

# SAUDIA DAIRY AND FOODSTUFF COMPANY ANNUAL REPORT 2012 - 2013





بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ







The Custodian of the Two Holy Mosques  
**King Abdullah bin Abdul Aziz Al Saud**



H.R.H.  
**Prince Salman bin Abdul Aziz Al Saud**  
Crown Prince, Deputy Premier  
Minister of Defense



H.R.H.  
**Prince Mighrin bin Abdul Aziz Al Saud**  
Second Deputy Prime Minister and Adviser to the  
Custodian of the Two Holy Mosques and his Special Envoy

## **Our Vision**

To be the “ Brand of Choice “

## **Our Mission**

To develop , produce and market a range of nutritious  
food propositions for consumers  
of all age groups and create maximum shareholder value through team work

## **Our Values**

Integrity  
Respect For All  
Passion  
Quality

## 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.

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

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.

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.

**Waltherus Matthijs**  
Chief Executive Officer



## Executive Management



From Right to Left

### Sitting :

- Mr. Mohammed Jameel Attar / Director Marketing
- Mr. Waltherus Matthijs / Chief Executive Officer
- Mr. Eddy van Hamersveld / Director Trade Marketing
- Mr. Khalid Abdulrahman Bakhsh / Chief Financial Officer

### Standing :

- Mr. Ian Byrne / Director Sales and Distribution
- Mr. Paul van Schaik / Director Organizational Development
- Mr. Ziyad Abdul Aziz Kabli / Director Supply Chain
- Mr. Raffael Reinders / Director Manufacturing

## 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 table below shows the contribution of each category to the achievement of the overall company results:

Product	Contribution to Sales	Contribution to profit
Milk	68%	64%
Tomato Paste	9%	10%
Ice Cream	10%	16%
Powdered Milk	3%	2%
Cheese	4%	4%
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 was made by the board of directors approving the liquidation of the company on 18/01/2011. Liquidation procedures and the deletion of the commercial register are not yet complete.

\*\* 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 to allow for larger long-haul loads, improving efficiencies and decreasing road kilometers.

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.

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 in 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 and digital marketing.

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. Ketchup achieved its highest-ever share through focused brand activation and improved in-store 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.

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 SADAFCO workforce.

This, in addition to Jizan and Madinah achieving Platinum status, contributed to SADAFCO maintaining Green status overall. Saudization remains core to the company's objectives and the focus has been supported by SADAFCO'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](http://www.sadafco.com) corporate website, which is 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.

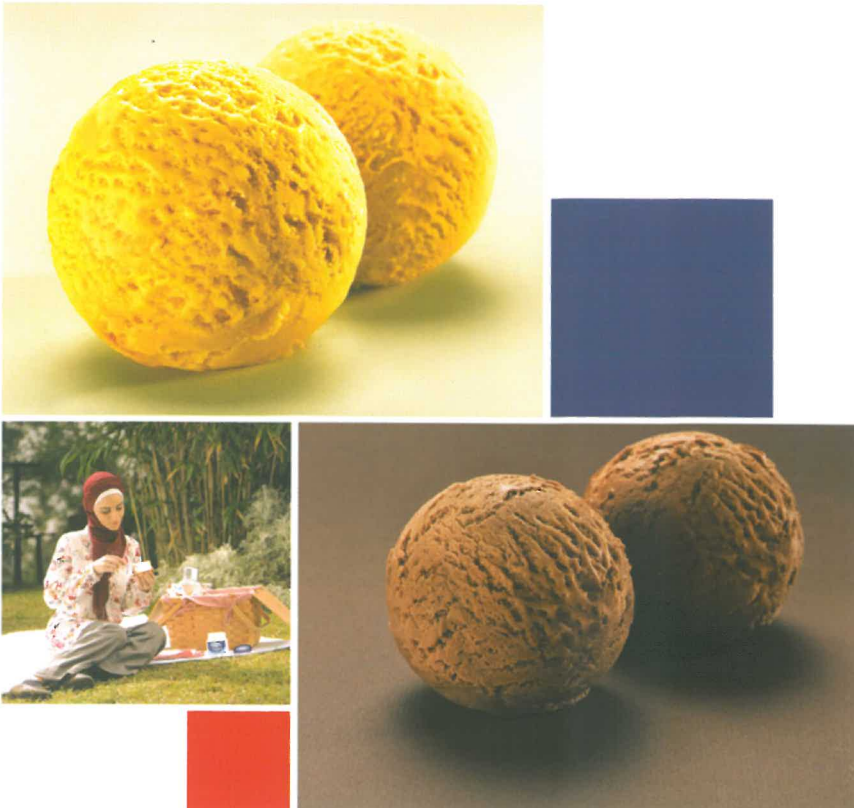
## SADAFCO Assets and Liabilities (five years)

(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
Customs	33	33	0
Zakat and Tax	16	2	14
GOSI	5	5	0
TADAWUL Contract	0.3	0.3	0
Government Fees and visas	7	7	0
<b>Total</b>	<b>61.3</b>	<b>47.3</b>	<b>14</b>

## Change in Shareholders' Equity (SAR Millions)





## Formation of the Board of Directors:

The SADAFCO Board of Directors is made up of seven Board Members. They were elected for the period starting 01/04/2012 to 31/03/2015.

Table below shows Board Members' attendance :

Name	Date	2012					2013			
		17/04 Attended	24/05 Circulated	19/07 Circulated	02/10 Circulated	21/10 Circulated	20/01 Circulated	21/01 Circulated	14/03 Attended	14/03 Attended
HH Sheikh: Hamad Sabah Al-Ahmad	Non-executive	√	√	√	√	√	√	√	√	√
Mr. Faick Hussain Al-Saleh	Independent	√	√	√	√	√	√	√	√	√
Mr. Faisal Hamad Mubarak Al-Ayyar	Non-executive	√	√	√	√	√	√	√	√	√
Mr. Abdulah Yaqoob Bishara	Independent	√	√	√	√	√	√	√	√	√
Mr. Tariq Mohammed Abdulsalam	Non-executive	x	x	√	√	√	√	√	√	√
Mr. Suliman Saud Al-Jar Allah	independent	√	√	√	√	√	√	√	√	√
Mr. Mussad Abdullah Al-Nassar	Executive	√	√	√	√	√	√	√	√	√

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.



