	<b>(293,530,389)</b>	<b>4,443,018</b>
<b>Cash Flows from Financing Activities:</b>		
Change in Islamic banking facilities and long-term loans	469,491,081	281,455,600
Net change in accrued dues to shareholders and dividends paid	(92,811,407)	(153,421,060)
Board of directors' remuneration	(1,400,000)	(1,400,000)
Board of directors' remuneration in subsidiaries	(1,516,987)	(1,400,000)
Minority interest	94,600,315	24,903,115
<b>Net cash flows provided by financing activities</b>	<b>468,363,002</b>	<b>150,137,655</b>
<b>Increase in Cash and Cash Equivalents during the year</b>	<b>184,240,659</b>	<b>116,111,956</b>
Cash and cash equivalents at the beginning of the year	255,690,888	139,578,932
<b>Cash and cash equivalents at the end of the year</b>	<b>439,931,547</b>	<b>255,690,888</b>
<b>Non-cash transactions:</b>		
General reserve	(220,000,000)	-
Unrealized gain /(loss) from revaluation of investments in available for sale securities	233,140,525	(888,528,236)
Government grants (restricted)	31,038,150	-
Unrealized gain from revaluation of investments in companies	50,122,725	-

The accompanying notes from 1 to 33 are an integral part of these consolidated financial statements

**Saudi Pharmaceutical Industries and Medical Appliances Corporation**  
**(SPIMACO- ADDWAEIH) and Its Subsidiaries**  
(Saudi Joint Stock Company)

**Consolidated Statement of Changes in Shareholders' Equity**

**For the year ended December 31, 2016**

(Saudi Riyal)

	Share capital	Statutory reserve	Consensual reserve	General reserve	Retained earnings	Unrealized gain from revaluation of investment in available for sale securities	Government grants (restricted)	Unrealized Gain from revaluation in investment in companies	Translation difference of financial statements	Total
<b>2015</b>										
Balance as of January 1, 2015	1,200,000,000	442,310,303	44,679,059	220,000,000	229,510,943	1,316,749,018	-	-	(2,717,569)	3,450,531,754
Net income for the year	-	-	-	-	357,053,878	-	-	-	-	357,053,878
Transfer to statutory reserve	-	35,705,388	-	-	(35,705,388)	-	-	-	-	-
Transfer to consensual reserve	-	-	17,852,694	-	(17,852,694)	-	-	-	-	-
Provision for Zakat and income tax (Note 16)	-	-	-	-	(64,400,483)	-	-	-	-	(64,400,483)
Unrealized loss from revaluation of investments in available for sale securities	-	-	-	-	-	(888,528,236)	-	-	-	(888,528,236)
Dividends paid	-	-	-	-	(166,472,580)	-	-	-	-	(166,472,580)
Board of directors' remuneration	-	-	-	-	(1,400,000)	-	-	-	-	(1,400,000)
Board of directors' remuneration in subsidiaries	-	-	-	-	(1,400,000)	-	-	-	-	(1,400,000)
Translation differences of financial statements	-	-	-	-	-	-	-	-	(25,443,218)	(25,443,218)
<b>2016</b>										
Balance as of January 1, 2016	1,200,000,000	478,015,691	62,531,753	220,000,000	299,333,676	428,220,782	-	-	(28,160,787)	2,659,941,115
Net income for the year	-	-	-	-	376,691,747	-	-	-	-	376,691,747
Transfer to statutory reserve	-	37,669,175	-	-	(37,669,175)	-	-	-	-	-
Transfer to consensual reserve	-	-	18,834,587	-	(18,834,587)	-	-	-	-	-
Provision for Zakat and income tax (Note 16)	-	-	-	-	(43,790,246)	-	-	-	-	(43,790,246)
Unrealized gain from revaluation of investments in available for sale securities	-	-	-	-	-	233,140,525	-	-	-	233,140,525
Dividends paid	-	-	-	-	(105,744,567)	-	-	-	-	(105,744,567)
Board of directors' remuneration	-	-	-	-	(1,400,000)	-	-	-	-	(1,400,000)
Board of directors' remuneration in subsidiaries	-	-	-	-	(1,516,987)	-	-	-	-	(1,516,987)
Provision for investment losses	-	-	-	(220,000,000)	-	-	-	-	-	(220,000,000)
Unrealized gain from revaluation in investment companies	-	-	-	-	-	-	-	50,122,725	-	50,122,725
Translation differences of financial statements	-	-	-	-	-	-	-	-	-	-
Government grand ( restricted)	-	-	-	-	-	-	-	-	(5,571,068)	(5,571,068)
<b>Balance as of December 31, 2016</b>	<b>1,200,000,000</b>	<b>515,684,866</b>	<b>81,366,340</b>	<b>-</b>	<b>467,069,861</b>	<b>661,361,307</b>	<b>31,038,150</b>	<b>50,122,725</b>	<b>(33,731,855)</b>	<b>2,972,911,394</b>

The accompanying notes from 1 to 33 are an integral part of these consolidated financial statements



**Saudi Pharmaceutical Industries and Medical Appliances Corporation**  
**(SPIMACO- ADDWAEIH) and Its Subsidiaries**  
(A Saudi Joint Stock Company)  
**Notes to consolidated financial statements**  
**For the year ended December 31**  
(Saudi Riyal)

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**Note 1- Composition and Activities**

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 I, 1406H corresponding to January 21, 1986G.

The Company operates under CR. No. 1131006650, issued at its head office in Buraidah city- king Abdul Aziz Road- Industrial City of Al-Qassim. dated 6 Rajab, 1406H corresponding to March16, 1986G , with the following branches:

<b><u>Branch</u></b>	<b><u>CR. No.</u></b>
Riyadh	1010134224
Jeddah	4030086146
Khobar	2051058378

The main activity of the Company is the 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.

The Company's financial year starting from January1, from each Gregorian year and ending December 31, from the same year.

