

Chairman's Message

Dear Shareholders

On behalf of the SADAFCO Board of Directors, it gives me great pleasure to congratulate all shareholders on the excellent results achieved by the company during the Fiscal Year 2012-13.

This Annual Report, Financial Year-End Result and Auditor's Report details this accomplishment.

SADAFCO delivered Net Profit of SAR 164.7 million in an ever-increasingly competitive market after ending the year with Net Sales of SAR 1,549 million. This achievement reflects growth of 8% in Net Profit and 16% in Net Sales over 2011-12.

A landmark achievement during 2012-13 was the breaking of the One Billion Saudi Riyal barrier for SADAFCO's milk sales, an accomplishment made possible by a strong 19% growth for us in this category.

Sales continued to show a healthy annual escalation and 2012-13 was the fourth year in a row to record double-digit growth.

This trend supports the earlier Board decision to re-open SADAFCO's Dammam production facility. In Quarter 2 of 2012-13, the first *Crispy* Snacks produced at Dammam Factory were dispatched for sale and in Quarter 3 production of the first two relocated *Saudia* Tomato Paste production lines commenced in Dammam. Most recently, the move to in-house production of *Saudia* Feta Cheese was completed with 10kg and 16kg products being produced from March 2013.

The relocation of Tomato Paste and Snacks production lines to Dammam has freed up space in Jeddah to avert focus to some exciting new product development projects and to introduce capacity-expansion activities to allow SADAFCO to keep up with consumer demand for Milk. Furthermore, the large Dammam Factory is still not fully utilized and this offers scope for further product portfolio development. SADAFCO is therefore well-positioned to enable further sales growth in the coming years.

To facilitate logistical support around the Saudi Arabian capital, work on the new, SAR65 million, state-of-the-art Riyadh Regional Distribution Centre (RDC) has commenced with the completion of the boundary wall.

On the Human Resource development front, SADAFCO continues to recruit and develop Saudi nationals across all functions. This includes an active focus on increasing the number of Saudi women in its ranks and the creation of opportunities for them to excel. The production of Snacks in Dammam and Ice Cream in Jeddah is predominantly done by Saudi women. This has been a major contributor to the *Platinum* Nitaqat Status of both the Jeddah Ice Cream Factory and the Dammam Factory. Jizan and Madinah depots also enjoy *Platinum* status. Work continues to strengthen SADAFCO's overall *Green* status.

My fellow Board members and I would like to thank the Custodian of The Two Holy Mosques, His Royal Highness the Crown Prince, His Royal Highness the Second Deputy Premier and the Government of Saudi Arabia for their continued efforts to support national industries.

Thanks are also due to SADAFCO shareholders, Board members, executive management and employees for their combined, continued efforts to develop and grow the company.

Finally, I would also like to convey my thanks to SADAFCO's growing consumer base and to all our customers for their support during the past year.

Hamad Sabah Al-Ahmad

Chairman

CEO's Message

The development of Jeddah and Dammam Factories' capacity capabilities, the commencement of work on the Riyadh Regional Distribution Center (RDC) and the purchase of additional primary and secondary distribution vehicles has assured SADAFCO's infrastructure keeps abreast of stakeholder growth demands for the present and the medium term.

Hand-in-hand with these developments has been the drive to ensure efficiency improvements to enhance our Return on Assets. There are gains to be made too through focus on excellence in execution.

Doing things better at the Jeddah Factory was formalized in July 2012 through the confirmation of an ISO22000:2005 certification, this shortly after the same accreditation being granted to the Jeddah Ice Cream Factory in February 2012. Work also commenced to obtain the same certification for our Dammam facility during 2013-14.

On the Sales & Distribution front, our total milk sales achieved a Financial Year first when they reached SAR1 billion in March 2013 and overall company sales again reached a historical high through strong growths in Milk (19%), Tomato Paste (15%) and Ice Cream (19%). These strong growths contributed to the strengthening of our Saudi Arabian market leadership in UHT Milk, Tomato Paste and Ice Cream.

Other categories that continued to show growth were Butter, French Fries, Ketchup and Jar Cheese.

With New Product Development (NPD) we expanded the *Saudia* Low Fat Milk range to introduce a 500ml pack in Quarter 2 and in Quarter 4 two exciting additions to the portfolio came in the form of *Saudia* Evaporated Milk 200ml and *Saudia* Thick Cream 200ml, both produced at Jeddah Factory.

Although Milk remains our largest and most important category, we believe in gradually expanding our presence to cover a wider range of nutritious food propositions appealing to consumers of all age groups.

Regionally, Saudi Arabia performed best with a 20% growth over last year. Other regions that displayed healthy growth were Qatar, Bahrain and United Arab Emirates.