## Board Members' Directorships

	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 2) Board Member SADAFCO - Saudi Arabia 3) Vice Chairman Kuwaiti Jordanian Bank -Jordan 4) Vice Chairman of United Gulf Bank - Bahrain 5) 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. Suliman 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 2nd 2012 Attended	March 14th 2013 Attended	June 2nd 2012 circulated	June 10th 2012 circulated	June 12th 2012 circulated	July 18th 2012 circulated	Oct 20th 2012 circulated	Jan 19th 2013 circulated
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 proposes 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 to propose recommendations where needed. 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 supervises 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	1st 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	6,591,954
Allowances	-	215,351	2,854,618
Bonuses	1,200,000 (200K per member)	264,200	3,189,876
In-kind benefits	-	-	-
Total		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	
<b>Board of Directors</b>						
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. Suliman Saud Al-Jarallah	1,000	0	1,000	0	=
7	Mr. Musaad Abdullah Al-Nassar	11,000	0	11,000	0	=
<b>Executive management &amp; their families</b>						
1	Waltherus 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 Schaik	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	=

There are no rights issues or stakes relating to any Board members, executive management team members or their spouses or children in shares or debt instruments in the company or any of its subsidiaries

## Main Shareholders' List

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

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	Al Buruj Coop Insurance Company	Saudi	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 Board 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

- SADAFCO declares and confirms that its accounts have been prepared according to the correct procedures for the Kingdom of Saudi Arabia.
- SADAFCO declares that the internal auditing has been prepared on a sound basis and has been implemented effectively.
- SADAFCO declares that there is no doubt about its ability to continue its operations.
- There are no outstanding loans or dues on the company.
- The company is fully committed to adhere to the rules and regulations stipulated in the company's by-laws and ministerial resolutions.
- None of the BOD members and senior management, including the CEO and CFO, has any shares in the affiliate companies; and no contracts were issued where any of them has a material interest.
- No loans are given to any BOD member.
- No shareholder waived his right on the dividends and no senior manager waived his right to receive any salary or compensation.
- All the shares are common stock with equal voting power.
- After the financial statement was reviewed and audited KPMG (Fozan and 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 revealed without reservation. The financial statements were found to be a true and fair reflection of the company's financial position and in compliance with the requirements of the company's law and SADAFCO's articles of association.
- The company does not implement any stock options and does not have any debt instrument that is converted to a stock.

## Corporate Governance Adherence:

	Article	#	Fully	Partially	Not Applied	Not Applicable	Comments
1	Three: General Rights of Shareholders	1	-	1	-	-	Not mentioned in the By Laws
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 SADFACO
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	0	-	1	-	SADFACO 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	-	-	-	



	Article	#	Fully	Partially	Not Applied	Not Applicable	Comments
8	Ten: Main Functions of the Board of Directors	17	8	2	7	-	<p>Points Partially Applied:</p> <ul style="list-style-type: none"> <li>• (A-1) Partially implemented as the risk management policy is not finalized.</li> <li>• (10/H/4) The Board has approved a separate policy for code of conduct.</li> </ul> <p>Not Applied:</p> <ul style="list-style-type: none"> <li>• (C) We follow CMA corporate gov.</li> <li>• (D) BOD Membership criteria will be presented to the AGM.</li> <li>• (H/1-2-3-5) These are governed in each contract and CSR are decided annually.</li> <li>• (W) Internal Cor. Gov. guidelines are in progress, which will include this.</li> </ul>
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	-	-	-	-	
12	Fourteen: Audit Committee	11	-	-	-	-	
13	Fifteen: Nomination and Remuneration Committee	8	-	-	-	-	
14	Sixteen: Meetings of the Board	4	-	-	-	-	
15	Seventeen: Remuneration and Indemnification of Board Members	1	-	-	-	-	
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.
		91	80	0	8	0	

The Board of Directors of SADFACO 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 SADFACO 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  
SADFACO Board of Directors

## Agenda for SADAFCO 14th Annual Ordinary Shareholders' Meeting :

1. Approval of the Board of Directors Annual Report for the Financial year ended 31/03/2013.
2. Approval of the Auditors Report for the Financial year ended 31/03/2013.
3. Approval of closing balances and profit and loss account for the period from 01/04/2012 to 31/03/2013.
4. Approval of the Board of Directors recommendation to distribute dividends amounting to SAR 97.5 Million at 3 riyals per share, which is equivalent to 30% of the capital, to shareholders on the TADAWUL shareholders register by the end of trading on the day of the AGM. The dividend distribution date will be announced later .
5. Approval of the appointment of the external auditor to Audit the company's accounts for the financial year starting on 01/04/2013 to 31/03/2014 and the quarter results & set their fees.
6. Clearing the liability of the members of the Board of Directors for the period starting 01/04/2012 to 31/03/2013
7. Approval to pay SAR 1.4m as remuneration for BOD members (SAR 200,000 per member)
8. Approval of the criteria for the membership of the company's Board of Directors .
9. Approval of transactions & agreements with related parties United Gulf Bank in Bahrain , Al Buruj Co-operative Insurance Company and renewal of these transactions & agreements for the coming year.



**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
(A Saudi Joint Stock Company)

**CONSOLIDATED FINANCIAL STATEMENTS**

31 March 2013

with

**INDEPENDENT AUDITORS' REPORT**

**AUDITORS' REPORT**

The Shareholders  
Saudia Dairy & Foodstuff Company (SADAFCO)  
(Saudi joint stock company)  
Jeddah, Kingdom of Saudi Arabia.

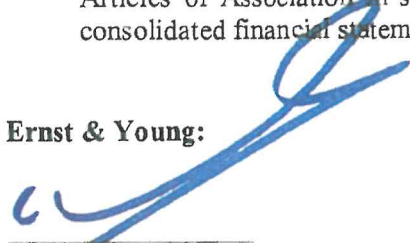

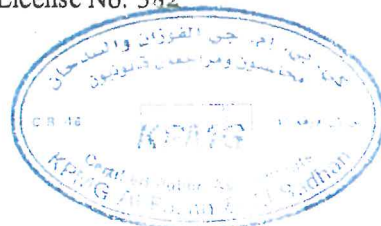
**Scope of audit:**

We have audited the consolidated balance sheet of Saudia Dairy & Foodstuff Company (SADAFCO) ("the Company") and its subsidiaries ("the Group") at 31 March 2013 and the related consolidated statements of income, cash flows and changes in equity for the year then ended and the accompanying notes 1 to 24 which form an integral part of these consolidated financial statements. These consolidated financial statements are the responsibility of the Company's Board of Directors and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

**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 Saudia Dairy & Foodstuff Company (SADAFCO) and its subsidiaries at 31 March 2013 and the results of the Group's operations and cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
2. comply with the requirements of the Regulations for Companies and the Company's Articles of Association in so far as they affect the preparation and presentation of the consolidated financial statements.

