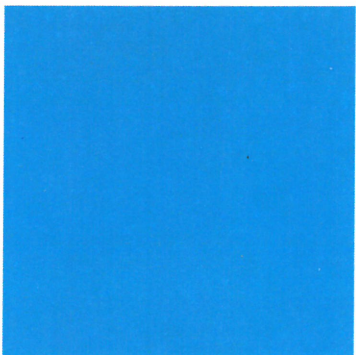
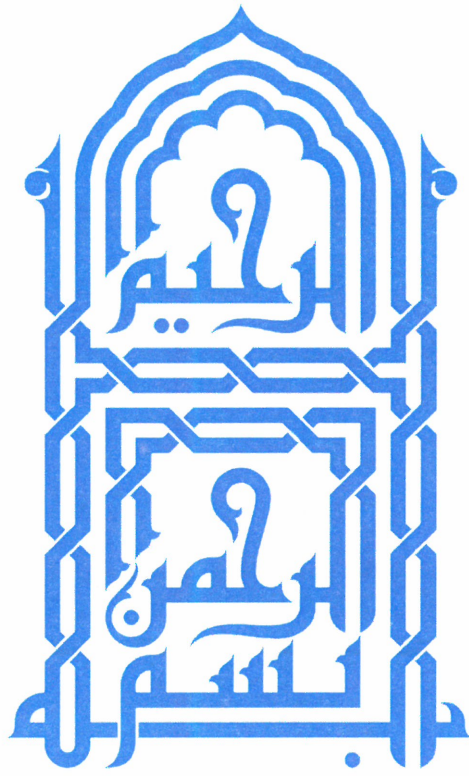


SAUDIA DAIRY AND FOODSTUFF COMPANY

ANNUAL REPORT 2013 - 2014







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 Prime Minister
Minister of Defense



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

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

Message from the Chairman

On behalf of the SADAFCO Board of Directors, it gives me great pleasure to congratulate all shareholders on the results achieved by the company during the Fiscal Year 2013-14.

The Annual Report, Financial Year-End Results and Auditor's Report detail this accomplishment.

SADAFCO delivered Net Profit of SAR 171.5 million in an ever-increasingly competitive market after ending the year with Net Sales of SAR 1,553 million. This achievement reflects a growth of 4.1% in Net Profit.

The year under review has reminded us of the effect of macro influences on the business's top line, however, SADAFCO's management has delivered bottom line despite the dynamic environment in which we operate.

Top line results were flat in relation to the previous four years of double-digit growth. SADAFCO weathered the storm caused by non-availability of piped water supply to the company's Jeddah Milk Factory during key months and supply disruption of key ingredients caused by changes to clearance specifications and procedures.

Escalating global dairy commodity prices created a challenging environment resulting in price increases on affected lines and this, combined with improved efficiencies within the company, minimized the negative effect.

Despite these challenges we continued to pursue our capital investment plans across the company. On-going investments into improved Manufacturing capacity and capability remain essential for company growth and concept diversification. After the previous year's start-up of the Dammam Factory we experienced growth in output and continuous improvement in utilization levels. Added to this, Dammam Factory joined Jeddah Factory and Jeddah Ice Cream Factory by becoming an ISO22000:2005 accredited facility in June 2013.

At the Jeddah Milk Factory, capacity was significantly increased through the installation of new processing and filling equipment. In tandem, the development of some exciting new products progressed well towards final commercial readiness following delays caused by water shortages and disruptions to raw material supply.

Construction of the SAR65-million Riyadh Regional Distribution Center (RRDC) has progressed well and the state-of-the-art facility is beginning to take shape, on target to be operational by the end of 2014, as planned.

From a shareholder perspective, SADAFCO investors have enjoyed significant capital gains over the past five years and during the past 12 months their shares value has risen significantly in addition to constant dividend payments. The market capitalization of SADAFCO stood at above SAR3+ billion based on the closing price of SADAFCO shares on Tadawul on 31 March 2014.

My fellow Board members and I would like to thank the Custodian of The Two Holy Mosques, His Royal Highness the Crown Prince deputy Prime Minister and Minister of Defense and His Royal Highness the Second Deputy Prime Minister, Deputy Crown Prince, Adviser and Special Envoy for The Custodian of the Two Holy Mosques 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 like to convey my thanks to SADAFCO's growing consumer base and to all our customers for their support during the year.

Hamad Sabah Al-Ahmad
Chairman

Message from the CEO

SADAFCO has reached the end of a challenging year marked by soaring raw material prices, disruptions to key ingredient supply caused by changes in clearance specifications and procedures and a lack of piped water at Jeddah Milk Factory during peak summer months.

The year was also marked by an intensive Ministry of Labor drive to correct the status of workers in the Kingdom. This process, while understandably necessary, had the effect of causing some of our customers to close and others to scale back on their purchases for a time.

Collectively, these actions and influences had a significant impact on the development of our top line growth and were beyond SADAFCO's direct control. Quick implementation of contingency plans minimized the effect.

Internally, the organization had to contend with the resignations of two senior management team members, Director Supply Chain and Director Sales & Distribution. By year-end, however, the commercial role had been filled by Mr. Ioannis "John" Theotokas, appointed to the position of Director Commercial Operations.

Despite all the challenges, SADAFCO managed a marginal 1% improvement in turnover while bottom line in relation to top line improved substantially. The company maintained a steady cash flow, enhanced by price increases necessitated by escalating raw material cost. In line with our philosophy, it allowed SADAFCO to continue to invest in its strengths, equipping the organization to face challenges head-on and drive the company's profitable growth.

A major investment project, the Riyadh Regional Distribution Center (RRDC), continued to make good progress. From what was only a boundary wall early in 2013, our new complex has started to rise out of the desert, on track for the planned completion date late in 2014. This RDC will enhance the quality of our operations adding to the current distribution infrastructure of 23 depots.

In order to fulfill ever-increasing consumer needs and their demand for Saudia Milk, the drive for manufacturing capacity expansion continued with the installation of efficient, new-generation processing and filling equipment in the Jeddah Milk Factory. In parallel, on-going investment has broadened our capability to support new product formats, for example the 2-litre pack, Feta consumer packs, premium Sensations ice cream and Crispy family packs.

Some exciting new developments, ready to be launched, were delayed due to the earlier-mentioned challenges.

SADAFCO has stayed true to its role as an industry leader to create suitable opportunities and employment while maintaining the balance of various value drivers, including but not restricted to, growth of shareholder value, sustainability and localizations. The company yearns to bring industry and Government closer together to foster planning and co-operation to stimulate the mobilization of Saudi youth in the job market.

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



Waltherus Matthijs
CEO



Khalid Bakhsh
CFO



Mohammed Attar
Director Marketing



Ioannis Theotokas
Director Commercial Operations



Raffael Reinders
Director Manufacturing



Paul van Schaik
Director Organizational Development

About SADAFCO

Established in 1976, Saudia Dairy and Foodstuff Company (SADAFCO) has become a leading food manufacturer, seller and distributor based in Saudi Arabia with operations across the Middle East. The company is a market leader in Saudi Arabia in Long Life Milk, Tomato Paste and Ice Cream, marketing its core products under its flagship brand Saudia.

After the company's formative years as a joint venture between Saudi, GCC and international businessmen, SADAFCO was merged with two other Dairy companies and ownership was transferred to Saudi and GCC interests; in 2005 SADAFCO transferred from being a closed to a publicly-listed company in Saudi Arabia and was listed on the Saudi Arabian stock exchange TADAWUL.

SADAFCO factories currently produce almost 40 million cases of product per annum, its long-distance transportation trucks travel 18 million kilometers each year delivering product to 23 depots that service more than 32 000 customers across the GCC .

SADAFCO has an established sales and distribution network of 19 depots in Saudi Arabia and one depot each in Qatar, Bahrain, Kuwait and Jordan, providing the company with wide sales penetration. In addition, the company accesses the UAE and several other export markets through external distributors and agents.