**Note 2- Basis of preparation consolidated financial statements**

These consolidated financial statements accompanying financial statements include the company's Saudi Pharmaceutical Industries and Medical Appliances Corporation (SPIMACO- ADDWAEIH) (the parent company) and its subsidiaries (referred to jointly as "the Group"), the subsidiary is the Group 's ability to control the subsidiary through its financial and operating policies to attain the benefits of its activities, it also taking into consideration the voting rights in the future the ability to command and control.

The financial statements of the subsidiaries are included in the consolidated financial statements from the starting date of control until the date of loss of such control.

All balances and important financial transactions that took place are eliminated between the parent Company and its subsidiaries at the preparation of these consolidated financial statements, any unrealized gain and losses resulting from internal transactions are eliminated too on consolidation of financial statements.

The financial statements for subsidiaries are prepared at the same date of the financial year of the Company, using consistent accounting policies.



**Saudi Pharmaceutical Industries and Medical Appliances Corporation**  
**(SPIMACO- ADDWAEIH) and Its Subsidiaries**  
(A Saudi Joint Stock Company)  
**Notes to consolidated financial statements**  
**For the year ended December 31**  
(Saudi Riyal)

**Note 2- Basis of preparation consolidated financial statements (continued)**

The Group owns the following subsidiaries:

Name of Subsidiary	Country of Incorporation	(% ) Actual direct and indirect ownership as of Dec. 31	
		2016	2015
ARAC Healthcare Company Ltd. (ARAC)	Saudi Arabia	100	100
Arabian Medical Products Manufacturing Company Ltd.(ENAYAH)	Saudi Arabia	51	51
Pharmaceutical Industries Company for Development (**)	Saudi Arabia	-	100
Pharmaceutical Industries Company for Marketing (**)	Saudi Arabia	-	100
Pharmaceutical Industries Company for Distribution (*)	Saudi Arabia	100	100
SPIMACO Egypt Company for Marketing (*)	Egypt	100	100
SPIMACO Egypt Distribution (*)	Egypt	100	100
SPIMACO Egypt Company(*)	Egypt	100	100
Moroccan Arab Company for Pharmaceuticals("IPharma")	Morocco	70.65	62.68
Dammam Pharmaceutical Company	Saudi Arabia	85	85
SPIMACO Saudi Foundation-Algeria	Saudi Arabia	100	100
SPIMACO Egypt for Pharmaceutical industries- Mevio (Previous)	Egypt	50.22	50.22
Al-Qassim Medical Service Company	Saudi Arabia	57.22	16.70
ARAKOM Medical Company	Saudi Arabia	100	100
Al-WATAN Arabian Medical Company	Saudi Arabia	100	-

(\*)Has not performed any trade activity yet.

(\*\*)The Companies were liquidated based on partner decision on 26-9-2016.

**Note 3 - Basis of preparation and significant accounting policies**

These consolidated financial statements have been prepared in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia. These consolidated financial statements have been presented in Saudi Riyals as the functional currency in which the Group's consolidated financial statements are presented.

The Group will prepare its consolidated financial statements from January 1, 2017 in accordance with the International Financial Reporting Standards (IFRS) issued by International Accounting Standard Board (IASB) which it is accredited by the Saudi Organization for Certified Public Accountants (SOCPA). Once The Group applies International Financial Reporting Standards (IFRS), it must comply with the requirements of (IFRS 1) "First-time adoption of International Financial Reporting Standards" for the periods starting from January 1, 2017.

When preparing the opening Consolidated Financial Statement based on International Financial Reporting Standards, the Group will identify the effect and make some adjustment to the opening balances as a result of the adoption International Financial Reporting Standards.

The significant accounting policies adopted are as follows:

**Accounting convention:**

The consolidated financial statements are prepared in accordance with the historical cost basis, except for investments in available for sale securities, where they are measured at fair value.

**Saudi Pharmaceutical Industries and Medical Appliances Corporation**  
**(SPIMACO-ADDWAEIH) and Its Subsidiaries**  
(A Saudi Joint Stock Company)  
**Notes to consolidated financial statements**  
**For the year ended December 31, 2016**  
(Saudi Riyal)

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**Note 3 - Significant Accounting Policies (continued)**

**Use of assumptions:**

The preparation of consolidated financial statements in accordance with generally accepted accounting standards requires management to make judgment, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses disclosed during the period for which the consolidated financial statements are prepared.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

Although these estimates and judgments are based on the best information available to management on current operations and events. The actual results can differ from these estimates.

**Cash and cash equivalents:**

Cash and cash equivalent comprise cash on hand, cash at banks in current accounts and other short-term highly liquid investments with original maturities of three month or less, if any, which are available to the Group without any restrictions

**Accounts receivable:**

Accounts receivable are stated at original invoice amount less provision made for doubtful debts. A provision against doubtful debts is established when there is objective evidence that will not be able to collect the amounts due according to the original terms of receivables. Bad debts are written off when identified, against its related provisions.

**Inventory:**

Inventory is stated at the lower of cost or net realizable value, which is lower, cost is determined as follows:

Raw materials and spare parts: Cost of purchase on weighted average basis.

Finished goods and work in progress: Cost of direct labor and materials plus indirect overheads based on a normal level of activity, using standard cost which approximate to weighted average.

**Investments in available for sale securities:**

Investments, that are bought neither with the intention of being held to maturity nor for trading purposes, are stated at fair value and are included under non-current assets unless they will be sold in the subsequent financial year. Changes in fair value are credited or charged to consolidated statement of changes in shareholders' equity. Permanent impairment in value of investment is charged to consolidated statement of income. Income from such investments is recognized when officially declared.

Fair value is determined on the basis of the market value if an open market exists/or on the basis of most recent financial statements.

**Investments in associates and others:**

The Group's investments in associates are accounted for using the equity method. An associate is an entity over which the Group exercises significant influence and which is neither a subsidiary or a joint venture. Under the equity method, investment in an associate is credited to the consolidated statement of financial position at cost adjusted by changes in the Group's share of the net assets of the associate. The consolidated statement of income reflects the share in the results of the associates. Other investments represent the Group's investment margin in other groups and are carried at cost.