During the second half of 2012-13, a phased restructuring of Sales & Distribution commenced by appointing Business Managers to focus on sales and operations at depot level. This geographical closeness facilitated a better understanding of our customers, allowing Business Managers to exercise entrepreneurial skills to mobilize resources to turn opportunities into gains for *Saudia* consumers, our customers and, of course, SADAFCO.

Beyond existing depots, expanding SADAFCO's geographic footprint remains a priority with work starting in Quarter 4 to rejuvenate Exports following a slow-down in sales due to manufacturing constraints during the past few years. While sales here were flat year on year, close to 50% of the year's exports sales were realized in the final Quarter when the focus was intensified.

The foundations established in 2012-13 will place us in a favorable position to meet next year's challenges and those of the near future.

While we excel as an organization, it is our firm belief that SADAFCO should stay true to its role as an industry leader to develop and train potential candidates, creating suitable opportunities and providing employment while maintaining the balance of various value drivers, including, but not restricted to, growth of shareholder value, sustainability and localizations. For this, industry and government must improve planning and co-operation.

In closing, I would like to thank SADAFCO's Board members for their continued support, our staff for their dedication and hard work to achieve the reported results and our suppliers and customers for their contributions to making our achievements possible.

And finally – thank you to the *Saudia* consumer.

Wout Matthijs

Chief Executive Officer

Introduction

SADAFCO remains committed to the on-going attainment of the highest levels of quality that have been core in establishing the *Saudia* brand as a trusted favorite of consumers in the Arabian Peninsula since 1976. While the company has undergone numerous changes during its history to support the evolution of its strategy to achieve ever-challenging objectives, SADAFCO's common thread has remained the focus on pioneering consumer-led development of dairy and other food products for its multicultural consumer base.

Continuously strengthening market leadership for *Saudia* Milk, *Saudia* Tomato Paste and *Saudia* Ice Cream are just rewards reaped by SADAFCO for sustained excellence in reliability and quality standards.

In support of the company flagship brand *Saudia*, SADAFCO further drives its vision of becoming the *Brand of Choice* through focus on consumer-led development and commercialization of exciting new offerings in line with its mission of *developing, producing and marketing a range of nutritious food propositions for consumers of all age groups and creating maximum shareholder value through teamwork.*

The chart below shows the contribution of each category to the achievement of the overall company results:

#	Product	Contribution to Sales	Contribution to Net profit
1	Milk	68%	64%
2	Tomato Paste	9%	10%
3	Ice Cream	10%	16%
4	Powdered Milk	3%	2%
5	Cheese	4%	4%
6	Others	6%	4%

SADAFCO owns wholly- and partially-owned subsidiaries that help it achieve its objectives through efficient and wide-spread distribution. In addition to this, three companies registered to focus on Real Estate, Logistics and Investments remain dormant while strategic plans are finalized.

SADAFCO subsidiaries, their main activities, country of Origin:**

#	Company Name	Main Activity	Country of Origin & Head Quarters	Ownership	Paid up Capital	Number of shares /
1	SADAFCO Foodstuff Company LLC	Imports, sales and distributions of dairy products and other goods	UAE	100%	300,000 AED	300
2	SADAFCO Jordan Foodstuff Company LLC	Imports, exports, marketing, and trading dairy goods, ice cream and goods of all kinds	Jordan	100%	250,000 JD	250,000
3	SADAFCO Qatar Co LLC	Sale and distribution of dairy products and goods	Qatar	75%	1,500,000 QR	1500
4	SADAFCO Bahrain Company LLC	Imports, exports, sales, and distribution of dairy goods, ice cream, and goods	Bahrain	100%	20,000 BD	400
5	National Buildings Real Estate -	Owning and acquiring lands and real-estate, developing and investing in real-estate projects	KSA	100%	2,000,000 SAR	200,000
6	United Gulfers Transport -	Transportation of goods, tasks, storage, and cooling	KSA	100%	2,000,000 SAR	200,000
7	National Sights Holding	Investment through Acquisition of controlling Stakes companies	KSA	100%	2,000,000 SAR	200,000
8	SADAFCO Kuwait Foodstuff Co.	Foodstuff and Dairy products distribution	Kuwait	49%	10,000 KD	100

*A decision made by the board of directors approving the liquidation of the company on 18/01/2011, legal action has been taken including deletion of the commercial register.

** There are no issued Debt instruments issued by any of the above subsidiaries

Product Supply

A major highlight for SADAFCO during 2012-13 was the re-opening of Dammam Factory, closed since a company-wide consolidation in 2006.

Following a refurbishment process that started in December 2011, Dammam Factory became operational in August 2012 with the production of *Crispy Snacks*, a range that was previously produced in Jeddah. This was followed by the transfer of the *Saudia* Tomato Paste production lines from Jeddah to Dammam and the acquisition of machinery for in-house production of *Saudia* Feta in 10kg and 16kg tins.