**Ernst & Young:**  
Ahmed I. Reda  
Certified Public Accountant  
License No. 356**KPMG Al Fozan & Al Sadhan:**  
Ebrahim O. Baeshen  
Certified Public Accountant  
License No. 382

8 Rajab 1434H  
Corresponding to 18 May 2013  
Jeddah, Kingdom of Saudi Arabia

**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
(A Saudi Joint Stock Company)

**CONSOLIDATED BALANCE SHEET**  
As at 31 March 2013

	<u>Notes</u>	<u>2013</u> (SR '000)	<u>2012</u> (SR '000)
<b><u>ASSETS</u></b>			
<b>Current assets:</b>			
Cash and cash equivalents	4	53,079	51,711
Murabaha term deposits with a bank	5	75,000	150,000
Accounts receivable	6	219,698	290,482
Deposits, prepayments and other current assets	7	32,787	18,269
Inventories	8	295,395	253,105
Assets relating to a subsidiary held for disposal	11	4,068	9,342
<b>Total current assets</b>		<b>680,027</b>	<b>772,909</b>
<b>Non-current assets:</b>			
Investments	9	243	243
Property, plant and equipment	10(a)	422,414	322,651
<b>Total non-current assets</b>		<b>422,657</b>	<b>322,894</b>
<b>Total assets</b>		<b>1,102,684</b>	<b>1,095,803</b>
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>Current liabilities:</b>			
Accounts payable		108,662	120,822
Payable to affiliates	18	2,783	4,638
Accruals and other current liabilities		46,599	90,900
Accrued Zakat	17(c)	13,720	14,405
Unpaid dividend		1,835	596
Liabilities relating to a subsidiary held for disposal	11	296	6,853
<b>Total current liabilities</b>		<b>173,895</b>	<b>238,214</b>
<b>Non-current liabilities:</b>			
Employees' end of service benefits		78,337	73,042
<b>Total liabilities</b>		<b>252,232</b>	<b>311,256</b>
<b>Equity:</b>			
<b>Equity attributable to the Company's shareholders:</b>			
Capital	12(a)	325,000	325,000
Statutory reserve	12(b)	162,500	162,500
Voluntary reserve	12(c)	94,506	78,080
Foreign currency translation adjustments		(1,308)	(1,650)
Retained earnings		268,312	219,379
<b>Total shareholders' equity</b>		<b>849,010</b>	<b>783,309</b>
<b>Non-controlling interests</b>		<b>1,442</b>	<b>1,238</b>
<b>Total equity</b>		<b>850,452</b>	<b>784,547</b>
<b>Total liabilities and equity</b>		<b>1,102,684</b>	<b>1,095,803</b>

The accompanying notes 1 to 24 form an integral part of these consolidated financial statements.

Mussad Abdullah Al Nassar  
Member Board of Directors

Matthijs Waltherus Cornelis Petrus  
Chief Executive Officer

Khaled A. Bakhsh  
Chief Financial Officer

**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF INCOME**  
For the year ended 31 March 2013

	<u>Notes</u>	<u>2013</u> (SR '000)	<u>2012</u> (SR '000)
<b>Continuing operations:</b>			
Sales – net		1,549,023	1,335,685
Cost of sales		<u>(1,073,989)</u>	<u>(920,362)</u>
<b>Gross profit</b>		<b>475,034</b>	415,323
Expenses:			
Selling and distribution	13	(235,557)	(203,034)
General and administrative	14	<u>(63,897)</u>	<u>(58,449)</u>
Total expenses		<u>(299,454)</u>	<u>(261,483)</u>
<b>Operating income</b>		<b>175,580</b>	153,840
Other income - net		919	5,506
Financial income - net		<u>2,043</u>	<u>4,902</u>
<b>Net income from continuing operations</b>		<b>178,542</b>	164,248
<b>Discontinuing operations:</b>			
Net loss from discontinuing operations	11	<u>(101)</u>	<u>(214)</u>
<b>Net income before Zakat</b>		<b>178,441</b>	164,034
Zakat	17(a)	<u>(13,720)</u>	<u>(11,754)</u>
<b>Net income</b>		<u><b>164,721</b></u>	<u>152,280</u>
<b>Attributable to:</b>			
Equity shareholders of the Parent		164,259	151,878
Non-controlling interests		<u>462</u>	<u>402</u>
<b>Net income</b>		<u><b>164,721</b></u>	<u>152,280</u>
<b>Earnings per share:</b>			
- on operating income - SR	19	<u>5.40</u>	<u>4.73</u>
- on net income - SR	19	<u>5.07</u>	<u>4.69</u>
- on net income attributable to equity shareholders of the Parent - SR	19	<u>5.05</u>	<u>4.67</u>

The accompanying notes 1 to 24 form an integral part of these consolidated financial statements.

Mussad Abdullah Al Nassar  
Member Board of Directors

Matthijs Waltherus Cornelis Petrus  
Chief Executive Officer

Khaled A. Bakhsh  
Chief Financial Officer



**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
For the year ended 31 March 2013

	<u>Notes</u>	<u>2013</u> (SR '000)	<u>2012</u> (SR '000)
<b>Operating activities:</b>			
Net income		164,721	152,280
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation	10(b)	45,894	40,899
Non-controlling interests		(258)	(83)
Gain on disposal of property, plant and equipment		(1,258)	(322)
		<u>44,378</u>	<u>40,494</u>
<b>Changes in operating assets and liabilities:</b>			
Decrease/(increase) in accounts receivable		70,784	(61,909)
(Increase)/decrease in deposits, prepayments and other current assets		(14,518)	5,225
Increase in inventories		(42,290)	(45,056)
Decrease in accounts payable		(12,160)	(6,913)
(Decrease)/increase in payable to affiliates		(1,855)	1,699
Decrease in accrued Zakat, accruals and other current liabilities		(45,147)	(31,339)
Employees' end of service benefits - net		5,295	1,359
Total adjustments		<u>(39,891)</u>	<u>(136,934)</u>
<b>Net cash from operating activities</b>		<u>169,208</u>	<u>55,840</u>
<b>Investing activities:</b>			
Changes in net assets directly associated with a subsidiary held for disposal		(1,283)	813
Net movement in Murabaha term deposit		75,000	(150,000)
Sale proceeds of property, plant and equipment		2,119	348
Purchases of property, plant and equipment	10(a)	(146,518)	(95,924)
<b>Net cash (used in) investing activities</b>		<u>(70,682)</u>	<u>(244,763)</u>
<b>Financing activities:</b>			
Dividend paid	20	(97,500)	(97,500)
<b>Net change in cash and cash equivalents</b>		1,026	(286,423)
Effect of exchange rate fluctuations on cash and cash equivalents		342	266
Cash and cash equivalents at the beginning of the year		<u>51,711</u>	<u>337,868</u>
<b>Cash and cash equivalents at the end of the year</b>	4	<u>53,079</u>	<u>51,711</u>

