

# SAUDIA DAIRY & FOODSTUFF COMPANY

## ANNUAL REPORT 2014-2015









The Custodian of the Two Holy Mosques  
**King Salman Bin Abdulaziz Al Saud**



Crown Prince, First Deputy Prime Minister and  
the Minister of Interior  
**HRH Prince Mohammed Bin Nayef Bin  
Abdulaziz Al Saud**



Deputy Crown Prince, Second Deputy Prime Minister and  
Minister of Defense  
**HRH Prince Mohammed Bin Salman Bin  
Abdulaziz Al Saud**

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## **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

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## Chairman's Message

On behalf of my fellow Board of Directors' members, it gives me pleasure to share SADAFCO's results for the financial year 2014-15. This document, which includes the Annual Report, Financial Year-End Results and Auditor's Report, details the year's performance, accomplishments and highlights.

It is encouraging to note that in the year under review, the company re-entered the territory of robust, double-digit growth with Net Sales reaching an all-time high of SAR 1,807 million, 16.4% up on the previous year. Net Profit of SAR 141.5 million reflected a decline versus last year due to, among other things, advertising and visibility investment in innovations introduced into the highly competitive Laban and Coffee markets, increased overheads aimed at attracting and retaining Saudis to the company and the one-time effect of reconciliation of outstanding balances in the trade.

SADAFCO and its flagship **Saudia** brand continued to find favor with Saudi consumers and as we enter our 40th year, the company's retail market shares in our main categories of participation continue to strengthen, testimony to the fact that the region continues to trust and value our products and their consistently high quality.

Operationally across the company's value chain, from innovation through Manufacturing and Supply Chain into Marketing and Sales, all business functions have contributed to improved efficiencies.

Investment in Manufacturing and Supply Chain infrastructure continued. The Riyadh Regional Distribution Center (Riyadh RDC) became operational on schedule and within budget.

Riyadh's population makes up almost a quarter of the total population of Saudi Arabia and therefore the new RDC is vital for improved efficiency in serving this market. Our Riyadh operation is already the largest of our depots in the Kingdom but there remains further potential and this increased capacity provides us with the means to capitalize on this.

Further efficiency-improving initiatives at the Jeddah Milk Factory were implemented to ensure we are in a position to cope with regional demands for years to come. The installation of machinery to increase the factory's capacity and a continuous improvement drive to boost efficiencies has led to higher output of consistent quality product. This approach also allows SADAFCO to ensure that Saudi Arabia's scarce water resource is used with care and that overall wastage is kept to an absolute minimum.

From a commercial point of view, SADAFCO is forever conscious of the high percentage of youth within the 30 million population of Saudi Arabia, where 32% of the population is below the age of 14. Focus on this fact entails the development of products for this sector of the population and an on-going effort to create employment for the youth as they enter into the work place.

New Product Development calls for innovation appealing to youth with Laban Twist aiming to target this market with a fun, snack-on-the-go, sweetened and flavored Laban. Other innovations have seen SADAFCO entering large-volume categories like Laban and Arabic Coffee to service consumer needs on a different social platform.

SADAFCO has managed to keep itself in the all-important Green Status of the Saudi Ministry of Labor's Nitaqat system. While it has been challenging but fulfilling to seek out local candidates for available positions, a key Human Resource focus has been to safeguard gains in workforce localization by upgrading remuneration to retain Saudi staff employed. This has also been an area of concentration when it comes to incentives and rewards for the commercial effort of the company.

Corporate Social Responsibility (CSR) programs this year included a SAR 250 000 contribution to the Disabled Children's Society .

Over the past five years, the SADAFCO share price has increased from SAR 45.20 (31 March 2010) to SAR 120.68 (31 March 2015) and during 2014-15 the share price hit an all-time high of SAR 136.88. During the past 12 months, SADAFCO continued to give its shareholders capital gains as its share price continued to rise and its market capitalization increased. The Board has recommended a SAR 3.50 dividend to the AGM for its approval.