For Jeddah Factory activity was focused on improving overall output and preparing the facility for the successful introduction of two new items – *Saudia* Evaporated Milk 200ml and *Saudia* Thick Cream 200ml. They also produced a range extension with the introduction of *Saudia* Low Fat Milk 500ml.

The Jeddah operation was also an active participant in the re-opening of Dammam Factory in that they needed to implement a phased decommission of Snack and Tomato Paste machinery for transfer to Dammam. Following the removal of the equipment from Jeddah, the factory commenced modifications in preparation for future plans.

Jeddah Factory also joined Jeddah Ice Cream Factory as an ISO22000:2005-certified facility when the milk factory was accredited in July 2012.

Through all activity on the Manufacturing front during 2012-13, overall efficiency was increased.

With potential supply disruptions due to the relocation of some production lines from Jeddah to Dammam and the eventual increase of output, Supply Chain had their work cut out providing alternate supplies and gearing up to handle larger volumes from three local manufacturing facilities.

During the year, Supply Chain delivered 39 million cases of Finished Goods to depots throughout the GCC and Jordan with the primary distribution fleet covering a

combined 11 million kilometers. In preparation for expansion, 30 new, longer trailers were purchased improving the efficiency of the fleet .

The purchase and delivery of 79 new core sales trucks and 25 new ice cream sales trucks was facilitated by Supply Chain and new Ice Cream freezers purchased towards the end of the previous fiscal were deployed in 2012-13, all allowing for the expansion of the company's Sales & Distribution capabilities.

A new logistics operation from Dammam Factory was introduced following the facility's re-opening and Cold Chain improvements were effected at 10 SADAFCO distribution depots.

Work continued on the SAR65-million Riyadh Regional Distribution Centre (RDC) following Board approval.

Commercial

Sales & Distribution, Trade Marketing and Marketing vastly improved their collective contribution through the expansion of resources and the nurturing of a closer working relationship to focus on excellence in the essential fields of Availability, Visibility and Rotation.

The organization structure has been adapted to increase efficiency and to improve management communication through the replacement of depot supervisors with Business Managers at the depot level to increase the focus at each location to develop sales. Improved communication with Business Managers is facilitated through IT tools and field visits.

With increases in manufacturing capacity during the past year, SADAFCO increased focus on Exports. This effort was re-ignited through seeding activity during the last two quarters of the year. By the final quarter, the initiatives started showing improved sales.

The successful launch of *Saudia* Evaporated Milk in March 2013 provided the opportunity for new Trade Marketing processes to be introduced and tested. These activities allow for the establishment of *copy-and-paste* processes for use in future launches.

Tapping into existing databases was given a boost with the introduction of new business intelligence software towards the end of the Fiscal.

In the Frozen business, improved consistent visibility was the result of structured planogram roll-out for ice cream freezers. A sustained drive on the improvement of freezer utilization delivered encouraging results for the duration of the year.

Rotation was spurred on by further improvement *Saudia* brand health. The gains came in year on year increases in market share, awareness, usage, loyalty and imagery. This was thanks to strong brand-building activities and enhancements in consumer visibility.

Milk continued its strong performance crossing a historic SAR 1 billion mark in early March 2013. This resulted from focus on core business and consumer connectivity programs. The latter included *Saudia Champions*, a program targeting recruitment and brand loyalty of children at an early age.

Tomato Paste further solidified its position as market leader through tailor-made shopper activation, digital marketing programs on Facebook and a big jump in market share during Ramadan.

Ice Cream continued to grow to consolidate its market leadership. Freezer expansion, TV advertising and strong brand activation across channels all contributed to these gains.

Milk Powder produced double-digit growth in Saudi Arabia, driven by a strong sampling campaign that reached 100 000 consumers in the last five months of the year, and Ketchup achieved its highest-ever share through focused brand activation and improved in-store branding, the latter through on-shelf media advertising, category banners and window branding.

Butter and French Fries continued to out-perform budget and both experienced high brand rotation and consumer acceptance. The share gains have been driven by improved in-store brand visibility and targeted activation. French Fries also provided an ideal partner for cross-promotion/sampling with Ketchup.

Saudia Junior's ready-to-drink *Growing Up Milk* and *Growing Up Fruit*, grew significantly in KSA and market shares improved. On-going and targeted brand activation, consumer promotions, in-store media advertising and category banners were all contributors to this growth. A strong sales incentive program with effective communication and follow-up provided an added boost to distribution and in-store visibility.