The accompanying notes 1 to 24 form an integral part of these consolidated financial statements.

Mussad Abdullah Al Nassar  
Member Board of Directors

Matthijs Waltherus Cornelis Petrus  
Chief Executive Officer

Khaled A. Bakhsh  
Chief Financial Officer

**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the year ended 31 March 2013

	Attributable to Equity Shareholders of the Parent						Non controlling interest (SR '000)	Total equity (SR '000)
	Capital (SR '000)	Statutory reserve (SR '000)	Voluntary reserve (SR '000)	Foreign currency translation adjustments (SR '000)	Retained earnings (SR '000)	Total (SR '000)		
Balance at 1 April 2011	325,000	153,698	62,892	(1,916)	190,391	730,065	919	730,984
Net income	--	--	--	--	151,878	151,878	402	152,280
Dividend paid (Note 20)	--	--	--	--	(97,500)	(97,500)	--	(97,500)
Transfer to reserves	--	8,802	15,188	--	(23,990)	--	--	--
Board of directors' remuneration (Note 18 (d))	--	--	--	--	(1,400)	(1,400)	--	(1,400)
Foreign currency translation adjustments	--	--	--	266	--	266	(83)	183
<b>Balance at 31 March 2012</b>	<b>325,000</b>	<b>162,500</b>	<b>78,080</b>	<b>(1,650)</b>	<b>219,379</b>	<b>783,309</b>	<b>1,238</b>	<b>784,547</b>
Net income	--	--	--	--	164,259	164,259	462	164,721
Dividend paid (Note 20)	--	--	--	--	(97,500)	(97,500)	--	(97,500)
Transfer to reserves	--	--	16,426	--	(16,426)	--	--	--
Board of directors' remuneration (Note 18 (d))	--	--	--	--	(1,400)	(1,400)	--	(1,400)
Foreign currency translation adjustments	--	--	--	342	--	342	(258)	84
<b>Balance at 31 March 2013</b>	<b>325,000</b>	<b>162,500</b>	<b>94,506</b>	<b>(1,308)</b>	<b>268,312</b>	<b>849,010</b>	<b>1,442</b>	<b>850,452</b>

The accompanying notes 1 to 24 form an integral part of these consolidated financial statements.

Mussad Abdullah Al Nassar  
Member Board of Directors

Matthijs Waltherus Cornelis Petrus  
Chief Executive Officer

Khaled A. Bakhsh  
Chief Financial Officer

**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 March 2013

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**1. ORGANIZATION AND PRINCIPAL ACTIVITIES**

(a) Saudia Dairy and Foodstuff Company (SADAFCO) (“the Company” or “the Parent”) is a Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 4030009917 dated 21 Rabi Al-Thani 1396H, corresponding to 21 April 1976. The Company and its subsidiaries (listed in Note 1(b)), collectively described as the “Group” in these consolidated financial statements, are primarily engaged in the production and distribution of dairy products, beverages and various foodstuff in Kingdom of Saudi Arabia and certain Gulf and Arab countries.

(b) At 31 March 2013, the Company had investments in the following subsidiaries:

<u>Name</u>	<u>Principal activities</u>	<u>Country of incorporation</u>	<u>SADAFCO’s beneficial interest</u>
SADAFCO Foodstuff Company LLC ^	Foodstuff and dairy products	United Arab Emirates (UAE)	100%
SADAFCO Bahrain Company, LLC ^	Foodstuff and dairy products	Bahrain	100%
SADAFCO Jordan Foodstuff Company	Foodstuff and dairy products	Jordan	100%
SADAFCO Qatar Company	Foodstuff and dairy products	Qatar	75%
National Buildings Real Estate Company*^	Real Estate	Kingdom of Saudi Arabia	100%
United Gulfers Logistics Company*^	Logistics	Kingdom of Saudi Arabia	100%
National Sight Holding Company*^	Investment Company	Kingdom of Saudi Arabia	100%
SADAFCO Kuwait Company for food stuff*^	Foodstuff and Dairy products	Kuwait	49%

The percentage of beneficial interest has not changed from the previous period.

\*The above subsidiaries have not yet commenced their operations.

^Part of the investments are beneficially held through parties nominated by the Company.

Other subsidiaries:

- Arab Company for Animal Produce SAE, Egypt (see note 9b)
- Swiss Premium Foods Company SAE, Egypt (see note 11)

**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 March 2013

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**2. BASIS OF PREPARATION**

**(a) Statement of compliance**

These consolidated financial statements have been prepared in accordance with the generally accepted accounting standards in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants (SOCPA).

**(b) Basis of measurement**

These consolidated financial statements have been prepared on historical cost basis, except for investment and derivative financial instruments which are measured at fair values, using the accrual basis of accounting and the going concern concept.

**(c) Functional and presentation currency**

These consolidated financial statements are presented in Saudi Arabian Riyals (SR) which is the functional currency. All financial information presented in SR has been rounded to the nearest thousand.

**(d) Use of estimates and judgments**

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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.

Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

**(i) Impairment of available for sale investments**

The Group exercises judgement to consider the impairment of available for sale investments as well as their underlying assets. This includes the assessment of objective evidence which causes other than temporary decline in the value of investments. Any significant and prolonged decline in the fair value of equity investment below its cost is considered as objective evidence for the impairment. The determination of what is 'significant' and 'prolonged' requires judgement. The Group also considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.