**Note 3 - Significant Accounting Policies (continued)**

**Property, plant and equipment:**

Property, plant and equipment are stated at their historical cost after deducting the accumulated depreciation and provision for impairment in value, and the cost includes the expenses directly related to the acquisition of the asset. Subsequent expenditure is capitalized, which led to increase the future economic benefit of the asset, and all other expenses are recognized at the consolidated statement of income as an expense when incurred.

Gains and losses resulting from the disposal of property, plant and equipment is determined by comparing the proceeds from disposal of this assets with the net cost of carrying value and are recognized by net as other income at the consolidated statement of income.

Consumable property, plant and equipment are depreciated on straight line method and charged to the consolidated statement of income and so on over the estimated useful life of each type of the asset.

The following are the rates of depreciation for each type of property, plant and equipment for the current year and the year of comparison:

Buildings	3% - 4%
Machinery and equipments	10%- 30%
Furniture and fixture	10%- 25%
Computers	25%
Motor Vehicles	25%

Repair and maintenance expenses that do not substantially increase the useful lives of assets are charged to the expenses.

**Goodwill:**

Goodwill represents the increase in amounts paid over the fair value of the net assets of the acquire. Goodwill is tested for impairment annually and are recognized at book value, adjusted by impairment, if any

**Research and development expenses:**

Research expenses are those expenses related to the costs of acquiring scientific or technical knowledge in the pharmaceutical industry or tests aimed at obtaining new knowledge for the development of a new vaccine. Research expenses are recognized in the consolidated statement of income.

Development expenses are those expenses related to the costs of applying research and knowledge results to the development of plans or designs required for production. Before starting commercial production, development costs are capitalized only when they can be measured reliably. The product or process resulting from development is considered to be economically viable and there is future economic benefit, taking into account the ability of the Group to acquire sufficient resources to complete the development, use or sale of the asset. Otherwise, these expenses are recognized in the consolidated income statement as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses.

**Intangible assets:**

Intangible assets are amortized over the useful life of asset and which are estimated based on management's estimates and based on economic benefit of the asset, which will be reviewed periodically to insure its suitability. The estimated period of benefit of intangible assets for the purpose of calculating amortization are as follows:

Consultations and technical knowledge fees	8	Years
Products development costs	7	Years
Consultations and computer programs	4-7	Years
Other	7	Years



**Note 3 - Significant Accounting Policies (continued)**

**Impairment of assets:**

A financial asset is assessed at each reporting date to determine whether there is objective evidence that it is impaired. If such evidence exists, the impairment loss is recognized in the consolidated statement of income. Impairment is determined as follows:

A) For assets carried at cost - impairment is the difference between carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset

B) For assets carried at amortized cost - impairment is the difference between carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

**Accounts payable, accruals and other credit balances:**

Payables are stated at cost value, expenses are recognized due to the values that will be paid in the future in exchange for goods and services received.

**Provision for Zakat and income tax:**

Zakat and income tax are calculated in accordance with the instruction of the General Authority for Zakat and Income through the Group's consolidated Zakat for each financial period separately. Zakat is settled in the financial year during which the final linkage is approved. Any difference between the Zakat provision and the final linkage is recognized in accordance with the requirements of the General Presentation and Disclosure Standard relating to accounting changes.

Taxes payable are calculated on the basis of the adjusted net profit, which is different from the net income shown in the consolidated statement of income, so that items of income or expenses that are taxable or are deducted from the tax base in other years and it further excludes that are never taxable or deductible.

The ownership accounts of the Saudi partner are charged to the Zakat allowance for the Group and are included in these consolidated financial statements, while the ownership accounts of the foreign partner are charged to the income tax provision appearing in the consolidated statement of balance sheet.

**Provision for end of service benefits:**

End of service benefits are payable to employees in accordance with the labor law at Kingdom of Saudi Arabia which represents the amount due charged to consolidated statement of income, and the benefits are calculated on basis of the present value of benefits assessed is entitled the employee in case he left work at the date of consolidated balance sheet.

**Sales:**

Sales represent the value of invoices for goods sold and services rendered by the Group during the year. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the customer, and this can normally be measured reliably when the goods are delivered to the customer. Revenue from rendering of services is recognized when the contractual service is performed.

The commission income is calculated based on the agreements signed with several companies. The Group takes a commission for the sales, warehousing, delivery and collection of the goods of these companies.

Commission income and other income are recognized on an accrual basis.

**Selling, marketing and distribution expenses:**

Are those expenses resulting from the Group's efforts related to the sale, marketing and distribution function.

**Note 3 - Significant Accounting Policies (continued)**

**Administrative and general expenses:**

Are those related to management, which are not related to the production function or the selling, marketing and distribution function in accordance with the accounting principles issued by the Saudi Organization for Certified Public Accountants.

**Financing expenses:**

Financing expenses that are directly attributable to the construction of a qualifying asset are capitalized up to stage when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed, otherwise the expenses are charged to the consolidated statement of income.

**Operating leases:**

Payment under operating lease is recognized in the consolidated statement of income on a straight-line basis over the term of the lease.

**Earnings per share:**

Earnings per share are calculated by dividing net income for the year over the number of shares during the year or arbitrage if the Group increases or decreases the number of shares during the year.

**Offsetting:**

Financial liabilities are set off against financial assets, and the net amount is shown in the consolidated financial position only when the obliging legal rights are available and when settled on net basis or the realization of assets or settlement of liabilities is done at the same time.

**Foreign currency translation:**

Transactions in foreign currencies are recorded in Saudi Riyals at the rate of exchange ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the consolidated balance sheet date. All exchange differences are taken to the consolidated statement of income.

Assets and obligations of foreign affiliated companies are translated to Saudi Riyal at the conversion price on the date of the consolidated balance sheet. On the other hand, revenues and expenses are translated at the average conversion price during the period. Owners' equity items, except retained earnings, are translated at the conversion price on the date of occurrence. Substantial adjustments arise from translating foreign currency is reported separately under Shareholders' equity.

**Segment Information:**

A- The Segment is every essential part of the Group that fulfills the following conditions:

- 1- Having operating activity which generates revenue and incur expense.
- 2- Analysis of its operations continuously by Group's management to make decisions concerning the allocation of resources and performance assessment.
- 3- Availability of its financial information separately.