SADAFCO's manufacturing facilities are located in Jeddah (two factories) and Dammam. The company is committed to ensuring the highest standards of quality in its production processes and has received International Standards Organization (ISO) 22000:2005 accreditation for all its manufacturing facilities.

The company's product portfolio comprises a wide range of items across several categories including Long Life Milk, Tomato Paste, Ketchup, Snacks, Ice Cream, Cheese, Instant Milk Powder, Cream, Fruit Nectars, Butter and French Fries. The brand names within the company portfolio are Saudia, Crispy and Baboo.

Introduction

Fiscal Year 2013-14 proved to be challenging with several macro and micro factors influencing the company's overall performance. These can be summarized as follows:

- Limited water supply to the Jeddah Milk Factory during parts of the 1st and 2nd Quarters, resulting in significantly diminished capacity in milk production
- Supply disruptions for key ingredient Skim Milk Powder (SMP) in the 3rd and 4th Quarters caused by changes in clearance specifications and procedures, again affecting production of milk in Jeddah Factory
- The expatriate registration and legalization process has impacted on sales in small- and medium-sized grocers, caused the closure of some shops and resulted in the departure of a large number of consumers. This resulted in a reduction in the consumer base.

Product Supply

Within Supply Chain, 2013-14 turned out to be exciting and testing, with the main challenge being the significant increase in global raw material prices throughout the year. This required even better management of Supply Chain performance drivers to minimize the impact on consumers at point of purchase.

Service level performance through the year varied dramatically with achievement in some months being close to 100%, whilst in other months external disruptions to factory water supply or raw materials clearance negatively impacted these levels. These performance-influencing issues had, by the end of the year, been resolved.

SADAFCO's primary distribution fleet travelled almost 18 million kilometers across Saudi Arabia, Jordan and the Gulf, delivering close to 40 million cases of finished product. Overall productivity improved as increasing volume from the Dammam Factory allowed for an improved fill rate for the primary truck route between the East and West coasts of the Kingdom.

Work on the new state-of-the-art Riyadh Regional Distribution Center (RRDC) progressed well with the anticipated completion date on schedule for the end of 2014. The facility will not only support and help to drive business growth in Riyadh but it will also provide real efficiency benefits to the transportation function and SADAFCO's broader warehousing network.

The e-clearance system was introduced by the Saudi Food & Drug Authority (SFDA) during the year, demanding increased effort and co-ordination between various departments within the business. SADAFCO successfully aligned with the SFDA requirements without supply interruptions and, consequently, without negative business impact.

Manufacturing kept focus on their drive to expand production capacity and capability while ensuring that the process met with world-class quality standards.

In Jeddah, investment has been in full swing with processing capacity being given a boost with the installation of brear through and improved-efficiency processing technology for dairy products. At the same time the filling capacity was increased with the high-speed filling lines.

In the Jeddah Ice Cream Factory, the Manufacturing team installed new filling machines for the popular push-up, cone and stick products.

In Dammam, the swing to in-house bulk Feta manufacturing was complemented with the introduction of portion-pack filling capabilities. The relocation of machinery from Jeddah to Dammam continued during the year in order to accommodate capacity expansion in Jeddah for future growth in milk demand. This process of capacity expansion will continue into the future.

The quality of product coming out of the re-opened facility in Dammam was assured following the factory's successful ISO22000:2005 accreditation, thereby joining the two Jeddah production facilities, which secured the same status the previous year.



Commercial

If anything, 2013-14 has illustrated the resilience of SADAFCO's commercial performance despite all the challenges and disruptions of the year. The challenge faced was to ensure that these major influences had the least possible impact on company performance.

Overall, total sales routes for SADAFCO increased by 5% with two-thirds supplying Ambient (Non-Frozen) products and the balance covering the distribution of Frozen items. An additional 2,460 Ice Cream freezers were deployed as planned to support Summer 2014 sales.

Operational focus was placed on improved efficiencies and the launch of the New Product Development (NPD) offerings.

Efficiency focus laid the foundation for disciplined applications of operational processes through the Hand-Held Terminal (HHT) system, allowing for more accuracy in the daily loading of sales trucks. Many ideas were developed and piloted in selected depots with the aim of roll-out Kingdom-wide when the processes were fine-tuned.

In the Gulf, SADAFCO Kuwait took over the distribution of SADAFCO's product range in Kuwait from Raad Stores in May 2013.

Export sales showed a 38% growth over the previous year and scope for further growth exists. This will be realized as the improved manufacturing capacity shows results.

On the Marketing front, Saudia brand equity has been strengthened and its footprint expanded by new product introductions and targeted consumer activities.

Among the new product launches, Sensations Ice Cream offers high quality indulgence, Saudia Feta in 250g and 500g tubs provide consumer convenience for a popular, great-tasting white cheese and Saudia Whole Milk in 2-litre packs builds brand loyalty by driving consumption among Saudi families.

Milk maintained its leadership position with an exit market share of 55% of Long Life. Within Long Life Milk, Saudia accounted for 44% of 1-litre sales, 76% of 500ml sales and 62% of 200ml sales. Brand image remained strong in terms of top of mind brand awareness and brand loyalty. The milk brand health has been driven by Saudia Champions activation program, which has reached over 3 million consumers to date in Saudi Arabia, Qatar and Bahrain.

Saudia continued to dominate the Tomato Paste market, recording an exit share of 48% of Tomato Paste in carton packs. This performance was sustained by My Saudia Kitchen brand activation program, which helps mothers enhance their in-home cooking experience with a three-step Plan/Cook/Impress plan. The program directly reached 250 000 consumers and many more through its internet presence.

On the back of the success of Tomato Paste, Saudia Ketchup is performing well and is competing for the No 2 position within the KSA with a market share of 16%, driven by the upside down 580 ml plastic bottles.

Ice Cream maintained its leadership position in the Saudi market with an exit value share of 20%.

Organizational Development

The drive by the Saudi Arabian Ministry of Labor to adjust the status of non Saudi workers required a great deal of focus from SADAFCO's Organizational Development team to understand and implement legal demands within the set deadline. All requirements were completed in time.

The changing rules affected the organization's Nitaqat status and recruitment drives in Riyadh, Jeddah, Dammam and Madinah focused on the identification and employment of suitable Saudi candidates.

Total staff complement in 2013-14 reached 2,076, of which 5% were female. Snack production in Dammam and Ice Cream production in Jeddah continued to be handled predominantly by women.

Saudization by the year end was at 27%.

A manpower feature this year was the shortage of labor arising from the Ministry of Labor's legalization process and the increasing cost resulting from adjustments to previous levels of minimum wages. This placed further pressure on the improvement of operational efficiencies throughout the company.

The competitive nature of the market also meant that staff retention for Saudi and Expat employees remained challenging.

SADAFCO saw the departure of two executive management members, the Director of Sales & Distribution, in August 2013, and at the end of October 2013 another key position became available with the departure of the Director Supply Chain. Personnel searches were underway and by year end, Mr. Ioannis "John" Theotokas had joined SADAFCO to take on the vacated commercial role.

Special attention and health education has been paid with campaigns for screening Diabetes and Osteoporosis and with special focus on preventative measures for reducing the spread of communicable diseases. Regular visits to SADAFCO depots ensured preventative measures were communicated and implemented company wide.