During May of last year we were saddened by the passing of the long-serving Vice Chairman of the Board, Faick Hussain Al Saleh. The Board appointed Ahmed Mohamed Hamed Al Marzouki as a new Independent Board Member effective 16 June 2014, an appointment ratified by last year's AGM.

On behalf of the SADAFCO Board and myself, I would like to express gratitude to the Custodian of the Two Holy Mosques, His Royal Highness the Crown Prince, His Royal Highness the Second Deputy Premier and the Government of Saudi Arabia for their continued efforts to support national industries.

My appreciation also goes to all SADAFCO shareholders, Board members, Executive Management Team members and employees for their combined and continued efforts to further develop and grow the company.

Finally, thank you to SADAFCO's growing, loyal consumer base and to all our customers for their support during the past year.

Hamad Sabah Al-Ahmad  
Chairman



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## CEO's Message

During 2014-15 SADAFCO's attention focussed on returning to strong, double-digit sales growth and, with the added support of higher above and below the line spend, the company recorded an impressive 16.4% jump in Net Sales with gains coming from all major categories in which the company competes.

This achievement has confirmed the strength of the **Saudia** brand among consumers as they reacted positively to our commercial initiatives which ensured our products remained clearly visible in the market and that the brand remained top of mind. We returned increased retail exit market shares of 31.8% in Total Drinking Milk, 43.4% in Tomato Paste and 19.5% in Ice Cream, retaining our market leader positions in Tomato Paste and Ice Cream categories and strengthening our No 2 position in the total milk market.

This year all geographical markets showed an increase in sales growth. Jordan and Kuwait produced encouraging signs of recovery as we restructure our operations in these territories and Exports continued to make gains.

Overall, the boost in spend on advertising and visibility for existing and newly-launched products, along with the one-time effect of reconciliations of outstanding balances of rebates and trade receivables, the expansion of sales force capabilities and the introduction of extra incentives to retain Saudi nationals, have all resulted in Net Profits declining versus last year. An adverse valuation of closing inventories also impacted on the profits for the period.

Our activity in the field of innovation has allowed us to expand on our strengthened positions in current fields of competition into new, large and established categories. Laban and Arabic Coffee offer big opportunities and **Saudia** has entered both categories with **Saudia** Laban, **Saudia** Laban Twist and **Saudia** Arabic Coffee. In the Ice Cream category, **Saudia** Premium Sticks has been boosted with the addition of a White Chocolate version that has already started showing similar success to the Milk Chocolate variety launched in the previous year.

SADAFCO's ability to supply its high-quality mainstream lines quicker and in quantities in excess of current demand has been strengthened during the past year through further investment in our manufacturing infrastructure. We upgraded our processing capabilities with the inclusion of a second continuous mixing system that delivers a consistently high-quality, homogenized product. While this vastly increases our processing capacity, high-speed fillers to keep product packaging up to speed have also been introduced. SADAFCO has taken the shared, global lead in installing some of this equipment with the continuous mixing and the high-speed 500ml systems being industry world firsts from the supplier.

The company's factories continue to operate under the internationally-recognized ISO 22000:2005 accreditation and increased focus on continuous improvement allows for steady, day-to-day progress to be made in identifying and implementing procedural changes to enhance efficiencies to further boost capacity and quality levels.

On the Supply Chain front, we have completed the state-of-the-art SAR 65 million Riyadh Regional Distribution Center in the Sulay District in the south eastern part of the Saudi capital thereby allowing SADAFCO to increase supply capabilities and efficiencies to the important, population-rich central region of the Kingdom of Saudi Arabia.

From a manpower perspective, the Executive Management Team has now returned to full strength with the positions of Director Commercial Operations and Director Supply Chain being filled. These top-level appointments add to an overall workforce, which has now grown to 2,200 employees from 41 different countries. Of these employees, 93 (4.2%) are women. Within this workforce, SADAFCO has maintained Green Status within the Saudi Ministry of Labor's Nitaqat system.