**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 March 2013

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**2. BASIS OF PREPARATION (Continued)**

**(d) Use of estimates and judgments (continued)**

(ii) Impairment of non-financial assets

The Group assesses, at each reporting date or more frequently if events or changes in circumstances indicate, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less cost to sell, and its value in use, and is determined for the individual asset, unless the asset does not generate cash inflows which are largely independent from other assets or groups. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less costs to sell, an appropriate source is used, such as observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets exist, it is based on discounted future cash flow calculations.

(iii) Provision for impairment of accounts receivables

A provision for impairment of accounts receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered as indicators that the accounts receivable is impaired. For significant individual amounts, assessment is made on an individual basis. Amounts which are not individually significant, but are overdue, are assessed collectively and a provision is recognized considering the length of time considering past recovery rates.

(iv) Provision for slow moving inventory items

The Group makes a provision for slow moving inventory items. Estimates of net realizable value of inventories are based on the most reliable evidence at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly related to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of year. Provision is made, where necessary for obsolete and slow moving inventory.

**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 March 2013

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**3. SIGNIFICANT ACCOUNTING POLICIES**

The following significant accounting policies have been consistently applied by the management of the Group. Certain prior year amounts have been reclassified to conform to the presentation in the current year.

**(a) Basis of consolidation**

These consolidated financial statements include the consolidated financial statements of the Company and its subsidiaries set forth in note 1 above.

**(b) Investments in subsidiaries**

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date the control commences until the date the control ceases.

All intra-group balances and financial transactions resulting from transactions between the Company and the subsidiaries are eliminated in preparing these consolidated financial statements. Also, any unrealized gains and losses arising from intra-group transactions are also eliminated on consolidation.

The attributable equity interest of third parties in the Group is included under the non-controlling interests caption in these consolidated financial statements.

**(c) Accounts receivable**

Accounts receivable are stated at original invoice amount less provisions made for amounts which in the opinion of the management may not be received. Bad debts are written off when identified.

**(d) Inventories**

Inventories are valued at the lower of cost (determined principally by using the standard cost method but adjusted to approximate the respective actual cost) and net realizable value. Costs of finished goods include material cost, direct labour and appropriate manufacturing overhead. The cost of inventories includes expenditure incurred in acquiring and bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

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

**(e) Available for sale investments**

Investments which are neither bought with the intention of being held to maturity nor for trading purposes are classified as available for sale and are stated at fair value and included under current assets unless they are not intended to be sold in the next fiscal year. Changes in the fair value are credited or charged to the consolidated statement of changes in shareholders' equity. However, any non-temporary decline in value is charged to the consolidated statement of income. Fair value is determined by reference to the market value. In case of a fair value of equity security is not readily available, the cost is taken as reliable basis for subsequent measurement of fair value of the security. Dividend income is recognised when the right to receive the dividend is established.

**(f) Property, plant and equipment and depreciation**

Property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment loss, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset. Finance costs on borrowings to finance the construction of the assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognized in the consolidated statement of income when incurred.

Depreciation is charged to the consolidated statement of income on a straight-line basis over the estimated useful lives of individual item of property, plant and equipment.

The depreciation rates determined on the basis of estimated useful lives of assets for current and comparative periods are as follows:

	%
Buildings	2.5-10
Machinery and equipment	10-33
Vehicles and trailers	15-25
Furniture, fixtures and office equipment	10-25

**(g) Zakat and income tax**

The Company and its Saudi Arabian subsidiaries are subject to Zakat and income-tax in accordance with the regulations of the Department of Zakat and Income Tax ("DZIT"). The foreign subsidiaries are subject to tax regulations in their respective countries of incorporation. Zakat and income tax are charged to consolidated statement of income. Additional amounts, if any, that may become due on finalisation of an assessment are accounted for in the year in which assessment is finalised.

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Mussad Abdullah Al Nassar  
Member Board of Directors

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Matthijs Waltherus Cornelis Petrus  
Chief Executive Officer

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Khaled A. Bakhsh  
Chief Financial Officer



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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(h) Provisions**

A provision is recognized if, as a result of past events, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefit, will be required to settle the obligation.

**(i) Employees' end of service benefits**

Employees' end of service benefits, calculated in accordance with labour regulations of the countries of incorporation of the Group member companies, are accrued and charged to consolidated statement of income.

**(j) Expenses**

Selling and distribution expenses are those arising from the Group's efforts underlying their marketing, selling and distribution functions. All other expenses are classified as general and administrative expenses.

**(k) Operating lease payments**

Payments under operating leases are recognized in the consolidated statement of income on a straight-line basis over the terms of the lease.

**(l) Foreign currencies**

Transactions denominated in foreign currencies are recorded at the rates of exchange prevailing at the dates of the respective transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to Saudi Arabian Riyals (for Parent Company) or the relevant currencies (for subsidiaries) at the exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the consolidated statement of income.

Exchange differences, arising from the translation of foreign currency financial statements of subsidiaries are allocated to the shareholders of the Parent Company and non-controlling shareholders in proportion to their ownership interests in the investee companies. SADAFCO's share in exchange differences is recorded as a separate component of consolidated shareholders' equity, whereas amounts relating to the non-controlling shareholders are included under non-controlling interests in the consolidated balance sheet.

**(m) Accounts payable and accruals**

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.



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

**(n) Derivative financial instruments**

The Company uses interest rate swaps to strategically hedge its risk against interest rate movements and thus hedge accounting is not followed. The interest rate swaps are included in the consolidated balance sheet at fair value and any resultant gain or loss is recognized in the consolidated statement of income. The fair values of interest rate swaps are included in “other receivables” in case of favourable contracts and “other payables” in case of unfavourable contracts.

**(o) Segment reporting**

A segment is a distinguishable component of the Company that is engaged either in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments.

**(p) Revenue**

Sales are recognized when products are delivered or shipped to customers and risk and reward of ownership have passed. Sales represent the invoiced value of the goods supplied during the year, net of discounts and returns.

**(q) Cash and cash equivalents**

For the purpose of consolidated cash flow statement, cash and cash equivalents comprise cash and cheques in hand, balances in current accounts with banks, funds placed for investment and short-term bank deposits having an original maturity within 90 days.