B- The segment information concerns with Group's activities and business approved by the management of the used as a basis for the financial reporting and being consistent with the internal reporting process. Transactions between segments are made with the same terms as other segment parties.

C- Assets, liabilities and business segment results include items that are directly attributable to a certain segment and items that can reasonably be allocated between various business segments, on consistent basis.



**Saudi Pharmaceutical Industries and Medical Appliances Corporation**  
**(SPIMACO-ADDWAEIH) and Its Subsidiaries**  
(A Saudi Joint Stock Company)  
**Notes to consolidated financial statements**  
**For the year ended December 31, 2016**  
(Saudi Riyal)

**Note 3 - Significant Accounting Policies (continued)**

**Segment Information (continued)**

D- The Group is organized into the following main business segments:

- 1- Medical and pharmaceutical production segment: engaged in manufacturing, production, development and marketing of pharmaceutical raw materials and medical appliance and production of consumables medical appliances.
- 2- Investment segment: engaged in investing activity in associates and investments in securities.

C- The following is a summary of assets and liabilities and the results of the segments:

<b>Description</b>	<b>Medical and pharmaceutical production</b>	<b>Investment</b>	<b>Total</b>
<b><u>As of December 31, 2016</u></b>			
Revenues	1,847,243,332	270,759,380	2,118,002,712
Gross profit	909,380,789	-	909,380,789
Property, plant and equipment, net	977,532,686	-	977,532,686
Total assets	3,437,657,510	1,402,261,335	4,839,918,845
Total liabilities	1,704,892,791	-	1,704,892,791
<b><u>As of December 31, 2015</u></b>			
Revenues	1,706,801,286	115,142,077	1,821,943,363
Gross profit	848,601,306	-	848,601,306
Property, plant and equipment, net	504,808,972	-	504,808,972
Total assets	2,513,510,717	1,310,929,529	3,824,440,246
Total liabilities	1,096,984,786	-	1,096,984,786

The Group's operating assets are mainly concentrated in Saudi Arabia and the main market for the Group's products is the Middle East region. It is not possible to effectively disclose the information for each geographic region in which the Group operates.

**Note 4-Cash and Cash Equivalents**

	<b>2016</b>	<b>2015</b>
Cash in hand and at banks	335,103,505	215,132,806
Murabaha deposits	104,828,042	40,558,082
	<b>439,931,547</b>	<b>255,690,888</b>

**Note 5-Accounts Receivable . Net**

	<b>2016</b>	<b>2015</b>
Private sector	887,396,405	814,596,818
Other government institutions	391,192,609	221,366,048
Ministry of health	88,717,897	124,740,724
	<b>1,367,306,911</b>	<b>1,160,703,590</b>
(Less)		
Provision for doubtful debts	(16,355,897)	(11,210,011)
	<b>1,350,951,014</b>	<b>1,149,493,579</b>



**Saudi Pharmaceutical Industries and Medical Appliances Corporation**  
**(SPIMACO-ADDWAEIH) and Its Subsidiaries**  
(A Saudi Joint Stock Company)  
**Notes to consolidated financial statements**  
**For the year ended December 31, 2016**  
(Saudi Riyal)

**Note 6-Related Parties balances and Transactions**

In the ordinary course of business, the Group carries out transactions with other companies within the definition of the related parties.

Related parties represent (parent company), branches, associates, subsidiaries, key partners and senior management personnel of the Group.

During the year, the Group entered into transactions with related parties. These transactions were carried out on a commercial basis and with the approval of the Board of Directors. The balances below are not subject to commission and there are no specific repayment terms.

**A-Due from related parties:**

	<b>Nature of relationship</b>	<b>2016</b>	<b>2015</b>
CAD Middle East for Pharmaceutical Industries	Associate	<b>26,932,688</b>	18,932,688
Tassili Arab Pharmaceutical Co.			
TAPHYCO-Algeria	Affiliate	<b>29,895,725</b>	27,868,357
Arabian Health Care and Medical Appliances	Affiliate	<b>5,050,755</b>	2,947,765
Hill Yard LLC company - Belgium	Affiliate	<b>140,220</b>	161,970
Olayan Company	Affiliate	<b>32,900</b>	-
Meivo Egypt	Affiliate	<b>608,461</b>	2,880,123
Spimaco Ilac	Affiliate	<b>859,752</b>	507,471
Cooper Pharma Co.	Affiliate	-	211,000
		<b>63,520,501</b>	<b>53,509,374</b>
	<b>Nature of relationship</b>	<b>2016</b>	<b>2015</b>

**B-Due to related parties:**

Halyard LLc, USA	Associate	<b>10,475,009</b>	5,636,592
Olayan Kimberly Clark Arabia Co.	Affiliate	<b>2,850</b>	247,895
Halyard LLc,Belgium	Affiliate	-	5,270,344
Arab Company for Drug Industries and Medical Appliances (ACDIMA)	Affiliate	<b>16,527,820</b>	-
		<b>27,005,679</b>	<b>11,154,831</b>

**C-The following details for the main transaction with related parties:**

	<b>Transaction Amount</b>	
<b><u>Nature of transaction</u></b>	<b>2016</b>	<b>2015</b>
Financing	<b>33,065,453</b>	28,584,743
Sales	<b>143,025,977</b>	93,930,147
Purchase of materials and services	<b>111,786,895</b>	109,136,058
Royalties	<b>4,730,912</b>	4,397,008

**Saudi Pharmaceutical Industries and Medical Appliances Corporation**  
**(SPIMACO-ADDWAEIH) and Its Subsidiaries**  
(A Saudi Joint Stock Company)  
**Notes to consolidated financial statements**  
**For the year ended December 31, 2016**  
(Saudi Riyal)

**Note7-Inventory. Net**

	2016	2015
Raw materials	170,498,811	166,464,984
Finished goods	182,766,908	102,827,118
Goods in transit	20,953,840	55,475,120
Spare parts	18,303,700	17,826,508
Work in progress	31,759,955	25,906,004
	424,283,214	368,499,734
(Less)		
Provision for slow moving inventory	(1,609,340)	(1,653,758)
	422,673,874	366,845,976