In conclusion, I thank the SADAFCO Board Members for their continued support, our staff for their dedication and hard work in achieving the reported results, our suppliers and customers for their contributions to making our achievements possible. At times we operate in a challenging environment requiring persistence to overcome obstacles and find solutions. I commend the SADAFCO team for their perseverance in this respect.

And all thanks go to **Saudia** consumers throughout the region.

Waltherus Matthijs  
Chief Executive Officer

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## Executive Management



Waltherus Matthijs  
CEO



Khalid Bakhsh  
CFO



Paul van Schaik  
Director Organizational  
Development



Ioannis Theotokas  
Director Commercial  
Operations



Mohammed Attar  
Director Marketing



Johan Paelinck  
Director Supply Chain



Raffael Reinders  
Director Manufacturing



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## About SADAFCO

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

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 became a publicly-listed company on the Saudi Arabian stock exchange, Tadawul.

SADAFCO factories last year produced over 43 million cases of product, which were then transported to the company's 23 depots by its own fleet of long-haul trailers and distributed to an estimated 35,000 customers across the GCC by the SADAFCO sales and distribution team.

The SADAFCO sales and distribution network operates close on 500 sales routes operating out of 19 depots in Saudi Arabia and one depot each in Qatar, Bahrain, Kuwait and Jordan, providing the company with a wide sales penetration with the ability to call on customers at least once a week. In addition to the direct sales reach, the company accesses several export markets through external distributors and agents.

The company operates three International Standards Organization (ISO) 22000:2005 accredited factories in Jeddah and Dammam that produce the bulk of SADAFCO's product portfolio. Production includes Long Life Milk (Plain and Flavored), Laban (Plain and Flavored), Tomato Paste, Snacks, Ice Cream, White Cheese (Feta), Arabic Coffee, Thick Cream and Fruit Drinks while Ketchup, Jar Cheese, Cheese Triangles, Instant Milk Powder, Butter and French Fries are produced by third-party manufacturers.

The company markets its products under the brand names of *Saudia*, *Crispy* and *Baboo*.



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## Company Activities

The major SADAFCO milestone of 2014-15 was the company's return to strong double-digit growth, reflecting a 16.4% increase in Net Sales over 2013-14 and strengthening of retail market exit shares in the main categories where the company competes.

## Product Supply

During 2013-14 some of SADAFCO's key commodity prices increased steeply but during 2014-15 these prices began to decline steadily mainly due to supply being affected by sanctions imposed on Russia resulting from the events in Ukraine. China's demand also decreased and this added pressure to the declining global prices.

Supply Chain service levels continued to improve throughout the year and by March 2015 were at 99.7% for primary distribution to SADAFCO's 23 depots. Focus continues to be placed on more accurate forecasting as it is in this area that consistent improvement will have a direct impact on efficiencies.

A major milestone was achieved with the completion of the Riyadh Regional Distribution Center (Riyadh RDC) with SADAFCO's Supply Chain being the main benefactor. The state-of-the-art RDC was completed on time, and within budget, with deliveries commencing before the end of the financial year.

The Riyadh RDC is a fully-automated warehouse eventually capable of storing up to 18,000 pallets of Ambient, Chilled and Frozen products. The warehouse's complex system of racking and conveyor belts is guided by an automated Warehouse Management System. Now, with the new RDC and the existing depot, SADAFCO will be able to serve the capital and the surrounding area better to further strengthen its presence in the region.

During the year Supply Chain regained representation on the Executive Management Team with the arrival of the new Director Supply Chain, Johan Paelinck, who joined SADAFCO in October 2014 with 33 years' experience in Supply Chain management across the globe.

Capital expenditure has bolstered SADAFCO's manufacturing ability by driving capacity expansion with the installation of another continuous mixing system which cuts processing time by simplifying processing. In addition, SADAFCO has become one of the first companies in the world to install and use the new generation Tetra Pak 500ml high-speed filling line, which has thus far performed exceptionally well.

Thanks to the investments and upgrades made possible by capital expenditure, the Jeddah Milk Factory is now in the ideal position to provide for the growing demand for Saudia Milk for several years to come.