**4. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents at 31 March, comprise the following:

	<u>2013</u> (SR ‘000)	<u>2012</u> (SR ‘000)
Cash and cheques in hand	13,332	10,612
Balances with banks – current account	<u>39,747</u>	<u>41,099</u>
	<u>53,079</u>	<u>51,711</u>

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**5. MURABAHA TERM DEPOSITS WITH BANK**

During the year ended 31 March 2013, Murabaha deposit amounting to SR 75 million matured on 27 March 2013. The Company has entered into a new Murabaha deposit on 27 March 2013 amounting to SR 75 million with United Gulf Bank, Bahrain (a related party) at commercial terms maturing on 8 July 2013.

**6. ACCOUNTS RECEIVABLE**

Accounts receivable at 31 March, comprise the following:

	<u>2013</u> (SR '000)	<u>2012</u> (SR '000)
Accounts receivable	185,156	165,251
Less: Provision for doubtful accounts	<u>(17,189)</u>	<u>(15,362)</u>
Net accounts receivable	167,967	149,889
Net advances and other receivables	47,822	132,518
Related parties (Note 18(b))	<u>3,909</u>	<u>8,075</u>
	<u>219,698</u>	<u>290,482</u>

Movement in the provision for doubtful accounts receivable is as follows:

	<u>2013</u> (SR '000)	<u>2012</u> (SR '000)
Balance at the beginning of the year	15,362	14,861
Charge for the year	<u>1,827</u>	<u>501</u>
Balance at the end of the year	<u>17,189</u>	<u>15,362</u>

As at 31 March, the ageing of unimpaired accounts receivables is as follows:

	<i>Neither past due nor Total</i>	<i>&lt; 30 days</i>	<i>30 – 60 days</i>	<i>60 – 90 days</i>
	<i>(SR 000)</i>	<i>(SR 000)</i>	<i>(SR 000)</i>	<i>(SR 000)</i>
<b>2013</b>	<b>167,967</b>	<b>134,853</b>	<b>22,260</b>	<b>7,798</b>
2012	149,889	120,100	21,795	6,975
				<b>3,056</b>
				1,019

Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of SADAFCO to obtain collateral over receivables.

Mussad Abdullah Al Nassar  
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**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
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For the year ended 31 March 2013

**7. DEPOSITS, PREPAYMENTS AND OTHER CURRENT ASSETS**

Deposits, prepayments and other current assets at 31 March, comprise the following:

	<u>2013</u> (SR '000)	<u>2012</u> (SR '000)
Prepayments	19,128	15,408
Security and other deposits	12,375	1,714
Others	1,284	1,147
	<u>32,787</u>	<u>18,269</u>

**8. INVENTORIES**

Inventories at 31 March, comprise the following:

	<u>2013</u> (SR'000)	<u>2012</u> (SR'000)
Raw and packing materials	169,086	116,106
Finished goods	60,167	77,812
Spare parts, supplies and other items	19,938	18,062
Goods-in-transit	54,098	50,347
	<u>303,289</u>	<u>262,327</u>
Less: Provision for slow moving inventory	<u>(7,894)</u>	<u>(9,222)</u>
	<u>295,395</u>	<u>253,105</u>

Movement in the provision for slow moving inventory is as follows:

	<u>2013</u> (SR '000)	<u>2012</u> (SR '000)
Balance at the beginning of the year	9,222	10,780
Charge for the year	221	470
Write off	<u>(1,549)</u>	<u>(2,028)</u>
Balance at the end of the year	<u>7,894</u>	<u>9,222</u>

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**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 March 2013

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**9. INVESTMENTS**

(a) Investments at 31 March, comprise the following:

	<u>2013</u> (SR'000)	<u>2012</u> (SR'000)
Investments available for sale (unquoted)	1,336	1,336
Less: Provision for non-temporary decline in value	<u>(1,093)</u>	<u>(1,093)</u>
	<u>243</u>	<u>243</u>

- (b) During the year ended 31 March 2009, the Company sold its 89.3% holding in its subsidiary, Arab Company for Animal Produce SAE, Egypt (ACFAP) to Gulf Egypt Agriculture Investment and Food Industry (GEAIF), for a consideration of LE 42,800 thousands (equivalent to SR 29,232 thousands) which will be received in five instalments. As per the sale agreement, the first instalment of LE 12,000 thousand was due on 28 December 2008 and the remaining amount of LE 30,800 thousand is due in 4 equal annual instalments commencing from 28 December 2009 and concluding on 28 December 2012. As at 31 March 2013, the Company has received the final instalment of SR 4,767 thousands (LE: 7,700 thousands) in accordance with the terms of the agreement.
- (c) SADAFCO's ownership interest in some of the investments (1(b)) is held through parties nominated by the Company.



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For the year ended 31 March 2013

**10. PROPERTY, PLANT AND EQUIPMENT**

(a) The movement in property, plant and equipment for the year ended 31 March, 2013 is analysed as follows:

<u>Cost:</u>	Land and buildings (SR'000)	Machinery and equipment (SR'000)	Vehicles and trailers (SR'000)	Furniture, fixtures and office equipment (SR'000)	Capital work-in-progress (SR'000)	Total (SR'000)
Balance at April 1, 2012	236,960	606,725	184,472	63,340	40,949	1,132,446
Additions during the year	476	--	326	82	145,634	146,518
Disposals during the year	(4,761)	(45,421)	(14,973)	(2)	--	(65,157)
Transfers from capital work-in-progress	5,932	8,127	12,502	1,910	(28,471)	--
<b>Balance at March 31, 2013</b>	<b>238,607</b>	<b>569,431</b>	<b>182,327</b>	<b>65,330</b>	<b>158,112</b>	<b>1,213,807</b>
<u>Accumulated depreciation:</u>						
Balance at April 1, 2012	152,831	476,760	129,289	50,915	--	809,795
Charge for the year	4,963	24,603	12,943	3,385	--	45,894
Disposals	(4,687)	(44,659)	(14,190)	(760)	--	(64,296)
Balance at March 31, 2013	153,107	456,704	128,042	53,540	--	791,393
<b>Net book value:</b>						
<b>At 31 March 2013</b>	<b>85,500</b>	<b>112,727</b>	<b>54,285</b>	<b>11,790</b>	<b>158,112</b>	<b>422,414</b>
At 31 March 2012	84,129	129,965	55,183	12,425	40,949	322,651

Mussad Abdullah Al Nassar  
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## SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)

(A Saudi Joint Stock Company)

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2013

#### 10. PROPERTY, PLANT AND EQUIPMENT (continued)

(b) Depreciation charge for the year ended 31 March, has been allocated as follows:

	<u>2013</u> (SR'000)	<u>2012</u> (SR'000)
Cost of sales	22,304	20,465
Selling and distribution expenses (note 13)	21,993	18,937
General and administrative expenses (note 14)	1,597	1,496
	<u>45,894</u>	<u>40,898</u>

- (c) The ownership interest of the Company in a freehold land held in Madinah amounting to SR 1,538 thousand (2012: SR 1,538 thousand) is held by a shareholder on behalf of the Company.
- (d) During the year ended 31 March, 2012, the Board of Directors had resolved to restart SADAFCO's Dammam factory to expand production capacity to meet future consumer demand. The Company commenced partial operations in Dammam factory from September 2012.
- (e) The additions during the year in capital work-in-progress, mainly represent purchase of machinery for Dammam and Jeddah factories and vehicles.