**Note 8-Prepayments and Other Receivables. Net**

	2016	2015
Employees Receivables	50,676,016	43,883,712
Advances to suppliers and licensors	39,382,569	56,913,259
Prepayments	18,419,638	16,561,426
Others	61,612,373	51,466,664
	170,090,596	168,825,061
(Less)		
Provision for other doubtful assets	(5,110,687)	(5,110,687)
	164,979,909	163,714,374

**Note 9- Investments in Available for Sale Securities**

	% of ownership			
	2016	2015	2016	2015
<b>Quoted market prices:</b>				
National Industrialization Company	5.25	5.25	612,793,114	372,378,862
Saudi Industrial Investment Group (SIIG)	3.12	3.12	264,272,463	193,407,669
Yanbu National Petrochemical Company (YANSAB)*	0.65	1.9	198,642,664	347,159,715
<b>Investments in mutual funds :</b>				
Riyadh Equity Fund 2**	-	-	5,473,658	5,451,678
			1,081,181,899	918,397,924

**Saudi Pharmaceutical Industries and Medical Appliances Corporation**  
**(SPIMACO-ADDWAEIH) and Its Subsidiaries**  
(A Saudi Joint Stock Company)  
**Notes to consolidated financial statements**  
**For the year ended December 31, 2016**  
(Saudi Riyal)

**Note 9- Investments in Available for Sale Securities (continued)**

The movement of investments in available for sale securities is as follows:

	<u>2016</u>	<u>2015</u>
<b><u>Cost</u></b>		
Balance at the beginning of the year	490,177,142	490,177,142
Disposal	(70,356,550)	-
Balance at the end of the year	<u>419,820,592</u>	<u>490,177,142</u>
<b><u>Valuation adjustment</u></b>		
Balance at the beginning of the year	428,220,782	1,316,749,018
Unrealized gain (loss) during the year	233,140,525	(888,528,236)
Balance at the end of the year	<u>661,361,307</u>	<u>428,220,782</u>
<b>Book value</b>	<u>1,081,181,899</u>	<u>918,397,924</u>

\* The Group sold part of the investment in Yanbu National Petrochemical Company (YANSAB) during 2016 and the profit resulting from the sale (SR 263,300,286).

\*\* The Group's investments are in Saudi investment funds and these investments are recorded at the prevailing market price declared by the fund managers as at 31 December 2016 and 2015.

**Note 10- Investments in Associates and Others**

	<b>% of Ownership</b>			
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
<b>First: Investment in Associates</b>				
CAD Middle East Pharmaceutical Industries LLC*	44.05	44.05	47,630,012	59,709,088
Tassili Arab Pharmaceutical TAPHYCO - Algeria	22	22	5,851,507	11,753,150
<b>Second: investment in other companies</b>				
Arabia Industrial Fibers Co. (Ibn Rushd)*	4.17	4.17	16,500,000	236,500,000
Qaseem Medical Services Company**	57.22	16.7	-	33,415,150
			<u>69,981,519</u>	<u>341,377,388</u>

- The movement of investments in associates and other during the year is as follows:

	<u>2016</u>	<u>2015</u>
Balance at the beginning of the year	341,377,388	545,721,147
Disposal during the year	(33,415,150)	(92,304,243)
Decrease in investment value	(220,000,000)	(118,500,000)
Loss from foreign currency valuation	-	5,836
Company's share of (losses) / profits of associates and others	(17,980,719)	6,454,648
<b>Balance at the end of the year</b>	<u>69,981,519</u>	<u>341,377,388</u>



**Saudi Pharmaceutical Industries and Medical Appliances Corporation  
(SPIMACO-ADDWAEIH) and Its Subsidiaries**  
(A Saudi Joint Stock Company)  
**Notes to consolidated financial statements**  
**For the year ended December 31, 2016**  
(Saudi Riyal)

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**Note 10- Investments in Associates and Others(continued)**

\* The investment in Ibn Rushd has been proven at cost, since the company has accumulated losses over the past years. The Extraordinary General Assembly decided at the meeting held on 22 May 2016 to use the general reserve to amortize the loss of investment in Ibn Rushd by transferring the general reserve of SR (220) million to an provision that is amortized against the losses of the investment in Ibn Rushd Company To become total what was recognized and amortize from the losses of investment in Ibn Rushd equivalent to (95%) of the total value of investment.

\*\* During the year 2016, the Group increased the investment in Qassim Medical Services by acquiring (40.52%) to become the total ownership ratio (57.22%). Accordingly, the accounting for investment was transferred from the cost method and consolidated in the consolidated financial statements (Note 2).

**Saudi Pharmaceutical Industries and Medical Appliances Corporation  
(SPIMACO-ADDWAEIH) and Its Subsidiaries**

(A Saudi Joint Stock Company)

**Notes to consolidated financial statements**

**For the year ended December 31, 2016**

(Saudi Riyal)