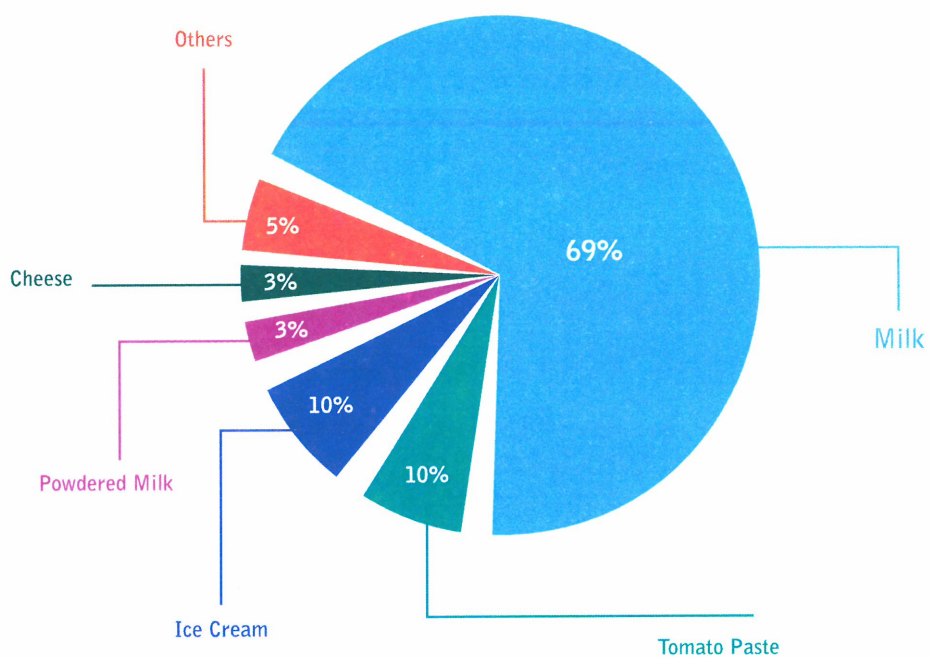
Corporate Social Responsibility

During 2013-14, SADAFCO participated in several social responsibility programs to contribute to the community. Participation in various ad hoc donations to charity and educational institutions remained a core part of this activity.

Contribution of each category
to the achievement of the overall Sales 2013/14 :

No	Product	Contribution to Sales 2012-13	Contribution to Sales 2013-14	% change
1	Milk	68 %	69 %	+1 %
2	Tomato Paste	9 %	10 %	+1 %
3	Ice Cream	10 %	10 %	-
4	Powdered Milk	3 %	3 %	-
5	Cheese	4 %	3 %	-1 %
6	Others	6 %	5 %	-1 %
	Total	100 %	100 %	

The impact of each product in the company's results for the year
2013/2014



SADAFCO Subsidiaries, Their Main Activities, Country of Origin:

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.

No	Company Name	Main Activity	Country of Origin Head Quarters &	Paid up Capital	Number of shares	Ownership
1	SADAFCO Foodstuff Company LLC *	Import, sale and distribution of dairy products and other goods	UAE	300,000 AED	300	100%
2	SADAFCO Jordan Foodstuff Company LLC	Import, export, marketing, and trading dairy goods, ice cream and goods of all kinds	Jordan	250,000 JD	250,000	100%
3	SADAFCO Qatar Co LLC	Sale and distribution of dairy products and goods	Qatar	1,500,000 QR	1500	75%
4	SADAFCO Bahrain ** Company SPC	Imports, exports, sales, and distribution of dairy goods, ice cream, and goods	Bahrain	50,000 BD	500	100%
5	National Buildings Real Estate	Owning and acquiring lands and real-estate, developing and investing in real-estate projects	KSA	2,000,000 SAR	200,000	100%
6	United Gulfers Transport	Transportation of goods, tasks, storage, and cooling	KSA	2,000,000 SAR	200,000	100%
7	National Sights Holding	Investment through Acquisition of controlling Stakes companies	KSA	2,000,000 SAR	200,000	100%
8	SADAFCO Kuwait Foodstuff Co.	Foodstuff and Dairy products distribution	Kuwait	50,000 KD	100	49%

* Deletion of commercial registration is in its final stages the CR and Commercial registration will be deleted

** On 18/09/2013 all procedures were completed for the transfer of SADAFCO Bahrain from LLC to SPC (single person Company) the Capital was increased to BD 50000 from BD 20000 accompanying announcement was made on Tadawul at the time.

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

SADAFCO's & Subsidiaries Total Revenue by Geographic region:

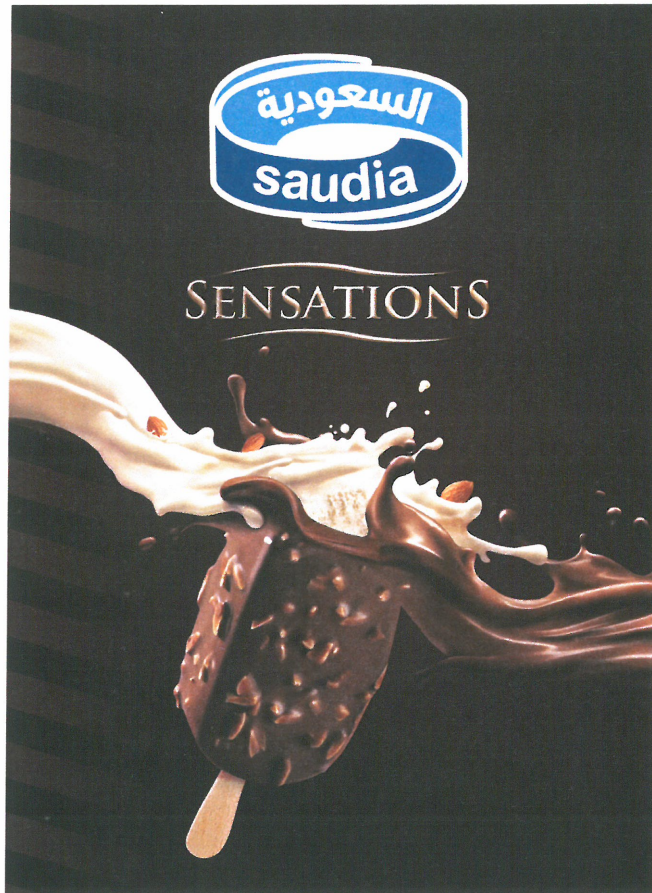
No	Description	Sales SAR Millions 2013/14	Percentage	Sales SAR Million 2012/13	Percentage
1	SADAFCO -KSA	1,446	93 %	1,400	90.4 %
2	GCC	83	5 %	99	6.4 %
3	Other	24	2 %	50	3.2 %
	Total	1553	100 %	1549	100 %

Key Performance Indicators

- The consolidated net profit for the year is SAR 171.5million, compared to the same period last year profits of SAR 164.7 million an increase of 4.1%.
- The earnings per share (EPS) for the year are SAR 5.28 compared to SAR 5.07 for the same period last year.
- The total gross profit for the year is SAR 493.1 million, compared to the same period last year of SAR 475 million an increase of 3.8%.
- The operating net profit for the year is SAR 183.9 million, compared to the same period last year's profits of SAR 175.6 million, an increase of 4.8%.
- The reason for the increase in profit for the year compared to the same period last year was mainly due to valuation of inventories at end of period and increase in sales.
- Sales for the year are slightly higher compared to the same period last year, despite the shortage of water supply as mentioned in 2nd quarter, the expatriate registration and legalization process which has impacted on sales at smaller & medium size shops and limitations imposed on supply of raw materials leading to shortage of milk production in Quarter 3 and January of Q4.