The sustained attention to Manufacturing's continuous improvement over the years to streamline processes for efficiency gains is bearing fruits. All SADAFCO factories continue to maintain their ISO22000:2005 accreditations.



## Commercial

The SADAFCO sales team is by far the largest team within the organization and the past 12 months has seen a period of consolidation and regrouping. Some structural changes were due, a recruitment drive saw the caliber of our business managers improve and an overhaul of some of the commercial policies and procedures delivered a positive change which brought Net Sales back to double-digit growth.

Jordan, Kuwait and Exports continued to show encouraging results. However, restructuring in Jordan and intensified attention on the younger Kuwait depot are expected to produce stronger results in the future.

Three factors continue to be the focus of the Commercial Teams - Availability, Visibility and Rotation.

Availability has been targeted with a disciplined approach aimed at maximizing the availability of the right product mix on trucks and providing the most efficient order to customers based on historical sales and seasonality projections.

This encourages smaller, more regular orders and limits the unnecessary return of unsold product to the depot at the end of each day.

SADAFCO has kept sales force remuneration on top of the agenda to ensure that the team members at the forefront of our business are fairly remunerated and incentivized to push their sales effort to the limits without unnecessarily overloading the market. The sales team and support staff has also done a sterling job on reducing trade receivables.

The Trade Marketing function has made strides in improving the visibility of our products across most channels with striking display stands and innovative point of sale material helping to break through the clutter in the market. Structure and discipline was introduced in trade incentive schemes and relationship building with key customers has reached a new level.

Substantial Marketing support has taken place during the past 12 months, both for existing key performers and new innovations released. SADAFCO entered large, competitive categories and therefore support has been necessary to ensure trial and repurchase.

**Saudia** Laban was introduced in attractive Family and Single Serve plastic bottles in time for Ramadan, an important buying period for this category. The plastic bottles made a change from the carton packs synonymous with **Saudia's** products and they created a strong visual impact in chillers in the Modern Trade throughout the region. Sampling, television advertising and consumer offers have supported the launch to encourage trial.

**Saudia** Laban Twist, a thick, sweetened and flavored snack-on-the-go, has been introduced to the large young consumer base using innovative methods relevant to this important market segment. **Saudia** Arabic Coffee has had a welcome response from consumers and was sampled extensively through supermarkets and offices, especially government offices, to expose the taste of this unique, heat-and-serve product.



In the frozen portfolio, **Saudia** Premium Stick Ice Cream with White Chocolate was also launched during the year and this has shown to be a popular extension to the existing range.

These activities along with marketing support for SADAFCO's largest selling products have ensured that the company has strengthened its retail market exit shares during the year. SADAFCO achieved 31.8% in Total Drinking Milk, 43.4% in Tomato Paste and 19.5% in Ice Cream, retaining its market leader positions in Tomato Paste and Ice Cream categories and strengthening its No 2 position in the total milk market.

**Saudia** Champions continued to attract attention during peak shopping periods targeting young children and establishing their preference for **Saudia** Milk. **My Saudia Kitchen** continued to focus on mothers and homemakers by inspiring them with ideas for planning and cooking meals for their families.

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## Support Services

### Organizational Development

The improvement of SADAFCO's Nitaqat Status with the Saudi Arabian Ministry of Labor is an on-going focus for the company's Organizational Development team and in 2014-15 the company managed to maintain its all-important Green Status.

Recruitment drives at various depots around the Kingdom and participation in career fairs at some of the top local universities helped attract Saudi talent and introduced the company and its products to a broad base of job seekers. SADAFCO also continues to focus attention on recruiting women to its workforce and by year-end 93 mainly Saudi women were employed by the company, mainly at Dammam and Jeddah Ice Cream Factories and at the corporate Head Office in Jeddah. Women now comprise 4.2% of the total SADAFCO work force.

The company has created opportunities to recruit and develop more national talent within its workforce and plans were drawn up to attract and retain it using a variety of measures including compensation packages.

This in turn has had an impact on operating costs, however, it is seen as a positive investment in the development of this important area.