**Note 11 - Property, Plant and Equipment, Net**

<b>Cost</b>	<b>Land*</b>	<b>Buildings</b>	<b>Machinery and equipments</b>	<b>Furniture and fixtures</b>	<b>Computers</b>	<b>Motor vehicles</b>	<b>Projects in progress</b>	<b>Total</b>
Balance as at Jan 1, 2016	85,444,965	252,152,780	387,016,445	105,099,214	25,331,343	16,625,913	244,077,071	1,115,747,731
Additions during the year	-	235,080	21,274,285	4,077,895	2,112,544	2,507,200	363,471,150	393,678,154
Assets transfer from Subsidiary	31,038,150	96,013,559	62,846,399	-	-	1,705,369	661,576	192,265,053
Disposals	-	(290,000)	(4,402,858)	(504,741)	(936,644)	(2,072,553)	-	(8,206,796)
Transfers	-	-	14,313,768	557,940	795,996	-	(15,667,704)	-
Balance as at December 31, 2016	<b>116,483,115</b>	<b>348,111,419</b>	<b>481,048,039</b>	<b>109,230,308</b>	<b>27,303,239</b>	<b>18,765,929</b>	<b>592,542,093</b>	<b>1,693,484,142</b>
<b>Accumulated depreciation</b>								
Balance as at Jan 1, 2016	-	151,598,095	333,067,942	95,868,270	16,978,327	13,426,125	-	610,938,759
Charge during the year	-	7,669,007	11,802,612	2,229,883	2,209,291	1,709,650	-	25,620,443
Assets transfer from Subsidiary	-	38,403,951	47,338,862	1,415,261	-	-	-	87,158,074
Disposals	-	-	(4,402,198)	(474,272)	(936,644)	(1,952,706)	-	(7,765,820)
Balance as of December 31, 2016	-	<b>197,671,053</b>	<b>387,807,218</b>	<b>99,039,142</b>	<b>18,250,974</b>	<b>13,183,069</b>	-	<b>715,951,456</b>
<b>Net book value :</b>								
<b>As at December 31, 2016</b>	<b>116,483,115</b>	<b>150,440,366</b>	<b>93,240,821</b>	<b>10,191,166</b>	<b>9,052,265</b>	<b>5,582,860</b>	<b>592,542,093</b>	<b>977,532,686</b>
As at December 31, 2015	85,444,965	100,554,685	53,948,503	9,230,944	8,353,016	3,199,788	244,077,071	504,808,972

\* The plot of land on which the factory is constructed at the industrial zone in Buraidah has been leased from Ministry of Commerce and Industry of a nominal rent for a period of 25 years has already expired during 21 Rabi Al-Akher 1433H corresponding to 15 March 2012G. The contract was renewed for 20 year expiring on 21 Rabi' II 1453H corresponding to 10 August 2031G with a rent amounted to SR. 149,688.

**Saudi Pharmaceutical Industries and Medical Appliances Corporation**  
**(SPIMACO-ADDWAEIH) and Its Subsidiaries**  
(A Saudi Joint Stock Company)  
**Notes to consolidated financial statements**  
**For the year ended December 31, 2016**  
(Saudi Riyal)

**Note 11- Property, Plant and Equipment(continued)**

The depreciation included in the consolidated statement of income is as follows:

	<u>2016</u>	<u>2015</u>
Cost of sales	18,959,223	17,041,712
General and administrative expenses	3,309,980	3,278,826
Selling, marketing and distribution expenses	2,071,985	2,964,035
Research and development expenses	1,279,255	970,670
	<u>25,620,443</u>	<u>24,255,243</u>

**Note 12- Intangible Assets, Net**

	<u>2016</u>	<u>2015</u>
<b><u>Cost</u></b>		
Consultation and technical know-how fees	66,563,105	66,563,105
Products development costs	42,426,364	42,427,244
Computer software and consultation	42,904,194	42,158,576
Others	6,023,973	6,023,973
Balance as at December 31,2016	<u>157,917,636</u>	<u>157,172,898</u>
<b><u>Accumulated Amortization</u></b>		
Balance as at January 1	137,725,344	136,690,696
Charge for the year	2,124,313	1,034,648
Balance as at December 31	<u>139,849,657</u>	<u>137,725,344</u>
<b><u>Net Book Value as at December 31</u></b>	<u>18,067,979</u>	<u>19,447,554</u>

The amortization charged to the cost of sales is amounted to SR1,894,813 (SR 818,425 : 2015).

**Note 13-Goodwill**

Goodwill arose as a result of the acquisition of the group on SPIMACO Egypt Pharmaceutical Industries - Mevo previously during 2015 and Qassim medical services company in 2016. The balance of goodwill at December 31 are as follows

	<u>2016</u>	<u>2015</u>
SPIMACO Egypt Pharmaceutical Industries - Mevo	51,154,217	51,154,217
Qassim Medical Services Company	199,943,700	-
	<u>251,097,917</u>	<u>51,154,217</u>



**Saudi Pharmaceutical Industries and Medical Appliances Corporation**  
**(SPIMACO-ADDWAEIH) and Its Subsidiaries**  
(A Saudi Joint Stock Company)  
**Notes to consolidated financial statements**  
**For the year ended December 31, 2016**  
(Saudi Riyal)

**Note 14- Islamic banking facilities and long term loans**

	2016	2015
<b>Current liabilities</b>		
Islamic banking facilities (Murabha)	<b>108,082,487</b>	300,000,000
Government loans	<b>2,281,000</b>	-
Bank loan	<b>3,507,796</b>	1,455,600
	<b>113,871,283</b>	<b>301,455,600</b>
<b>Non- current liabilities</b>		
Islamic banking facilities (Murabha)	<b>636,106,398</b>	-
Government loans	<b>34,655,000</b>	-
	<b>670,761,398</b>	-

	Currency	Due Date	2016 Saudi riyals	2015 Saudi riyals
Islamic banking facilities (Murabha)*	Saudi riyals	2017	100,000,000	300,000,000
Islamic banking facilities (Murabha)*	Saudi riyals	16-2021	200,000,000	-
Islamic banking facilities (Murabha)*	Saudi riyals	16-2023	350,000,000	-
Islamic banking facilities (Murabha)**	Saudi riyals	16-2022	94,188,885	-
Industrial development fund loan ***	Saudi riyals	16-2025	23,250,000	-
Loans from Ministry of finance ****	Saudi riyals	03-2022	13,686,000	-
Bank loans*****	Egyptian pounds	16-2017	3,507,796	-
Bank loans	Egyptians pounds	15-2016	-	1,455,600

The terms and conditions of the most important facilities and loans are as follows:

\* The Group has obtained Islamic banking facilities (Murabaha) with one of the local banks according to the limited dates above and with different rates according to the needs of the Group. The balance shown in the above table represents the amount used from these facilities as at 31 December. These facilities are secured by promissory note dated 15/4/2015 and 6/3/2016.

\*\* A subsidiary of the Group acquired Islamic banking facilities (murabaha) secured by a guarantee dated 24/1/2016.