Sadafco Assets & Liabilities Five Years:

No	(Amounts in SAR million)	2013/14	2012/13	2011/12	2010/11	2009/10
1	Current assets	640	680	773	806	669
2	Fixed assets	498	422	323	268	239
3	Non-current assets	0	0	0	0	56.7
4	Current liabilities	135	174	238	272	228.4
5	Non current liabilities	81	78	73	72	69.2
6	Total equity	922	850	785	731	667.1
7	Sales	1,553	1,549	1,336	1,134	1,023
8	Net Income	171.5	165	152	130	203



Income Statement

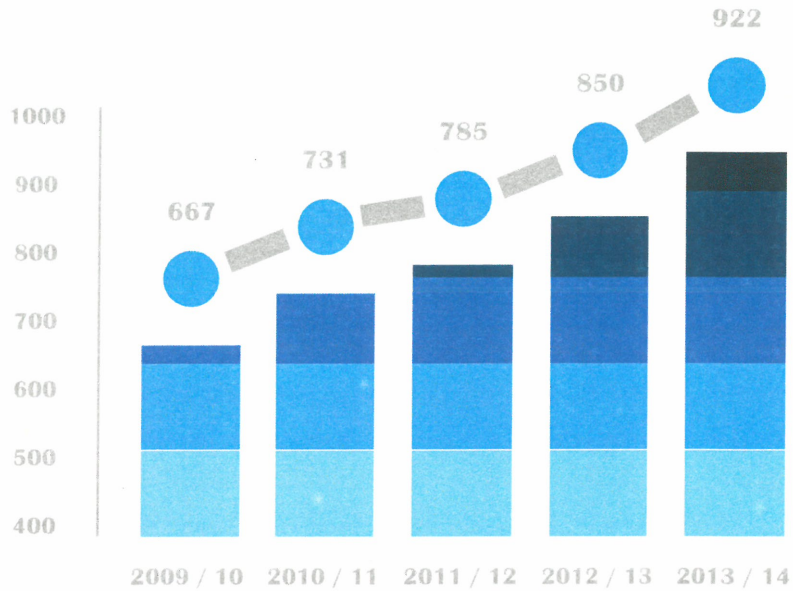
No	(Amounts in SAR million)	March 2014	March 2013
1	Net sales	1,553	1,549
2	Cost of sales	(1,060)	(1,074)
3	Gross profit	493	475
4	Other revenue	0.8	2
5	Selling & distribution	(240)	(236)
6	General & Admin.	(69)	(64)
7	Financials & bank charges	1	2
8	Zakat	(14)	(14)
9	Net Profit (Loss)	171.5	165

Operating income for the year ended 31 March 2014 is SAR 183.9 million vs. SAR 175.6 million for the same period last year with an increase of 4.8% mainly due to valuation of inventories at end of period and increase in sales.

Statutory Payments for 2013-2014 (SAR Thousands)

No	Government Agency	Due	Paid	Balance
1	Customs	31,456	31,456	
2	Zakat	15,565	15,565	
3	GOSI	7,502	7,267	235
4	TADAWUL Contract	300	300	
5	Government Fees and visas	7,769	7,769	
6	Tax	2,830	2,830	
7	Total	65,422	65,187	235

Change in shareholders' equity



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. The BOD had a total of 4 meetings and there were 8 Board resolutions passed by circulation, the table below shows Board Members' classifications and attendance record :

Name		2013							2014				
		03/10	03/10	20/4	18/5	25/6	20/7	24/9	24/10	20/1	26/1	16/2	17/2
		AM*	AM	C**	C	C	C	C	C	C	C	M	M
HH Sheikh Hamad Sabah Al-Ahmad	Non Executive	x	x	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Faick Hussain Al-Saleh	Independent	✓	✓	✓	✓	✓	✓	✓	✓	✓	x	x	
Mr. Faisal Hamad Al Ayyar	Non Executive	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr Abdullah Yaqoob Bishara	Independent	✓	✓	✓	✓	✓	✓	✓	✓	✓	x	x	
Mr Tariq Mohammed Abdulsalam	Non Executive	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Sulaiman Saud Al Jarallah	Independent	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr Mussad Abdullah Al-Nassar	Executive	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

*M=Attended Board Meeting **C=By Circulation

Board Members' Directorships

No	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
2	Mr. Faick Hussain Al-Saleh	1) Vice Chairman SADAFCO – Saudi Arabia 2) Board Member UGB - Bahrain
3	Mr. Faisal Hamad Al-Ayyar	1) Vice Chairman of KIPCO – Kuwait 2) Board Member SADAFCO - Saudi Arabia 3) Vice Chairman of United Gulf Bank - Bahrain 4) Vice Chairman Gulf Insurance Company - Kuwait 5) Vice Chairman Kuwaiti Jordanian Bank
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 Kuwaiti Jordanian Bank – Jordan 4) Board Member SADAFCO – Saudi Arabia 5) Board Member Royal Capital Company – Abu Dhabi
6	Mr. Sulaiman Saud Al-Jarallah	1) Board Member SADAFCO - Saudi Arabia
7	Mr. Mussad Abdullah Al-Nassar	1) Board Member SADAFCO - Saudi Arabia

The SADAFCO Board of Directors is keen to comply with the rules and regulations of the CMA and as such and in compliance with Article 10/C of the CMA Corporate Governance Code the SADAFCO Corporate Governance Framework was approved on 25th June 2013.

Board Committees

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 3 attendance meetings and passed 8 resolutions during the Financial Year 2013-14.

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.

Audit Committee Meetings and Members Attendance Record :

Name	Capacity	2013								2014			Total
		3/10 *AM	18/4 **C	6/5 C	16/5 C	5/6 C	11/6 C	18/7 C	23/10 C	19/1 C	16/2 AM	17/2 AM	
Mr Faisal Al- Ayyar	Chairman	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	11
Mr Faick Al Saleh	Member	✓	✓	✓	✓	✓	✓	✓	✓	✓	x	x	9
Mr Tariq Abdulsalam	Member	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	11

*AM=Attendance Board Meeting **C= By Circulation



Nomination and Remuneration Committee:

The Nomination and Remuneration Committee consists of three Board Members, all non-executive Board Members. The annual shareholders' meeting held on 28/06/2011 has approved the committee membership criteria their tenure and committee charter, the committee has met once during 2013-14 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.

Nomination and Remuneration Committee Meetings and Members' Attendance Record 2013-14:

Name	Capacity	2014	2013	Total
		17/02 *AM	16/05** C	
Mr.Faisal Hamad Al-Ayyar	Chairman	✓	✓	2
Mr.Tariq Abdulsalam	Member	✓	✓	2
Mr.Suleiman Saud Al-Jarallah	Member	✓	✓	2

*AM=Attended Board Meeting **C= By Circulation

Board Members and Executive Management Remuneration:

Amounts in Saudi Riyals	Non-executive BOD members (6)	Executive BOD Member (1)	Senior executives including the CEO & CFO
Salaries and wages	-	396,756	6,164,384
Allowances	-	226,482	2,821,283
Bonuses	200,000 each	261,667	3,282,023
Total	1,200,000	884,905	12,267,690

Board members' and Executive Management's Share ownership 2013/2014

Name	01/04/2013	31/03/2014	Change (+/-)
	Number of Shares	Number of Shares	
Board of Directors			
HH Sheikh. Hamad Al-Sabah Rep: United Industries Company	9,784,213	3,273,001	(6,511,212)
Mr. Faick Hussain Al-Saleh	1,000	1,000	=
Mr. Faisal Hamad Al-Ayyar Rep: United Gulf bank	1,000	1,000	=
Mr. Abdullah Yaqoob Bisharah	1,000	1,000	=
Mr. Tariq Abdulsalam Rep: United Industries Company	9,784,213	3,273,001	(6,511,212)
Mr. Sulaiman Saud AlJarallah	1,000	1,000	=
Mr. Musaad Abdullah Al-Nassar	11,000	11,000	=
Executive Management & Dependents			
Wout Matthijs	3,000	3,000	=
Khalid Abdulrahman Bakhsh	0	0	=
Mohammed Jameel Attar	0	0	=
Paul Van Schaik	0	0	=
Raffael Reinders	0	0	=
Ioannis Theotokas**	0	0	=
Ziyad Abdulaziz Kabli*	0	0	=
Ian Patrick Byrne*	0	0	=
Eddy Van Hamersveld*	0	0	=

There are no rights or convertible issues outstanding relating to any executive management team member or Board member or their spouses or dependents in shares or debt instruments in the company or any of its subsidiaries.