The table below shows SADFACO's sales by region and subsidiary for 2012-13:

#	Description	Country	Region	SAR Millions
1	SADFACO-KSA	Saudi Arabia	Western Region	378
			Southern Region	289
			Central Region	378
			Northern Region	177
			Eastern Region	178
2	SADFACO-BAHRAIN	Bahrain	Bahrain	38
3	SADFACO QATAR	Qatar	Qatar	39
4	SADFACO JORDAN	Jordan	Jordan	39
5	EXPORT	Kuwait	Kuwait	13
		UAE	UAE	9
		Others	Yemen, Egypt, etc	11
		Total		1,549

Support

Organizational Development

Recruitment for the re-opening of Dammam Factory was high on the list of priorities for Organizational Development and the task was all the more challenging due to the specific skills required. However, the factory became operational with a Nitaqat Status of *Platinum*.

From a numbers perspective, Dammam Factory ended the year dominated by Saudi women. So did Jeddah Ice Cream Factory, a facility that also earned a *Platinum* status during the year. By the end of the year, Saudi women made up more than 5% of the SADFACO workforce.

This, in addition to Jizan and Madinah achieving *Platinum* status, contributed to SADFACO maintaining *Green* status overall. Saudization remains core to the company's objectives and the focus has been supported by SADFACO's on-going interaction with the Ministry of Labor programs Human Resources Development Fund (HRDF) and Taqat. Both programs aim to bring suitable Saudi candidates into contact with the private sector job market and facilitate their employment.

For SADAFCO it is important to recruit and develop Saudis at all levels and within all functions of the organization for the future well-being of the company. They then need to be retained by creating a challenging and rewarding work environment that is attractive to developing their careers.

Part of this process has been the roll-out of the initial phase of People Performance Management (PPM) during 2012-13. This covered the introduction of a revised grading system, updated job descriptions and an objective, annual appraisal procedure.

Corporate Social Responsibility

During 2012-13, SADAFCO participated in several social responsibility programs to contribute to the community.

Participation in various World Milk Day events and ad hoc donations to charity and educational institutions remained a core part of this activity.

The company's support for Jeddah Institute of Speech and Hearing (JISH) entered its third year.

Communication

A focus on internal and external communication has resulted in an overhauling of the www.sadafco.com corporate website, which updated regularly.

Key Performance Indicators

- The consolidated net profit for the twelve-month period ended 31 March 2013 amounted to SAR 164.7 million, an increase of 8% compared to profit for the same period last year (SAR 152.3 million).
- Earnings per share (EPS) for the twelve-month period ended 31 March 2013 was SAR 5.07 compared to SAR 4.69 for the same period last year - an increase of 8%.

- The total gross profit for the twelve-month period ended 31 March 2013 amounted to SAR 475 million, an increase of 14% compared to profit for the same period last year (SAR 415.3 million).
- The operating profit for the twelve-month period ended 31 March 2013 amounted to SAR 175.6 million, an increase of 14% compared to profit for the same period last year (SAR 153.8 million).
- Sales growth in the twelve-month period ended 31 March 2013 was 16% versus the same period last year. The key activities which enabled this growth were consumer-focused commercial activities in the market, launching of new innovations, rejuvenation of the Ice Cream business and enhanced efficiencies across various functions.

SADAFCO Assets and Liabilities (five years)

(Amounts in SAR million)	Mar-13	Mar-12	Mar-11	Mar-10	Mar-09
Current assets	680	773	806	669	399.2
Fixed assets	422	323	268	239.0	232.3
Non-current assets	0	0	0	56.7	87.8
Current liabilities	174	238	272	228.4	153.9
Non current liabilities	78	73	72	69.2	62.8
Total equity	850	785	731	667.1	502.6
Sales	1,549	1,336	1,134	1,023	922
Net Income	165	152	130	203	28

Income statement

(Amounts in SAR million)	Mar -13	Mar-12
Net sales	1,549	1,336
Cost of sales	(1,074)	(920)
Gross profit	475	416
Other Income	2	5
Selling & Distribution	(236)	(203)
General & Admin.	(64)	(58)
Net Financing Costs	2	5
Zakat	(14)	(12)
Net profit	165	152

Operating income for the year ended 31 March 2013 is SAR 175.58 million vs. SAR 153.84 million for the same period last year with an increase of 14% mainly due to higher sales achieved during the year.

Statutory Payments for 2012

#	Government Agency (in SAR millions)	Due	Paid	Balance
1	Customs	33	33	0
2	Zakat and Tax	16	2	14

Mr. Mussad Abdullah Al-Nassar	Executive	√	√	√	√	√	√	√	√	√
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On 24 May 2012, Mr. Tariq M. Abdulsalam was appointed as a representative of United Industries Company to replace Mr. Essa Al Saleh and the EGM approved this appointment on 25 June 2012.