#### 11. DISCONTINUING OPERATIONS (SUBSIDIARY HELD FOR DISPOSAL)

Swiss Premium Foods Company SAE, Egypt (SPF), a subsidiary of SADAFCO, was engaged in manufacturing and production of ice cream products. During the year ended 31 March 2009, SADAFCO decided to sell its beneficial interest of 96.3% in SPF and consequently at 31 March 2009 SPF was classified as a subsidiary held for disposal. On 7 October 2009, the shareholders of SPF decided to liquidate the Company. On 30 September 2009, the Ministry of Commerce in Egypt notified the Company as 'under liquidation'.

Under the liquidation process, certain assets of SPF have been sold for SR 5,800 thousands (LE 9,500 thousands). This amount has been fully received during the quarter ended 30 September 2012, and is classified in the other assets net of payments made in respect of other accrued expenses. The legal formalities relating to the liquidation are still in progress.

The results of the subsidiary held for disposal, for the year ended 31 March, are presented below:

	<u>2013</u> (SR '000)	<u>2012</u> (SR '000)
<b>Expenses and net loss from discontinuing operations</b>	<u>(101)</u>	<u>(214)</u>

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Khaled A. Bakhsh  
Chief Financial Officer

**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**11. DISCONTINUING OPERATIONS (SUBSIDIARY HELD FOR DISPOSAL) (continued)**

The major classes of asset and liabilities of SPF classified as held for disposal, as at 31 March, are as follows:

	<u>2013</u> (SR '000)	<u>2012</u> (SR '000)
<b><u>Assets:</u></b>		
Property, plant and equipment	--	4,585
Receivables	125	99
Others	3,943	4,658
<b>Assets classified as held for disposal</b>	<b>4,068</b>	<b>9,342</b>
<b><u>Liabilities:</u></b>		
Accrued liabilities	(296)	(6,853)
<b>Liabilities classified as held for disposal</b>	<b>(296)</b>	<b>(6,853)</b>
<b>Net assets directly associated with subsidiary held for disposal</b>	<b>3,772</b>	<b>2,489</b>

**12. SHAREHOLDERS' EQUITY**

(a) **Capital**

The capital of the Company is SR 325,000 thousand (2012: SR 325,000 thousand) divided into 32,500 thousand shares of SR 10 each, which is fully paid.

(b) **Statutory reserve**

In accordance with Article 125 of the Saudi Arabian Regulations for Companies, the Company is required to transfer at least ten percent of net income for the year to a statutory reserve until such reserve equals fifty percent of paid-up capital. This having been achieved, the Company has resolved to discontinue such transfers. This reserve is not available for distribution.

(c) **Voluntary reserve**

In the prior years, the shareholders decided to create a voluntary reserve by transfer of ten percent of the net income attributable to equity shareholders of the parent Company to the reserve. The utilization of this reserve is at the discretion of the shareholders. In the current year, transfer has been made to the voluntary reserve, subject to the final approval at the Annual General Meeting.

**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 March 2013

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**13. SELLING AND DISTRIBUTION EXPENSES**

Selling and distribution expenses for the year ended 31 March, comprise the following:

	<u>2013</u> (SR'000)	<u>2012</u> (SR'000)
Employee costs	93,598	72,458
Advertising and sales promotion	86,883	86,043
Depreciation (note 10b)	21,993	18,937
Repairs and maintenance costs	8,995	7,782
Insurance	3,356	4,352
Rent	1,720	1,608
Communication	1,609	1,363
Travel and other expenses	4,835	2,664
Others	12,568	7,827
	<u>235,557</u>	<u>203,034</u>

**14. GENERAL AND ADMINISTRATIVE EXPENSES**

General and administrative expenses for the year ended 31 March, comprise the following:

	<u>2013</u> (SR'000)	<u>2012</u> (SR'000)
Employee costs	46,350	42,858
Depreciation (note 10b)	1,597	1,496
Consultancy	3,480	3,916
Travel and other expenses	4,492	3,778
Others	7,978	6,401
	<u>63,897</u>	<u>58,449</u>



**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 March 2013

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**15. OPERATING LEASES**

SADAFCO and its subsidiaries have certain warehouses and sales depots under operating leases extending for a period of more than one year. Most of these leases are for an initial period of five years with an option to renew the leases after that date. Lease payments are negotiated annually to reflect market rates.

At 31 March, operating lease rental obligations are payable as follows:

	<u>2013</u> (SR'000)	<u>2012</u> (SR'000)
Not later than one year	4,303	2,281
Later than one year but not later than five years	1,975	3,329
Later than five years	<u>31</u>	<u>747</u>
	<u>6,309</u>	<u>6,357</u>

**16. COMMITMENTS AND CONTINGENCIES**

- (a) At 31 March 2013, the Group has outstanding commitments for future capital expenditures amounting to SR 46,569 thousand (2012: SR 46,117 thousand).
- (b) As at 31 March 2013, the Group has a contingent liability of SR 17,769 thousand (2012: SR 13,232 thousand) in respect of guarantees issued by the Company's bankers on behalf of a subsidiary for guarantees issued to the Department of Zakat and Income Tax (Note 17).
- (c) The interest rate swap contracts with a notional amount of SR 100,000 thousand (2012: SR 100,000 thousand) matured during the year ended 31 March, 2013.