*on 15/08/2013 Mr Ian Byrne resigned, on 31/10/2013 Mr Ziyad Kabli resigned and as of 27/03/2014 Mr Eddy Hamersveld was no longer an executive team member.

** Mr Ioannis Theotokas joined as Director Commercial Operations as of 27/03/2014
The CMA was informed of all above changes to The Executive Team

Main Shareholders' List As At 31st March 2014

	Name	Number of shares at 1/04/2013	Number of shares at 31/03/2014	Percentage ownership 1/04/2013	Percentage ownership 31/03/2014
1	Al Qurain Petrochemicals Industries Company	0	9,425,000	0%	29%
2	Al-Samh Trading Co Ltd	3,798,008	3,798,008	11.69%	11.69%
3	United Industries Company	9,784,213	3,273,001	30.11%	10.07%
4	United Industries Company Swap Agreement	2,913,788	0	8.97%	0%

In accordance with Article 45 of CMA listing rules, SADAFCO received a copy of the UIC letter addressed to the CMA (including Form 7A) notifying it of the sale of 9,425,000 shares in SADAFCO to AL Qurain Petrochemicals Industries Company on November 4th, 2013. Al Qurain Petrochemical Industries Company in turn has supplied SADAFCO with copies of its notification letter to the CMA in addition to a copy of Form 7B.

The above-mentioned information is based on Tadawul records.

Annual Review of the Effectiveness of the Internal Control Procedure

Within its day to day functions, SADAFCO's Internal Audit Department assesses the efficiency and effectiveness of the internal control framework and proposes amendments where minor gaps were identified. Furthermore PWC was appointed to conduct an independent review of the Internal Controls framework, and its report was issued and presented to the Audit Committee. There were no major gaps in the company's Internal Controls that require disclosure. However, the report did suggest some room for improvement such as further development formalizing the risk management mechanisms, enhancing the communication of the code of conduct and improving the frequency of updating the company's policies and procedures. The executive management is in the process of developing an implementable action plan taking into consideration the Internal Audit and the consultant recommendations.

SADAFCO's Audit Committee continues to 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. The committee receives feedback in the form of regular reports which highlight areas of concern.

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	Country	Nature of Transaction	Value in SAR Thousands	Closing Balance SAR Thousands
1	Buruj Coop Insurance Company	KSA	Services	6,101	636
2	United Gulf Bank	Bahrain	Murabaha Deposit	75,000	0

The Board of Directors of Saudia Dairy and Foodstuff Company (SADAFCO) have decided on 26 January 2014 to place a SR 75 Million Murabaha Deposit with United Gulf Bank in the Kingdom of Bahrain (A related party) to maximize the return on its excess cash generated from its operational activities. The deposit was placed on 27/01/2014 and matured on 25/03/2014 at a return of 3% per annum. The Murabaha deposit will be placed on the agenda of the next Annual General Assembly meeting for review. The principal amount of SR 75 Million and return of SR 356,250 were received on March 25th, 2014. SADAFCO has disclosed all relevant information regarding this transaction on the TADAWUL website. Two SADAFCO Board members Mr Faisal Al Ayyar and Mr Faick Al Saleh, are on the United Gulf Bank Board of Directors and as such the Transaction warrants a disclosure to comply with CMA regulations.

SADAFCO also engaged in a related party contract with Al Buruj Cooperative Insurance as their offer was the best in overall terms. Al Buruj is 22,5% owned by Gulf Insurance Company (GIC), Mr. Faisal AL-Ayyar is a SADAFCO and GIC Board Member and as such the transaction must be disclosed.

The SADAFCO AGM held on 24th June 2013 has approved the Transactions above and agreed their renewal for another year.



Dividend Distribution Policy:

Article 35 of The Articles of Association stipulates the distribution of profits as follows :

- the annual net profits may be distributed after the deduction of all general expenses and other costs in the following way:
- 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.
- The general assembly may suggest to the BOD another reserve where a further 10% of net profits may accumulate.
- There may be a distribution to the shareholders thereafter where a first payment /dividend equal to 5% of the paid up capital is payable.
- 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.
- 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 and is looking to expand its sales routes for further geographic and regional expansion. Progress is being made at the Riyadh Regional Distribution Center (RRDC) to facilitate product availability in the central region and increase distribution and sales to the area and its neighboring regions. .

Risk Management:

The Company has exposure to the following risks:

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

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.

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 BY CMA

No Fines were imposed on SADAFCO for the year 2013-14

Declarations:

SADAFCO declares and confirms the following:

1. Its accounts have been prepared according to the correct procedures for the Kingdom of Saudi Arabia.
2. The internal auditing has been prepared on a sound basis and has been implemented effectively.
3. There is no doubt about its ability to continue its operations.
4. There are no outstanding loans or dues on the company.
5. The company is fully committed to adhere to the rules and regulations stipulated in the company's by-laws and other relevant ministerial resolutions. There are no fines or penalties imposed by the CMA nor any other legal or supervisory entity.
6. None of the BOD members and senior management, including the CEO and CFO or their spouses or children own any shares in affiliate companies; and no contracts were issued where any of them has a material interest other than those transactions disclosed in this Board Report.
7. No loans are made to any Board Member; SADAFCO has not guaranteed any loans to any Board or executive team member.
8. No shareholder waived his/her rights to dividends or other material benefits and none of the executive team members waived their right to receive any salary or compensation.
9. All the shares are common stock with equal voting and other rights in accordance with the law. There are neither preferential shares nor shares with special voting rights outstanding.
10. Following the review and audit of the financial statements by KPMG (Fozan & Sadhan) and Ernst and Young, it was confirmed that SADAFCO's accounts were compiled in line with the accounting standards of the Accounting Standards Committee of the Saudi Organization for Certified Public Accountants (SOCPA). The External Auditors' report was issued without reservation. The financial statements were found to be a true and fair reflection of the company's financial position and in line with the requirements of companies' law and SADAFCO's articles of association.
11. The company does not implement any stock options and has not issued any convertible debt instruments.
12. The company has not set up any reserves or investments for the benefit of its employees.

Corporate Governance Compliance:

#	Article	#	Fully	Partially	Not Applied	Not Applicable	Comments
1	Three: General Rights of Shareholders	1	-	1	-	-	By laws do not grant the right of shareholders to company assets upon liquidation . SADAFCO Complies with Company law .
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	1	In reference to 6(B) accumulative voting has been approved by the EGM on 25 June 2012 and will be applied in the next BOD election. In reference to 6(D): This refers to Judicial persons acting on behalf of others and is not relevant to SADAFCO
5	Seven: Dividends rights of Shareholders	2	1	-	1	-	In reference to 7(a): the company applies a dividend distribution policy based on article 35 of its bylaws.
6	Eight: Policies and Procedure related to disclosure	1	1	-	-	-	
7	Nine: disclosure in the Board of Directors' report	7	7	-	-	-	
8	Ten: Main Functions of the Board of Directors	17	14	1	2	-	Points Partially Applied: • (A-1) Partially implemented as the risk management policy is not finalized. Not Applied: • H/1,5) These are governed in each contract and CSR is decided annually.
9	Eleven: Responsibilities of the Board	8	7	-	1	-	(11/H) Each authority is defined in the employment contract.
10	Twelve: Formation of the Board	9	8	-	-	1	12/T Not applicable in the bylaws.
11	Thirteen: Committee of the Board	3	3	-	-	-	
12	Fourteen: Audit Committee	11	11	-	-	-	
13	Fifteen: Nomination and Remuneration Committee	8	8	-	-	-	
14	Sixteen: Meetings of the Board	4	4	-	-	-	
15	Seventeen: Remuneration and Indemnification of Board Members	1	1	-	-	-	
16	Eighteen: Conflict of Interest within the Board	3	3	-	-	-	
		91	82	2	5	2	

The Board of Directors of SADAFCO extends its thanks and appreciation to the Custodian of the Two Holy Mosques, the Crown Prince and the Second Deputy Premier for their continuous support and backing of national industries. Thanks are also extended to the Government of the Custodian of the Two Holy Mosques for their continued support of the companies in the Saudi private sector. The Board of Directors takes this opportunity to thank the shareholders for their trust and support of SADAFCO and customers and consumers for their trust and loyalty. Thanks are also due to the company's management and all its employees for their dedicated efforts and distinguished performance through the fiscal year 2013-2014 which contributed to the achievement of the results of this year. The Board looks forward to more achievements and excellence throughout the next year.