	Name	Listed Companies' Directorships
1	HH Sheikh: Hamad Sabah Al-Ahmad	1) Chairman of KIPCO – Kuwait 2) Chairman of SADAFCO - Saudi Arabia 3) Chairman of Gulf Egypt Hotels & Tourism Company - Egypt 4) Deputy Chairman of United Gulf Bank – Bahrain
2	Mr. Faick Hussain Al-Saleh	1) Vice Chairman SADAFCO – Saudi Arabia 2) Board Member UGB* - Bahrain
3	Mr. Faisal Hamad Mubarak Al-Ayyar	1) Vice Chairman of KIPCO – Kuwait 1) Board Member SADAFCO - Saudi Arabia 2) Board Member Gulf Egypt for Hotels and Tourism - Egypt 3) Vice Chairman of United Gulf Bank - Bahrain 4) Vice Chairman Gulf Insurance Company - Kuwait
4	Mr. Abdullah Yaqoob Bishara	1) Chairman of North Africa Holding Company 2) Board Member of SADAFCO - Saudi Arabia 3) Board Member of KIPCO - Kuwait
5	Mr. Tariq M. Abdulsalam	1) Chairman United Real Estate Company – Kuwait 2) Vice Chairman Kuwait Clearing Company – Kuwait 3) Board Member SADAFCO – Saudi Arabia 4) Board Member Kuwaiti Jordanian Bank – Jordan 5) Board Member Royal Capital Company – Abu Dhabi
6	Mr. Sulaiman Saud Al-Jar Allah	1) Board Member SADAFCO - Saudi Arabia
7	Mr. Mussad Abdullah Al-Nassar	1) Board Member SADAFCO - Saudi Arabia

Board Committees

Board Audit Committee:

The Audit Committee consists of three members, all non-executive members of the SADAFCO Board of Directors and amongst them is a specialist in financial matters. The Audit Committee held eight meetings during the Financial Year 2012-13. The committee's functions and responsibilities include:

- 1) Overseeing the Internal Audit (IA) function within the company in order to ascertain the adequacy in the implementation of IA guidelines, actions and tasks set by the Board of Directors and establish the adequacy of internal control system.

- 2) To produce a written report with its views and recommendations regarding the IA function and to review the IA report and oversee the implementation of its recommendations.
- 3) Recommend to the BOD the appointment of auditors, their dismissal and agreement of their fees and to ensure their independence. Review of the audit plan with the auditors and to study feedback remarks on the financial statements.
- 4) Review and give feedback on the financial statements before the initial and annual presentation to the Board of Directors.
- 5) Review accounting policies used and make recommendations to the Board of Directors.

Table below shows the Audit Committee Members and Attendance Record:

Name	Capacity	Oct 2 nd 2012	March 14 th 2013	June 2 nd 2012	June 10 th 2012	June 12 th 2012	July 18 th 2012	Oct 20 th 2012	Jan 19 th 2013
Mr. Faisal Al-Ayyar	Chairman	√	√	√	√	√	√	√	√
Mr. Tariq AbdulSalam	Member	√	√	√	√	√	√	√	√
Mr. Faick AlSaleh	Member	√	√	√	√	√	√	√	√

Annual Review of the Effectiveness of the Internal Control Procedure

As part of its normal operations, the company's Internal Audit Department assesses the efficiency and effectiveness of parts of the internal controls framework and proposing amendments where minor deficiencies are identified. The initial results submitted from the Internal Audit Department did not include any major deficiencies in the company's Internal Controls that need to be disclosed. In the Financial Year 2012-13, the company's Audit Committee appointed PwC to conduct an independent review of the Internal Controls Framework and propose recommendations that where needed. Once the assessment is completed, the company will disclose the results, including any deficiencies found in the Internal Controls Framework.

The company's Audit Committee will review the efficiency of Internal Controls on an ongoing basis and supervise the work of the Internal Auditors in accordance with Article 14 of the Corporate Governance Regulations in the Kingdom of Saudi Arabia because of its and the Board of Directors' keenness on the importance of Internal Controls in the company's various departments and divisions to identify and assess the risks the company may face.

Nomination and Remuneration Committee:

The Nomination and Remuneration Committee consists of three Board Members, all non-executive Board Members. The committee has met once during 2012-13 and their responsibilities are as follows:

- 1) Nomination of BOD members to the BOD. This is done in accordance with the policies and procedures, taking into account not to nominate any person previously convicted of a crime involving moral turpitude and dishonesty.
- 2) Annual review of skills and competencies required for Board membership and the preparation of job descriptions, including defining the time to be allocated as a Board member.
- 3) Review the structure of the Board and make recommendations regarding changes that can be made.
- 4) Identify weaknesses and strengths in the Board and propose recommendations that are in the interests of the company.
- 5) Ensure, on an annual basis, the independence of the independent members and the absence of any conflict of interest if the member holds membership of the Board of Directors of another company.
- 6) Develop clear policies for the compensation and benefits of members of the Board of Directors and senior executives and take into account when developing policies to use criteria linked to performance.