Work on the development of a new Human Resources Management Information System (HRMIS) reached advanced stages during the year with successful trials taking place towards the end in preparation for Go Live at the start of the new fiscal year.

The system will standardize and streamline processes for a more efficient Human Resource management.



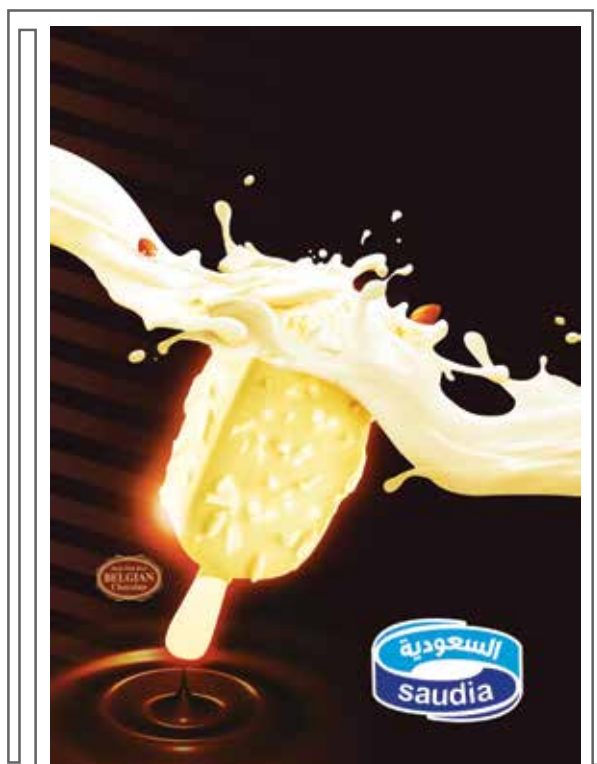


## Corporate Social Responsibility (CSR)

SADAFCO donated SAR 250 000 to the Disabled Children's Association this year and, in addition, contributed to ad hoc promotional support for schools and charities throughout the year at depot level. SADAFCO has also supported various social and sports activities. As a contribution to employee well-being, SADAFCO continued to offer subsidized membership to sports gyms across the Kingdom as well as to support other sporting initiatives among staff.

The Table below shows the contribution of each category to the achievement of the overall Sales:

#	Product	Contribution to Sales 2013-14	Contribution to Sales 2014-15	% change
1	Milk	69%	68%	-1%
2	Tomato Paste	10%	9%	-1%
3	Ice Cream	10%	10%	0%
4	Powdered Milk	3%	3%	0%
5	Cheese	3%	3%	0%
6	Others	5%	7%	2%
	<b>Total</b>	<b>100%</b>	<b>100%</b>	



### 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.

	Company Name	Main Activity	Country of Origin & Head Quarters	Paid up Capital	Number of shares	Ownership
1	SADAFCO Qatar Co LLC	Sale and distribution of dairy products and goods	Qatar	QR 1,500,000	1,500	75%
2	SADAFCO SPC	Imports, exports, sales, and distribution of dairy goods, ice cream and goods	Bahrain	BD 50,000	500	100%
3	National Buildings Real Estate - Closed Joint Stock Company	Owning and acquiring land and real-estate, developing and investing in Real Estate projects	KSA	SAR 2,000,000	200,000	100%
4	United Gulfers Transport – Closed Joint Stock Company	Transportation of goods, tasks, storage and cooling	KSA	SAR 2,000,000	200,000	100%
5	National Sights Holding - Closed Joint Stock Company	Investment through acquisition of controlling stakes companies	KSA	SAR 2,000,000	200,000	100%
6	SADAFCO Kuwait Foodstuff Co.	Distribution of dairy and foodstuff dairy products	Kuwait	KD 50,000	100	49%
7	SADAFCO Jordan Foodstuff Company LLC	Import, export, marketing and trading dairy goods, ice cream and goods of all kinds	Jordan	JD 250,000	250,000	100%
8	SADAFCO Foodstuff Company LLC *	Import, sale and distribution of dairy products and other goods	UAE	AED 300,000	300	100%