Best Regards

SADAFCO Board of Directors



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

CONSOLIDATED FINANCIAL STATEMENTS

31 March 2014

with

INDEPENDENT AUDITORS' REPORT



Ernst & Young & Co. (Public Accountants)
13th Floor - King's Road Tower
King Abdulaziz Road
P. O. Box 1994
Jeddah 21441
Kingdom of Saudi Arabia
Registration Number: 45



Al Fozan & Al Sadhan
9th Floor, Tower A, Zahran Business Centre
Prince Sultan Street
P. O. Box 55078
Jeddah 21534
Kingdom of Saudi Arabia
License No. 46/11/323 issued 11/3/1992

AUDITORS' REPORT

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

Scope of audit:

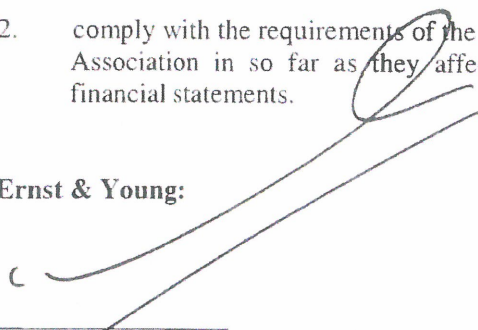
We have audited the consolidated balance sheet of Saudia Dairy & Foodstuff Company (SADAFCO) ("the Company") and its subsidiaries ("the Group") at 31 March 2014 and the related consolidated statements of income, cash flows and changes in equity for the year then ended and the accompanying notes 1 to 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:

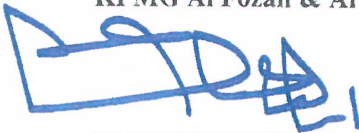
1. present fairly in all material respects the consolidated financial position of Saudia Dairy & Foodstuff Company (SADAFCO) and its subsidiaries at 31 March 2014 and the results of the Group's operations and cash flows for the year then ended in accordance with accounting standards generally accepted 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



26 Rajab 1435H
Corresponding to 25 May 2014
Jeddah, Kingdom of Saudi Arabia

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)

(A Saudi Joint Stock Company)

CONSOLIDATED BALANCE SHEET

As at 31 March 2014

	<u>Notes</u>	<u>2014</u> (SR '000)	<u>2013</u> (SR '000)
ASSETS			
Current assets:			
Cash and cash equivalents	4	112,913	53,079
Murabaha term deposit with a bank	5	--	75,000
Accounts receivable	6	171,527	219,698
Deposits, prepayments and other current assets	7	44,106	32,787
Inventories	8	308,421	295,395
Assets relating to a subsidiary held for disposal	9	3,159	4,068
Total current assets		640,126	680,027
Non-current assets:			
Investments	10	243	243
Property, plant and equipment	11(a)	497,678	422,414
Total non-current assets		497,921	422,657
Total assets		1,138,047	1,102,684
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable		56,859	108,662
Accruals and other current liabilities		60,145	46,599
Payable to related party	18	636	2,783
Accrued Zakat	17(c)	14,530	13,720
Unpaid dividend		2,207	1,835
Liabilities relating to a subsidiary held for disposal	9	425	296
Total current liabilities		134,802	173,895
Non-current liability:			
Employees' end of service benefits		80,555	78,337
Total liabilities		215,357	252,232
Equity:			
Equity attributable to the Company's shareholders:			
Capital	12(a)	325,000	325,000
Statutory reserve	12(b)	162,500	162,500
Voluntary reserve	12(c)	111,617	94,506
Foreign currency translation adjustments		(1,000)	(1,308)
Retained earnings		323,414	268,312
Total shareholders' equity		921,531	849,010
Non-controlling interests		1,159	1,442
Total equity		922,690	850,452
Total liabilities and equity		1,138,047	1,102,684

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

Mussad Abdullah Al Nassar
Member Board of Directors

Waltherus Cornelis Petrus Matthijs
Chief Executive Officer

Khalid 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 2014

	Notes	2014 (SR '000)	2013 (SR '000)
Continuing operations:			
Sales – net		1,552,824	1,549,023
Cost of sales		<u>(1,059,683)</u>	<u>(1,073,989)</u>
Gross profit		<u>493,141</u>	<u>475,034</u>
Expenses:			
Selling and distribution	13	<u>(239,982)</u>	(235,557)
General and administrative	14	<u>(69,209)</u>	(63,897)
Total expenses		<u>(309,191)</u>	<u>(299,454)</u>
Operating income		183,950	175,580
Other income – net		751	919
Financial income – net		<u>1,289</u>	<u>2,043</u>
Net income from continuing operations		185,990	178,542
Discontinuing operations:			
Net loss from discontinuing operations	9	<u>(103)</u>	(101)
Net income before Zakat		185,887	178,441
Zakat	17(a)	<u>(14,353)</u>	(13,720)
Net income		<u>171,534</u>	<u>164,721</u>
Attributable to:			
Equity shareholders of the Parent		171,113	164,259
Non-controlling interests		<u>421</u>	<u>462</u>
Net income		<u>171,534</u>	<u>164,721</u>
Earnings per share:			
- on operating income - SR	19	<u>5.66</u>	5.40
- on net income - SR	19	<u>5.28</u>	5.07
- on net income attributable to equity shareholders of the Parent - SR	19	<u>5.27</u>	5.05

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

Mussad Abdullah Al Nassar
Member Board of Directors

Waltherus Cornelis Petrus Matthijs
Chief Executive Officer

Khalid 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 2014

	Notes	<u>2014</u> (SR '000)	<u>2013</u> (SR '000)
Cash flows from operating activities:			
Net income		171,534	164,721
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation	11(b)	56,959	45,894
Non-controlling interests		(704)	(258)
Gain on disposal of property, plant and equipment		(503)	(1,258)
		<u>55,752</u>	<u>44,378</u>
<u>Changes in operating assets and liabilities:</u>			
Decrease in accounts receivable		48,171	70,784
Increase in deposits, prepayments and other current assets		(11,319)	(14,518)
Increase in inventories		(13,026)	(42,290)
Decrease in accounts payable		(51,803)	(12,160)
Decrease in payable to related party		(2,147)	(1,855)
Increase / (decrease) in accrued Zakat, accruals and other current liabilities		13,328	(45,147)
Employees' end of service benefits – net		2,218	5,295
Total adjustments		<u>(14,578)</u>	<u>(39,891)</u>
Net cash generated from operating activities		<u>212,708</u>	<u>169,208</u>
Cash flows from investing activities:			
Changes in net assets directly associated with a subsidiary held for disposal		1,038	(1,283)
Net movement in Murabaha term deposit		75,000	75,000
Sale proceeds from disposal of property, plant and equipment		2,930	2,119
Purchases of property, plant and equipment	11(a)	<u>(134,650)</u>	<u>(146,518)</u>
Net cash used in investing activities		<u>(55,682)</u>	<u>(70,682)</u>
Cash flow from financing activities:			
Dividend paid	20	<u>(97,500)</u>	<u>(97,500)</u>
Net change in cash and cash equivalents		59,526	1,026
Effect of exchange rate fluctuations on cash and cash equivalents		308	342
Cash and cash equivalents at the beginning of the Year		<u>53,079</u>	<u>51,711</u>
Cash and cash equivalents at the end of the year	4	<u>112,913</u>	<u>53,079</u>