The criteria for the selection and tenure of Nomination and Remuneration Committee members are as follows:

The committee is composed of three or more members given that the total is an odd number and that the members meet the following criteria:

- 1) They are a current Board Member.
- 2) There is no direct or indirect relation or interest for him in any contract or agreement of SADAFCO.
- 3) The individual should be fully aware of the corporate governance rules, regulations and CMA rules as well as accounting and finance practices. In addition to that he should also be familiar with the Board Member selection criteria in listed companies.
- 4) Committee membership tenure should not exceed that of the Board.
- 5) The members choose a committee Chairman amongst them as well as a General Secretary to document minutes of meetings.
- 6) The committee should meet at least twice a year and whenever it is required.

The meeting is only held if all members are present and no proxy can be issued on behalf of a committee member.

- 7) The meeting is called upon a request by the Chairman or the Secretary.
- 8) All minutes of meetings and communication is kept safe with the committee Secretary.
- 9) In the case of a vacancy arising in the committee, the Board shall appoint a replacement who will serve the remaining tenure of the departing committee member.
- 10) The Board holds the right to replace any member at any time and any member has the right to resign at his own will.

Nomination and Remuneration Committee and Attendance Register 2012-13:

Name	Capacity	1 st meeting 14/03/2013
Mr. Faisal Hamad Al-Ayyar	Chairman	√
Mr. Tariq AbdulSalam	Member	√
Mr. Suleiman Saud Al-Jarallah	Member	√

On 24 May 2012, Mr. Tariq Abdulsalam was appointed in replacement of Mr. Essa K Al Saleh

Directors and Executive Management Remuneration:

The table below shows the remuneration and compensation paid for each of the members of the Board of Management and senior executives:

Amounts in Saudi Riyals (1000s)	Non-executive BOD members	Executives BOD Member	Senior executives including the CEO & CFO
Salaries and wages	-	390,978	6,091,954
Allowances	-	215,351	2,854,618
Bonuses	1,200,000 (200K per member)	264,200	3,189,876
In-kind benefits	-	-	-
Total	1,200,000	870,529	12,636,448

Board members' and Executive Management's Share ownership 2012/2013

	Name	Beginning of the year		End of the year		Change (+/-)
		Shares	Debt	Shares	Debt	
Board of Directors						
1	HH Sheikh. Hammad Al-Sabah Rep: United Industries Company	9,784,213	0	9,784,213	0	=
2	Mr. Faick Hussain Al-Saleh	1,000	0	1,000	0	=
3	Mr. Faisal Mubarak Al-Ayyar Rep: United gulf bank	1,000	0	1,000	0	=
4	Mr. Abdullah Yaqoob Bisharah	1,000	0	1,000	0	=
5	Mr. Tariq Abdulsalam Rep: United Industries Company	9,784,213	0	9,784,213	0	=
6	Mr. Sulaiman Saud Al-Jar Allah	1,000	0	1,000	0	=
7	Mr. Musaad Abdullah Al-Nassar	11,000	0	11,000	0	=
Executive management & their families						
1	Wout Matthijs	3,000	0	3,000	0	=
2	Khalid Abdulrahman Bakhsh	0	0	0	0	=
3	Mohammed Jameel Attar	0	0	0	0	=
4	Ziyad Abdulaziz Kabli	0	0	0	0	=
5	Paul Van Schaick	0	0	0	0	=
6	Raffael Reinders	0	0	0	0	=
7	Ian Byrne	0	0	0	0	=
8	Eddy Van Hamersveld	0	0	0	0	=

Main Shareholders' List

#	Name	Ownership
1	United Industries Company	30.1 %
2	AlSamah Trading Co. Ltd	11.6 %
3	United Industries Company/	8.9 %

	Swap Agreement	
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In regard to any notification on shareholders' ownership, referred to in Article 30 of the listing rules, SADAFCO did not receive notification from any of the major shareholders that stated changes in their ownership. The above-mentioned information is based on Tadawul records.

Related Party Transactions

The company entered into transactions with related parties using the same criteria applied with other parties and under the best terms of trade. Related parties are defined as SADAFCO Board Members, major shareholders and senior executives or any of their first degree relatives, in line with the regulations and guidelines of the Capital Markets Authority and the Ministry of Commerce and Industry in this regard, which require disclosure of such transactions.