\* The commercial registration and CR have been deleted and company was dissolved during the year.  
There are no Debt instruments issued by any of the above subsidiaries

## SADAFCO's & Subsidiaries Total Revenue by Geographic Region:

#	Description	Sales 2013-14 SAR millions	Percentage	Sales 2014-15 SAR millions	Percentage
1	SADAFCO -KSA	1,446	93%	1,681	93%
2	GCC	83	5%	92	5%
3	Other	24	2%	34	2%
	<b>Total</b>	<b>1,553</b>	<b>100%</b>	<b>1,807</b>	<b>100%</b>

## Key Performance Indicators

1) The consolidated net profit for the year is SAR 141.469 million, compared to net profit for the same period last year of SAR 171.534 million, a decrease of 18%.

2) The earnings per share (EPS) for the year are SAR 4.35 compared to SAR 5.28 for the same period last year.

3) The total gross profit for the year is SAR 552.28 million compared to the same period last year of SAR 493.141 million an increase of 12 %.

4) The operating net profit for the year is SAR 155.593 million compared to operating net profit for the same period last year of SAR 183.950 million, a decrease of 15.42%.

5) The reason for the decrease in profit for the year compared to the same period last year and despite the sales growth was mainly due to the negative valuation of inventory at end of the year as a result of lower average cost of inventory, advertising and visibility investment in innovations introduced into the highly competitive (Laban and Laban Twist an Arabic Coffee) markets, increased overheads aimed at attracting and retaining Saudis to the company and the one-time effect of reconciliation of outstanding balances with the trade.

6) During 2014-15 SADAFCO's attention focused on returning to double-digit net sales growth that was achieved in the past, with the added support of higher above and below the line spend the company recorded an impressive 16.4% jump in net sales with gains coming from the main categories in which the company competes.

7) Consumer demand picked up satisfactorily in 2014-15 and remains strong. SADAFCO has sufficient capacity to service increasing consumer demand combined with convenient raw material stock levels at attractive cost which will enable us to deliver higher net income next year, thereby further increasing shareholders value.



## Assets & Liabilities over Five Years

	(Amounts in SAR million )	2010-11	2011-12	2012-13	2013-14	2014-15
1	Current assets	806	773	680	640	617
2	Fixed assets	268	323	422	498	592
3	Non-current assets	0	0	0	0	0
4	Current liabilities	272	238	174	135	176
5	Non-current liabilities	72	73	78	81	84
6	Total equity	731	785	850	922	949
7	Sales	1,134	1,336	1,549	1,553	1,807
	<b>Net Income</b>	<b>130</b>	<b>152</b>	<b>165</b>	<b>171.5</b>	<b>141.5</b>