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

Mussad Abdullah Al Nassar
Member Board of Directors

Waltherus Cornelis Petrus Matthijs
Chief Executive Officer

Khalid 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 2014

	Attributable to equity shareholders of the Parent							
	Capital (SR '000)	Statutory reserve (SR '000)	Voluntary reserve (SR '000)	Foreign currency translation adjustments (SR '000)	Retained earnings (SR '000)	Total (SR '000)	Non controlling interest (SR '000)	Total equity (SR '000)
Balance at 1 April 2012	325,000	162,500	78,080	(1,650)	219,379	783,309	1,238	784,547
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
Balance at 31 March 2013	325,000	162,500	94,506	(1,308)	268,312	849,010	1,442	850,452
Net income	--	--	--	--	171,113	171,113	421	171,534
Dividend paid (Note 20)	--	--	--	--	(97,500)	(97,500)	--	(97,500)
Transfer to reserves	--	--	17,111	--	(17,111)	--	--	--
Board of directors' remuneration (Note 18 (d))	--	--	--	--	(1,400)	(1,400)	--	(1,400)
Foreign currency translation adjustments	--	--	--	308	--	308	(704)	(396)
Balance at 31 March 2014	325,000	162,500	111,617	(1,000)	323,414	921,531	1,159	922,690

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

Mussad Abdullah Al Nassar
Member Board of Directors

Walthemus Cornelis Petrus Matthijs
Chief Executive Officer

Khalid 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 2014

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 the Kingdom of Saudi Arabia and certain Gulf and Arab countries.

(b) At 31 March 2014, the Company has 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 SPC	Foodstuff and dairy products	Bahrain	100%
SADAFCO Jordan Foodstuff Company LLC	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 Foodstuff Co. W.L.L.^	Foodstuff and Dairy products	Kuwait	49%

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

*The above subsidiaries have not yet commenced their operations.

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

Other subsidiary:

- Swiss Premium Foods Company SAE, Egypt (see note 9)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2014

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.

(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 unless its mentioned otherwise.

(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 the management of the Group 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.

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 receivable

A provision for impairment of accounts receivable 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 and obsolete inventory items

The Group makes a provision for slow moving and obsolete 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been consistently applied by the management of the Group.

(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.

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. Non-controlling interest represents the portion of profit and loss and net assets that are not held by the Group that are presented separately in the consolidated statement of income and within equity in the consolidated balance sheet separately from parent shareholder's equity.

(b) Assets relating to a subsidiary held for disposal

The Group classifies non-current assets and disposal groups as held for sale or for distribution to equity holders of the parent if their carrying amounts will be recovered principally through a sale or distribution rather than through continuing use. Such non-current assets and disposal groups classified as held for sale or as held for distribution are measured at the lower of their carrying amount and fair value less costs to sell or to distribute. Costs to distribute are the incremental costs directly attributable to the distribution, excluding the finance costs and Zakat / tax expense.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 March 2014

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

(b) **Assets relating to a subsidiary held for disposal (continued)**

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

Assets and liabilities classified as held for sale or for distribution are presented separately as current items in the statement of financial position.

A disposal group qualifies as discontinued operation if it is:

- A component of the Group that is a CGU or a group of CGUs
- Classified as held for sale or distribution or already disposed in such a way, or
- A major line of business or major geographical area

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

(c) **Cash and cash equivalents**

For the purpose of consolidated statement of cash flows, 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.

(d) **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.

(e) **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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2014

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

(f) **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. Securities for which related fair value cannot be instantly determined there are other indicators through which the market value can be objectively determined, accordingly, these are non-instantly available securities. Thus, if the fair value is not available in the aforementioned form, the cost will be the most appropriate, objective and reliable measurement of the fair value of the securities. Changes in the fair value are credited or charged to the interim condensed consolidated statement of changes in shareholders' equity. However, any non-temporary decline in value is charged to the interim consolidated statement of income. Fair value is determined by reference to the market value.

Dividend income is recognised when the right to receive the dividend is established.

(g) **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:

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

(h) **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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2014

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

(i) **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.

(j) **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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2014

3. **SUMMARY OF 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) **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.

(q) **Revenue recognition**

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.

4. **CASH AND CASH EQUIVALENTS**

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

	<u>2014</u> (SR '000)	<u>2013</u> (SR '000)
Cash and cheques in hand	14,477	13,332
Balances with banks – current account	<u>98,436</u>	<u>39,747</u>
	<u>112,913</u>	<u>53,079</u>

5. **MURABAHA TERM DEPOSIT WITH A BANK**

During the year ended 31 March 2014, Murabaha deposit amounting to SR 75 million with United Gulf Bank, Bahrain (a related party) matured.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2014

6. ACCOUNTS RECEIVABLE

Accounts receivable at 31 March, comprise the following:

	<u>2014</u> (SR '000)	<u>2013</u> (SR '000)
Trade receivable	171,248	185,156
Less: Provision for doubtful accounts	<u>(17,066)</u>	<u>(17,189)</u>
Net accounts receivable	154,182	167,967
Net advances and other receivables	13,870	47,822
Related parties (Note 18(b))	<u>3,475</u>	<u>3,909</u>
	<u>171,527</u>	<u>219,698</u>

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

	<u>2014</u> (SR '000)	<u>2013</u> (SR '000)
Balance at the beginning of the year	17,189	15,362
(Reversal) / charge for the year	<u>(123)</u>	<u>1,827</u>
Balance at the end of the year	<u>17,066</u>	<u>17,189</u>

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

	<i>Total</i>	<i>Neither past due nor impaired</i>	<i>< 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>	<i>(SR 000)</i>
2014	154,182	122,542	20,972	7,477	3,191
2013	167,967	134,853	22,260	7,798	3,056

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2014

7. DEPOSITS, PREPAYMENTS AND OTHER CURRENT ASSETS

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

	<u>2014</u> (SR '000)	<u>2013</u> (SR '000)
Prepayments	32,258	19,128
Security and other deposits	11,691	12,375
Others	157	1,284
	<u>44,106</u>	<u>32,787</u>

8. INVENTORIES

Inventories at 31 March, comprise the following:

	<u>2014</u> (SR'000)	<u>2013</u> (SR'000)
Raw and packing materials	126,120	169,086
Finished goods	62,934	60,167
Spare parts, supplies and other items	26,060	19,938
Goods-in-transit	102,910	54,098
	<u>318,024</u>	<u>303,289</u>
Less: Provision for slow moving and obsolete inventory	<u>(9,603)</u>	<u>(7,894)</u>
	<u>308,421</u>	<u>295,395</u>

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

	<u>2014</u> (SR '000)	<u>2013</u> (SR '000)
Balance at the beginning of the year	7,894	9,222
Charge for the year	2,500	221
Write-off	(791)	(1,549)
	<u>9,603</u>	<u>7,894</u>

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)

(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2014

9. 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>2014</u> (SR '000)	<u>2013</u> (SR '000)
Expenses and net loss from discontinuing operations	<u>(103)</u>	<u>(101)</u>

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

	<u>2014</u> (SR '000)	<u>2013</u> (SR '000)
Assets:		
Receivables	--	125
Others	<u>3,159</u>	<u>3,943</u>
Assets classified as held for disposal	<u>3,159</u>	<u>4,068</u>
Liabilities:		
Accrued liabilities - liabilities classified as held for disposal	<u>425</u>	<u>296</u>
Net assets directly associated with subsidiary held for disposal	<u><u>2,734</u></u>	<u><u>3,772</u></u>