Below is a summary of these related party transactions that the Board recommends for approval and renewal for another year by the AGM (on a case by case basis):

#	Company Name, amounts in thousands in Riyals	Country	Nature of Transaction	Value	Closing Balance
1	Buruj Cooperative Insurance Company	Saudi Arabia	Service	5,451	(2,783)
2	United Gulf Bank	Bahrain	Murabaha Deposit	150,000	75,000

On 9 July 2012 the company announced the receipt of the sum of SAR 75 million deposit and the return earned amounting to SAR 637,500. To maximize the return on excess cash the SADAFCO Board of Directors decided in its meeting held on 14 March 2013 to roll over the Murabaha deposit of SAR 75 million (due for repayment on 27 March 2013) placed with United Gulf Bank (UGB), Bahrain (related party), until 8 July 2013. The time deposit was rolled over from 28 March 2013 at a rate of return of 3% until 8 July 2013. United Gulf Bank provided the best rate; the related party transaction will be presented to the next shareholders' meeting. During the Board meeting, HH the Chairman, Vice Chairman and Mr. Al-Ayyar refrained from voting on the decision to roll over the time deposit since they informed the Board of their membership at the United Gulf Bank. Furthermore, on 27 March 2013 SADAFCO announced the receipt of SAR 2,268,750, the return earned on the deposit of SAR 75 million. Finally, SADAFCO also engaged in a related party contract with Al Buruj Cooperative Insurance as their offer was the best in overall terms.

Dividend Distribution Policy:

Article 35 of Articles of Association states that annual net profits may be distributed after the deduction of all general expenses and other costs in the following way:

- 1) 10% of annual net profits are to be set aside for a statutory reserve. The general assembly may choose to stop this reserve once it is equal to half of the company's capital.
- 2) The general assembly may suggest to the BOD another reserve where a further 10% of net profits may accumulate.
- 3) There may be a distribution to the shareholders thereafter where a first payment /dividend equal to 5% of the paid up capital is payable.
- 4) After the above distributions are made there may be an allocation of 10% of net profits to reward the BOD members, provided that the maximum allowed BOD compensation is in compliance with CMA rules and Ministry of the Commerce regulations.
- 5) All remaining profits may then be distributed to shareholders as an extra dividend.

Major Decisions and Future Plans:

SADAFCO continues to look for growth opportunities both within KSA and neighboring GCC countries. Progress is being made at the Riyadh Regional Distribution Centre (RDC) to facilitate product availability in the central region. On the GCC front, SADAFCO bought 49% of SADAFCO Kuwait with the aim of increasing its activities in Kuwait in specific and other GCC countries in general.

Risk Management:

The Company has exposure to the following risks from its use of financial instruments:

- a) Market risk (which includes commission and interest rate risk and currency risk)
- b) Credit risk
- c) Liquidity risk
- d) Operational risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. Senior management are responsible for developing and monitoring the Company's risk management policies and report regularly to the Board of Directors on their activities.

Market risk

Commission arises from the possibility that changes in commission rates will affect future profitability or the fair values of financial instruments. The Group is subject to commission rate risk on its bank deposits and Murabaha term deposit.

The management limits the Group's interest rate risk by monitoring changes in interest rates in the currencies in which its interest bearing assets are denominated and uses interest rate swaps to strategically hedge its risk.

Currency risk

Currency risk is the risk that value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is subject to fluctuations in foreign exchange rates in the normal course of its business. The Group did not undertake significant transactions in currencies other than Saudi Arabian Riyals and US Dollars during the year. The Group seeks to limit its currency risk by monitoring outstanding exposure. As the Saudi Riyal is pegged to the US Dollars, balances are not considered to represent significant currency risk.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and by monitoring outstanding receivables. Further the Company has exposure to credit risk with respect to term and other deposits with banks. The Company manages this risk by depositing and investing in banks with sound credit ratings. At the balance sheet date, no significant concentrations of credit risk were identified by management. The Group sells its products to large number of customers. The five largest customers account for 41% (2012: 28%) of outstanding accounts receivable at 31 March.

Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise. The Group limits its liquidity risk by ensuring that sufficient bank facilities are available.

The Company's financial liabilities primarily consist of accounts payable, payable to affiliates, accruals and other liabilities and unpaid dividend. All these financial liabilities are expected to be settled within 12 months from the date of the balance sheet and the Group expects to have adequate liquid funds to do so.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to operate effectively, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Company cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, such as the use of internal audit.