**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 March 2013

**17. ZAKAT**

(a) **Charge for the year**

Zakat and income tax charge for the year ended 31 March, comprise the following:

	<u>2013</u> (SR'000)	<u>2012</u> (SR'000)
Charge for the year	<u>13,720</u>	<u>11,754</u>

(b) Zakat charge for the year ended 31 March relating to SADAFCO has been calculated on the Zakat base, the significant components of which are as follows:

	<u>2013</u> (SR'000)	<u>2012</u> (SR'000)
Capital	325,000	325,000
Adjusted net income	175,059	164,717
Adjusted reserves, provisions and others at the beginning of the year	472,811	325,732
Deduction for long-term assets	(416,766)	(326,880)
Deduction for investments	(7,294)	(18,376)
	<u>548,810</u>	<u>470,193</u>

(c) **Accrued Zakat**

The movement in accrued Zakat during the year ended 31 March is as follows:

	<u>2013</u> (SR'000)	<u>2012</u> (SR'000)
Balance at beginning of the year	14,405	17,281
Payments during the year	(14,405)	(14,630)
Charge for the year	<u>13,720</u>	<u>11,754</u>
Balance at end of the year	<u>13,720</u>	<u>14,405</u>

**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 March 2013

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**17. ZAKAT (continued)**

(d) **Status of zakat**

Zakat assessments for the years up to and including 1996 have been finalised with the Department of Zakat and Income Tax (DZIT).

The DZIT raised final assessments for the years 1997 through 2002 and for the years 2003 and 2004 with an additional Zakat liability of SR 8,254 thousand and SR 5,135 thousands respectively. The Company's appeal against the Higher Appeal Committee (HAC) decision is awaiting review by the Board of Grievances (BOG). SADAFCO has submitted bank guarantees with the DZIT amounting to SR 7,765 thousand and SR 5,382 thousand for years 1997 through 2004.

The DZIT raised assessments for the years ended 31 March 2005 through 31 March 2007 with an additional Zakat liability of SR 4,742 thousand based on Preliminary Appeal Committee (PAC) decision. The Company has filed an appeal with the HAC against the PAC decision. SADAFCO has submitted a bank guarantee with the DZIT amounting to SR 4,576 thousands together with a bank collection order for SR 166 thousand paid "under protest".

The DZIT raised final assessments for the years ended 31 March 2008 through 31 March 2011 with an additional assessed liability of SR 9,235 thousand. The Company intends to file an appeal against the DZIT assessment.

The management believes that the ultimate appeal decision for the disallowed items shall be in the favour of the Company and therefore no additional provision required.

**18. RELATED PARTY TRANSACTIONS AND BALANCES**

- (a) Transactions with related parties were undertaken in the ordinary course of business at commercial terms and were approved by the management.
- (b) In addition to the disclosures set out in notes 1(b), 5, 6, 9(b), 10, 11 and 16 significant related party transactions for the year ended 31 March 2013 and balances arising there from are described as under:

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**18. RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

<u>Transactions with</u>	<u>Nature of transaction</u>	<u>Amount of transactions</u>		<u>Closing balance Receivable/(Payable)</u>	
		<u>2013</u> (SR '000)	<u>2012</u> (SR '000)	<u>2013</u> (SR '000)	<u>2012</u> (SR '000)
<i><u>Payable to affiliates arising from / due to affiliate</u></i>					
Affiliates	Purchases of goods and services*	(5,451)	(7,955)	(2,783)	(4,638)
	Net settlement against purchase of goods and services*	7,306	6,256	--	--
				<u>(2,783)</u>	<u>(4,638)</u>
<i><u>Receivable from affiliates</u></i>					
Affiliates	Advance payment account	--	(41)	--	--
Affiliates	Current account	601	(37)	3,909	3,308
Affiliates	Sale of subsidiary	(4,767)	(6,047)	--	4,767
				<u>3,909</u>	<u>8,075</u>

\*These transactions mainly represent the insurance premium paid to Buruj Cooperative Insurance Company.

- (c) In addition to the disclosure set out in note 5, profit earned on Murabaha term deposit with United Gulf Bank amounts to SR 2,906 thousand for the year ended 31 March 2013 (2012: SR 5,102 thousand).
- (d) Board of Directors' remuneration amounting to SR 1,400 thousand (2012: SR 1,400 thousand), is calculated in accordance with Article 35-4 of the Company's Articles of Association, is considered as an appropriation and is shown in the consolidated statement of changes in shareholders' equity.

Mussad Abdullah Al Nassar  
Member Board of Directors

Matthijs Waltherus Cornelis Petrus  
Chief Executive Officer

Khaled A. Bakhsh  
Chief Financial Officer



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**19. EARNINGS PER SHARE**

Earnings per share on operating income are calculated by dividing the operating income by the weighted average number of ordinary shares in issue during the year.

Earnings per share on net income are calculated by dividing the net income by the weighted average number of ordinary shares in issue during the year.

Earnings per share attributable to equity holders of the Parent are calculated by dividing the net income attributable to equity holders of the parent by the weighted average number of ordinary shares in issue during the year.

The weighted average number of ordinary shares outstanding during the year ended 31 March 2013 was 32.5 million (31 March 2012: 32.5 million) shares of SR 10 each. The calculation of diluted earnings per share is not applicable to the Company.

**20. DIVIDEND**

In the Extraordinary General Assembly Meeting of the Company held on June 25, 2012, the shareholders authorised a final dividend of Saudi Riyals 3 per share (2012: Saudi Riyals 3 per share) amounting to SR 97,500 thousand (2012: SR 97,500 thousand), which was appropriated from the retained earnings and paid during the quarter ended 30 September 2012.

**21. 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.

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**21. RISK MANAGEMENT (continued)**

**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.

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**21. RISK MANAGEMENT (continued)**

**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, authorisation and reconciliation procedures, staff education and assessment processes, such as the use of internal audit.

**22. FAIR VALUES OF FINANCIAL INSTRUMENTS**

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 transaction. The Group's financial assets consist of cash and bank balances, available-for-sale investments and receivables, its financial liabilities consist of accounts payable, payable to affiliates and shareholders, other liabilities and unpaid dividend, and its derivatives consist of interest rate swaps. The fair values of financial instruments are not materially different from their carrying values.

**23. SEGMENT REPORTING**

As the Company's business activity primarily falls within a single business and geographical segment, no additional disclosure is provided under segment reporting.

**24. APPROVAL OF FINANCIAL STATEMENTS:**

These consolidated financial statements were approved and authorised for issue by the board of directors on 18 May 2013.

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Mussad Abdullah Al Nassar  
Member Board of Directors

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Matthijs Waltherus Cornelis Petrus  
Chief Executive Officer

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Khaled A. Bakhsh  
Chief Financial Officer