10. INVESTMENTS

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

	<u>2014</u> (SR'000)	<u>2013</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>

Mussad Abdullah Al Nassar
Member Board of Directors

Waltherus Comelis Petrus Matthijs
Chief Executive Officer

Khalid A. Bakhsh
Chief Financial Officer

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 March 2014

11. PROPERTY, PLANT AND EQUIPMENT

(a) The movement in property, plant and equipment for the year ended 31 March, 2014 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)	<u>Total</u> (SR'000)
Balance at April 1, 2013	238,607	569,431	182,327	65,330	158,112	1,213,807
Additions during the year	203	8,587	3,464	392	122,004	134,650
Disposals during the year	--	(4,812)	(611)	(168)	--	(5,591)
Transfers from capital work-in-progress	27,485	161,243	26,229	4,141	(219,098)	--
Balance at March 31, 2014	266,295	734,449	211,409	69,695	61,018	1,342,866
Accumulated depreciation:						
Balance at April 1, 2013	153,107	456,704	128,042	53,540	--	791,393
Charge for the year	6,518	28,910	17,232	4,299	--	56,959
Disposals	--	(2,087)	(862)	(215)	--	(3,164)
Balance at March 31, 2014	159,625	483,527	144,412	57,624	--	845,188
Net book value:						
At 31 March 2014	106,670	250,922	66,997	12,071	61,018	497,678
At 31 March 2013	85,500	112,727	54,285	11,790	158,112	422,414

Mussad Abdullah Al Nassar
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Chief Financial Officer

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2014

11. **PROPERTY, PLANT AND EQUIPMENT (continued)**

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

	<u>2014</u> (SR'000)	<u>2013</u> (SR'000)
Cost of sales	29,483	22,304
Selling and distribution expenses (note 13)	25,589	21,993
General and administrative expenses (note 14)	<u>1,887</u>	<u>1,597</u>
	<u>56,959</u>	<u>45,894</u>

- (c) The ownership interest of the Company in certain freehold land held in Madinah amounting to SR 1,538 thousand (2013: SR 1,538 thousand) is through a shareholder of the Company. The Company holds legal documents confirming its beneficial interest.
- (d) The additions during the year amounting to SR 134,650 thousand (2013: SR 146,518 thousand), mainly represent purchase of machinery for Dammam, Jeddah factories and the expansion of Riyadh Distribution Centre.

12. **SHAREHOLDERS' EQUITY**

(a) **Capital**

The capital of the Company is SR 325,000 thousand (2013: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2014

13. SELLING AND DISTRIBUTION EXPENSES

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

	<u>2014</u> (SR'000)	<u>2013</u> (SR'000)
Employee costs	103,241	93,598
Advertising and sales promotion	71,304	86,883
Depreciation (note 11b)	25,589	21,993
Repairs and maintenance costs	8,231	8,995
Insurance	4,347	3,356
Rent	2,620	1,720
Communication	1,991	1,609
Others	22,659	17,403
	<u>239,982</u>	<u>235,557</u>

14. GENERAL AND ADMINISTRATIVE EXPENSES

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

	<u>2014</u> (SR'000)	<u>2013</u> (SR'000)
Employee costs	49,890	46,350
Depreciation (note 11b)	1,887	1,597
Professional fees	3,925	3,480
Travel and other expenses	4,103	4,492
Repairs and maintenance costs	1,258	1,412
Communication	1,306	678
Insurance	491	297
Rent	180	180
Others	6,169	5,411
	<u>69,209</u>	<u>63,897</u>

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)

(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2014

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>2014</u> (SR'000)	<u>2013</u> (SR'000)
Not later than one year	3,971	4,303
Later than one year but not later than five years	3,339	1,975
Later than five years	79	31
	<u>7,389</u>	<u>6,309</u>

16. COMMITMENTS AND CONTINGENCIES

- (a) At 31 March 2014, the Group has outstanding commitments for future capital expenditures amounting to SR 87,546 thousand (2013: SR 46,569 thousand).
- (b) As at 31 March 2014, the Group has a contingent liability of SR 10,004 thousand (2013: SR 17,769 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).

Mussad Abdullah Al Nassar
Member Board of Directors

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Chief Financial Officer

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 March 2014

17. ZAKAT

(a) Charge for the year

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

	<u>2014</u> (SR'000)	<u>2013</u> (SR'000)
Charge for the year	<u>14,353</u>	<u>13,720</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>2014</u> (SR'000)	<u>2013</u> (SR'000)
Capital	325,000	325,000
Adjusted net income	181,813	175,059
Adjusted reserves, provisions and others at the beginning of the year	636,310	472,811
Deduction for long-term assets	(586,608)	(416,766)
Deduction for investments	<u>(7,000)</u>	<u>(7,294)</u>
	<u>549,515</u>	<u>548,810</u>

(c) Accrued Zakat

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

	<u>2014</u> (SR'000)	<u>2013</u> (SR'000)
Balance at beginning of the year	13,720	14,405
Payments during the year	(13,543)	(14,405)
Charge for the year	<u>14,353</u>	<u>13,720</u>
Balance at end of the year	<u>14,530</u>	<u>13,720</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2014

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 with an additional Zakat liability of SR 8,254 thousand. Board of Grievance (BOG) rendered its decision in favour of the DZIT. The Company has filed a review petition against BOG decision. Pending resolution of the case, the assessed amount has been paid "under protest". SADAFCO will seek its refund on favourable resolution of the matter.

The DZIT raised final assessments for the years 2003 and 2004 with an additional Zakat liability of SR 5,135 thousand. The Company's appeal against the Higher Appeal Committee (HAC) decision is awaiting review by the BOG. SADAFCO has submitted a bank guarantee with the DZIT amounting to SR 5,382 thousand for years 2003 and 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 assessment liability of SR 9,235 thousand. The Company has filed an appeal with DZIT against the final assessment and has paid SR 1,846 thousand "under protest".

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

The DZIT has not yet raised assessments for the years 2012 and 2013.

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, 11 and 16, significant related party transactions for the year ended 31 March 2014 and balances arising there from are described as under:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2014

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>2014</u> (SR '000)	<u>2013</u> (SR '000)	<u>2014</u> (SR '000)	<u>2013</u> (SR '000)
<u>Payable to affiliates</u>					
Affiliates	Purchases of goods and services*	(2,682)	(5,451)	(636)	(2,783)
	Net settlement against purchase of goods and services*	4,828	7,306	--	--
				<u>(636)</u>	<u>(2,783)</u>
<u>Receivable from affiliates</u>					
Affiliates	Current account	(434)	601	3,475	3,909
	Sale of subsidiary	--	(4,767)	--	--
				<u>3,475</u>	<u>3,909</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 1,000 thousand for the year ended 31 March 2014 (2013: SR 2,906 thousand).
- (d) Board of Directors' remuneration amounting to SR 1,400 thousand (2013: SR 1,400 thousand), is calculated in accordance with Article 35-4 of the Company's Articles of Association and is considered as an appropriation and is shown in the consolidated statement of changes in shareholders' equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2014

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 2014 was 32.5 million (31 March 2013: 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 Annual General Assembly meeting of the Company held on 24 June 2013, the shareholders authorised a final dividend of SR 3 per share (2013: SR 3 per share) amounting to SR 97,500 thousand (2013: SR 97,500 thousand), which was appropriated from the retained earnings and paid during the quarter ended 30 September 2013.

21. RISK MANAGEMENT

The Group 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 Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2014

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 Group has exposure to credit risk with respect to term and other deposits with banks. The Group 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 42 % (2013 : 41%) 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 Group'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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2014

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 Group cannot expect to eliminate all operational risks, but it endeavours 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 accounts receivable, its financial liabilities consist of accounts payable, payable to affiliates and shareholders, other liabilities and unpaid dividend. 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 26 Rajab 1435H, corresponding to 25 May 2014.