\*\*\* A subsidiary of the Group obtained a loan from the Industrial Development Fund secured by a mortgage on all the fixed assets of the project and guarantee from the parent company (Saudi Pharmaceutical Industries and Medical Appliances Corporation) (SPIMACO) covering the entire value of the loan.

\*\*\*\* The loan granted by the Ministry of Finance is secured by mortgaging the land granted by the Ministry of Finance and National Economy to one of the Group's subsidiaries which was acquired and consolidated in the financial statements for the year ended 31 December 2016.

\*\*\*\*\* A subsidiary of the Group obtained a loan from a bank in the Republic of Egypt and secured a deposit

**Saudi Pharmaceutical Industries and Medical Appliances Corporation**  
**(SPIMACO-ADDWAEIH) and Its Subsidiaries**  
(A Saudi Joint Stock Company)  
**Notes to consolidated financial statements**  
**For the year ended December 31, 2016**  
(Saudi Riyal)

**Note 15- Accounts Payable, Accruals and Other Payables**

	2016	2015
Accounts payable	299,484,666	243,810,591
Receivables staff and accruals	75,059,919	51,931,190
Others	41,263,904	43,867,567
	<u>415,808,489</u>	<u>339,609,348</u>

**Note 16- Provision for Zakat and Income Tax**

The movement in Zakat and income tax provision during the year is as follows:

A) Provision for Zakat:

	2016	2015
Balance at the beginning of the year	61,644,406	35,627,765
Charge during the year	31,207,777	50,279,582
Adjustments during the year	1,313,641	-
Payment during the year	(40,350,226)	(24,262,941)
Balance at the end of the year	<u>53,815,598</u>	<u>61,644,406</u>

B) Provision for income tax :

Balance at the beginning of the year	18,066,109	17,012,556
Charge during the year	17,134,743	16,553,195
Adjustments during the year	(3,290,603)	-
Payment during the year	(12,838,478)	(15,499,642)
Balance at the end of the year	<u>19,071,771</u>	<u>18,066,109</u>
Provision for Zakat and income tax	<u>72,887,369</u>	<u>79,710,515</u>

C) Status for zakat and income tax :

The Group have received the final Zakat and income tax certificates for the year 2015 from General Authority for Zakat and Income Tax.

**Note 17- Dividends Shareholders Accrued**

This represent dividends declared in prior years and accrued amounts due to shareholders regarding the issued shares during prior years. Such amounts have not been claimed by the shareholders until date.

**Note 18-Provision for End of Service Benefits**

The movement in Provision for end of service benefits during the year is as the follow:

	2016	2015
Balance at the beginning of the year	213,167,456	194,857,108
Charge during the year	34,319,153	32,577,632
Transfer from subsidiary	4,342,653	-
Payment during the year	(12,090,885)	(14,267,284)
Balance at the end of the year	<u>239,738,377</u>	<u>213,167,456</u>



**Saudi Pharmaceutical Industries and Medical Appliances Corporation**  
**(SPIMACO-ADDWAEIH) and Its Subsidiaries**  
(A Saudi Joint Stock Company)  
**Notes to consolidated financial statements**  
**For the year ended December 31, 2016**  
(Saudi Riyal)

**Note 19-Share Capital**

The head of the parent company's subscribed and paid up capital of SR 1,200,000,000 divided into 120,000,000 shares of equal value is reached, the value of each share is SAR 10, has been underwriting in all the company's shares..

	<b>Ownership (%)</b>	
	<b>2016</b>	<b>2015</b>
Saudi Shareholders	<b>79.51</b>	79.51
Non-Saudi shareholder (Arab Company for Drugs Industries and Medical Appliances - Jordan)	<b>20.49</b>	20.49
	<b>100</b>	100

**Note 20-Statutory Reserve**

In accordance with Saudi Arabian Companies Law and the Company's Article of Association, 10% of the annual net income is required to be transferred to statutory reserve until this reserve equals 30% of the share capital. This reserve is not available for dividends distribution. article of association for the group has been modified to agree with paragraph related to adjusting statutory reserve on new regulation for companies'.

**Note 21- Consensual Reserve**

In accordance with the Company's Article of Association, 5% of the annual net income is required to be transferred to a consensual reserve until this reserve equals 25% of the share capital, and will be used as decided by the Shareholders' General Assembly.

**Note 22- General Reserve**

In 2001, for the transfer of the legal reserve of the General Assembly decided to more than 50% of the company's capital mother to the General Reserve to counter any drop in the value of the Group's investments, and as a result of investment losses in the company of Ibn Rushd was the General Assembly decided to hold an extraordinary meeting held on May 22, 2016 to use the general reserve to amortize the loss of investment in Ibn Rushd by transferring the general reserve of SR (220) million to an provision that is amortized against the losses of the investment in Ibn Rushd Company To become total what was recognized and amortize from the losses of investment in Ibn Rushd equivalent to (95%) of the total value of investment.

**Note 23- Non- Control Interest**

Non-control interests represent part of the net operating results and the net assets of the companies relating to the shares not owned by the Parent Company (note 1).

The movement of non-control interests in subsidiaries during the year is as follows::

	<b>2016</b>	<b>2015</b>
Balance at the beginning of the year	<b>67,514,345</b>	42,611,230
Share in net income of subsidiaries	<b>33,491,131</b>	19,046,252
Share in the capital additions	<b>9,000,000</b>	9,000,000
Share in provision of Zakat and income tax and dividends	<b>(11,714,363)</b>	(19,681,975)
Share in board of directors' remuneration	<b>(600,000)</b>	(600,000)
Share in acquisitions during the year	<b>64,423,547</b>	17,138,838
Balance at the end of the year	<b>162,114,660</b>	67,514,345

**Saudi Pharmaceutical Industries and Medical Appliances Corporation**  
**(SPIMACO-ADDWAEIH) and Its Subsidiaries**  
(A Saudi Joint Stock Company)  
**Notes to consolidated financial statements**  
**For the year ended December 31, 2016**  
(Saudi Riyal)

**Note 24-Government grants (restricted)**

Obtained one of the subsidiaries of the group (Qassim Medical Services Company) on a conditional government grant based on the Royal Decree No. 4/1733 dated 3/12/1412 H which is about a piece of land to build a private hospital on them. According to the conditions grant, it is prohibited for the subsidiary company selling the land or part of it to others in the case of liquidation of the subsidiary company or the cancellation of the project, the land is owned by the country, as has been the inclusion of this land within the item of property, plant and equipment and in the Shareholders equity item amounted at 31,038,150 million Riyals Saudi.