Fines imposed on SADAFCO

No Fines were imposed on SADAFCO for the year 2012-13

Declarations

1. SADAFCO declares and confirms that its accounts have been prepared according to the correct procedures for the Kingdom of Saudi Arabia.
2. SADAFCO declares that the internal auditing has been prepared on a sound basis and has been implemented effectively.
3. SADAFCO declares that there is no doubt about its ability to continue its operations.
4. There are no outstanding loans or dues on the company.
5. The company is fully committed to adhere to the rules and regulations

stipulated in the company's by-laws and other relevant ministerial resolutions. SADAFCO declares that there are no fines or penalties imposed by the CMA nor any other legal or supervisory entity.

6. None of the BOD members and senior management, including the CEO and CFO their spouses or children own any shares in affiliate companies; and no contracts were issued where any of them has a material interest other than those transactions disclosed in this Board Report.
7. No loans are made to any Board Member; SADAFCO has not guaranteed any loans to any Board or executive team member.
8. No shareholder waived his/her rights to dividends and none of the executive team members waived their right to receive any salary or compensation.
9. All the shares are common stock with equal voting and other rights in accordance with bylaws. There are neither preferential shares nor shares with special voting rights outstanding.
10. Following the review and audit of the financial statements by KPMG Fozan & Sadhan and Ernst and Young , it was confirmed that SADAFCO's accounts were compiled in line with the accounting standards of the Accounting Standards Committee of the Saudi Organization for Certified Public Accountants (SOCPA). The External Auditors' report was issued without reservation. The financial statements were found to be a true and fair reflection of the company's financial position and in line with the requirements of companies' law and SADAFCO's articles of association.
11. The company does not implement any stock options and has not issued any convertible debt instruments.
12. The company has not set up any reserves or investments for the benefit of its employees.

Corporate Governance Compliance:

#	Article	#	Fully	Partially	Not Applied	Not Applicable	Comments
1	Three: General Rights of Shareholders	1	-	1	-	-	By laws do not grant the right of shareholders to company assets upon liquidation
2	Four: Facilitation of shareholders Exercise of rights and access to information	2	2				
3	Five: Shareholders right related to the General Assembly	10	10	-		-	
4	Six: Voting Rights	4	2		1 (6/B)	1	In reference to

							6/B accumulative voting has been approved by the EGM on 25 June 2012 and will be applied in the next BOD election. In reference to 6/D: This refers to Judicial persons acting on behalf of others and is not relevant to SADAFCO
5	Seven: Dividends rights of Shareholders	2	1	-	1		In reference to 7/1: the company applies a dividend distribution policy based on article 35 of its bylaws.
6	Eight: Policies and Procedure related to disclosure	1	-	-	1	-	SADAFCO follows CMA rules in this regard; we are preparing a corporate governance frame work which will include a disclosure policy.
7	Nine: disclosure in the Board of Directors' report	7	7				
8	Ten: Main Functions of the Board of Directors	17	8	2	7	-	Points Partially Applied: <ul style="list-style-type: none"> • (A-1) Partially implemented as the risk management policy is not finalized. • (10/H/4) The Board has

							<p>approved a separate policy for code of conduct.</p> <p>Not Applied:</p> <ul style="list-style-type: none"> • (C) We follow CMA corporate gov. • (D) BOD Membership criteria will be presented to the AGM. • (H/1-2-3-5) These are governed in each contract and CSR are decided annually. • (W) Internal Cor. Gov. framework being developed , which will include this.
9	Eleven: Responsibilities of the Board	8	6	1	1		<p>(11/H) Each authority is defined in the employment contract.</p> <p>(11/W) The new BOD member has been briefed.</p>
10	Twelve: Formation of the Board	9	8	-	-	1	12/T Not applicable in the bylaws.
11	Thirteen: Committee of the Board	3	3				
12	Fourteen: Audit Committee	11	11				
13	Fifteen: Nomination and Remuneration Committee	8	8				
14	Sixteen: Meetings of the Board	4	4				
15	Seventeen: Remuneration and	1	1				

	Indemnification of Board Members						
16	Eighteen: Conflict of Interest within the Board	3	2	1	-	-	18/A: An announcement has been made on Tadawul to renew the SAR 75 million Murabaha Deposit. Disclosure was made in the annual report and will be presented at next AGM
		91	73	5	11	2	

The Board of Directors of SADAFCO extends its thanks and appreciation to the Custodian of the Two Holy Mosques, the Crown Prince and the Second Deputy Premier for their continuous support and backing of national industries. Thanks are also extended to the Government of the Custodian of the Two Holy Mosques for their continued support of the companies in the Saudi private sector. The Board of Directors takes this opportunity to thank the shareholders for their trust and support of SADAFCO and customers and consumers for their trust and loyalty. Thanks are also due to the company's management and all its employees for their dedicated efforts and distinguished performance through the fiscal year 2012-13, which contributed to the achievement of the results of this year.

The Board looks forward to more achievements and excellence throughout the next year.

Best Regards

SADAFCO Board of Directors