**Note 25-Selling, Marketing and Distribution Expenses**

	2016	2015
Salaries, wages and other benefits	210,737,851	192,668,587
Advertising and franchise	189,648,249	160,694,780
Discount and expired inventory	48,085,022	45,407,518
Sales commission	20,581,787	19,712,774
Travel and training	12,838,840	11,408,066
Freight and custom duties	11,528,909	11,388,834
Lower currency losses	70,515,411	9,086,221
Provision for doubtful debts	5,627,325	94,441
Legal fees	4,223,569	3,860,955
Insurance	3,036,795	2,541,834
Water and Electricity	2,851,873	3,081,217
Rents	2,639,617	2,341,936
Laboratory	2,514,022	839,560
Depreciation	2,071,985	2,964,035
Telephone and postage	1,822,189	1,828,213
Printing and stationary	1,410,208	2,950,098
Financial expenses	390,797	856,210
Miscellaneous	3,796,863	5,865,948
	<u>594,321,312</u>	<u>477,591,227</u>

**Note 26-General and Administrative Expenses**

	2016	2015
Salaries, wages and other benefits	83,225,288	61,681,667
Legal and professional fees and studies	10,461,166	3,108,507
Water and Electricity	3,813,317	1,553,602
Depreciation	3,309,980	3,278,826
Repair and maintenance	3,041,626	607,827
Travel and training	2,901,350	2,768,728
Board of directors' expenses	2,088,468	2,256,566
Financial expenses	1,434,860	159,698
Printing and stationary	1,376,827	1,181,672
Rents	1,263,777	972,561
Insurance	623,886	1,441,036
Non- commercial advertising	570,529	282,559
Telephone and postage	407,409	399,921
Company's shareholders register expenses	510,897	496,905
Miscellaneous	8,423,172	3,438,547
	<u>123,452,552</u>	<u>83,628,622</u>



**Saudi Pharmaceutical Industries and Medical Appliances Corporation**  
**(SPIMACO-ADDWAEIH) and Its Subsidiaries**  
(A Saudi Joint Stock Company)  
**Notes to consolidated financial statements**  
**For the year ended December 31, 2016**  
(Saudi Riyal)

**Note 27- Research and development expenses**

	2016	2015
Salaries, wages and other benefits	18,864,895	15,992,191
Laboratory research	3,790,595	2,722,953
Labs	3,524,296	2,813,656
Registration of products	2,438,164	1,687,503
Depreciation	1,279,255	970,670
Travel and training	562,693	469,546
Repair and maintenance	259,920	194,146
Water and Electricity	223,363	129,114
Printing and stationary	160,725	62,581
Telephone and postage	80,000	80,841
Insurance	59,549	53,624
Legal and professional fees	43,019	94,546
Other	19,397	75,429
	<u>31,305,871</u>	<u>25,346,800</u>

**Note 28- Dividends received from investee companies**

	2016	2015
Yanbu National Petrochemical Company (Yansab)	25,439,813	26,778,750
National Industrialization Company	-	35,096,971
Saudi Industrial Investment Group	-	14,004,900
	<u>25,439,813</u>	<u>75,880,621</u>

**Note 29- Other Income**

	2016	2015
Murabhat	1,008,045	-
Commission earned	-	75,728
Rental income	171,210	107,017
Sale of scrap	344,426	550,044
Gain on disposal of property, plant and equipment	144,936	379,815
Others	4,380,367	637,794
	<u>6,048,984</u>	<u>1,750,398</u>

**Note 30- Contingent liabilities**

The Group's contingent liabilities at 31 December 2016 amounted to SAR 122 million guaranteed by letters of guarantee (2015: SR 74 million).

**Note 31- Comparative Figures**

Certain reclassifications have been made to the last year figures to conform with the current year classification.

**Saudi Pharmaceutical Industries and Medical Appliances Corporation  
(SPIMACO-ADDWAEIH) and Its Subsidiaries**  
(A Saudi Joint Stock Company)  
**Notes to consolidated financial statements**  
**For the year ended December 31, 2016**  
(Saudi Riyal)

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**Note 32-Financial Instruments -Risk Management**

Financial assets and liabilities carried on the consolidated balance sheet include cash and cash equivalents, accounts receivable, prepayment and other debit balances, Islamic banking facilities and long term loans, accounts payable, and accrued expenses and other credit balances.

**Fair value:**

Is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transactions. As the Group's financial instruments are compiled under the historical cost method, the Group's management believe the fair values of the Group's financial assets and liabilities are not materially different from their book values.

**Currency risk:**

Is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's transactions are predominantly in Saudi Riyals, and the United States Dollars. As the Saudi Riyals is effectively pegged to the United States Dollar, the exchange risk is effectively managed.

**Credit risk:**

Is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss.

Cash and cash equivalents are placed with national banks with sound credit ratings. Accounts receivable are stated at original invoice amount less provision made for doubtful debts.

**Liquidity risk:**

Is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The Group's management monitors liquidity requirements on a regular basis and ensures that sufficient funds are available to meet any future commitments.

**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 financial assets and liabilities as at the consolidated balance sheet date, except for some Islamic banking facilities and long term loans, are not exposed to interest rate risk. Some Islamic banking facilities and long term loans bear a floating rate of interest plus credit margin based on prevailing market interest rates. The Group has adopted a hedging strategy to control exposure to interest rate fluctuations.

**Note 33-Consolidated Financial Statements Approval**

The consolidated financial statements were approved by the board of directors on 10 Jamad AL-AKHER, 1438H corresponding to (March 9, 2017G) and suggested a dividends of SR 104,571,525 as income before Zakat and income tax deduction, and an amount of SR 1,400,000 as board of directors' remuneration.