## Income Statement

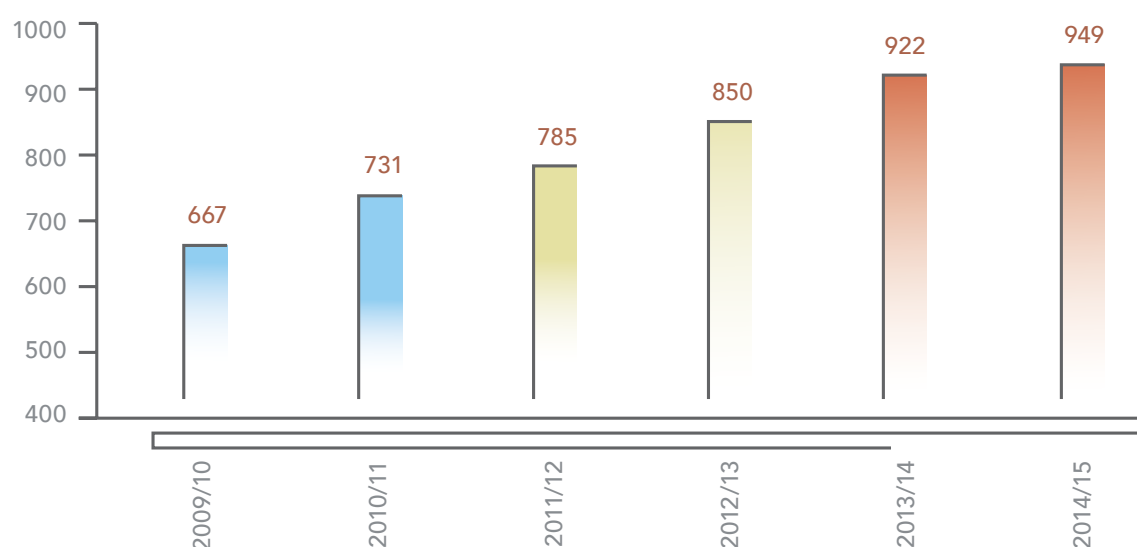
#	(Amounts in SAR million )	March 2014	March 2015
1	Net sales	1,553	1,807
2	Cost of sales	(1,060)	(1,255)
3	Gross profit	493	552
4	Other revenue	0.8	0.1
5	Selling & distribution Expenses	(240)	(320)
6	General & Administration Expenses	(69)	(77)
7	Financial & bank charges	1	(2)
8	Zakat	(14)	(12)
	<b>Net Profit (Loss)</b>	<b>171.5</b>	<b>141.5</b>

Operating income for the year ended 31 March 2015, is SAR 155.593 million v. SAR 183.95 million for the same period last year with a decrease of 15.42%. The decrease in net profit for the year ended 31 March 2015 is mainly due to the adverse valuation of the main raw material inventory at the end of the period; an increase in marketing and sales spending to support new product launches in highly competitive categories (Laban, Laban Twist & Arabic Coffee), the non-recurring reconciliation of outstanding balances of rebates and trade receivables and the increase in sales and administrative expenses due to the introduction of new allowances to attract and retain local talent.

#### Statutory Payments for 2014-15 (SAR Thousands)

#	Government Agency (in SAR Thousands)	Due	Paid	Balance
1	Customs	42,549	42,549	0
2	Zakat	13,609	13,609	0
3	GOSI	8,758	8,758	0
4	TADAWUL Contract	300	300	0
5	Government Fees and visas	6,238	6,238	0
6	Tax	3,144	3,144	0
	<b>Total</b>	<b>74,598</b>	<b>74,598</b>	<b>0</b>

#### Change in Shareholders' Equity



## Board of Directors & Meetings

The SADAFCO Board of Directors is made up of seven Board Members. They were elected for the Cycle starting 1 April 2012 to 31 March 2015. The Board of Directors had two attended meetings and passed 10 Board resolutions passed by circulation, the table below shows Board Members' classifications and attendance record:

Name	Independent	2014									2015			Total
		20/4 C*	20/5 C	25/5 C	15/6 C	17/7 C	28/10 C	27/11 *A	27/11 A	30/11 C	20/1 C	5/3 C	31/3 C	
HH Sheikh Hamad Sabah Al-Ahmad	Non Executive	√	√	√	√	√	√	√	√	√	√	√	√	12
Mr. Faisal Hamad Mubarak Al Ayyar	Non Executive	√	√	√	√	√	√	√	√	√	√	√	√	12
Mr. Abdullah Yaqoob Bishara	Independent	√	√	√	√	√	√	√	√	√	√	√	√	12
Mr. Tariq Mohammed Abdulsalam	Non Executive	√	√	√	√	√	√	√	√	√	√	√	√	12
Mr. Faick Hussain Al-Saleh **	Independent	√	√	√	x	x	x	x	x	x	x	x	x	3
Mr. Ahmed Mohamed Hamed Al Marzouki**	Independent	x	x	x	x	√	√	√	√	√	√	√	√	8
Mr. Sulaiman Saud Jarallah Al Jarallah	Independent	√	√	√	√	√	√	√	√	√	√	√	√	12
Mr Mussad Abdullah Abdul Aziz Al-Nassar	Executive	√	√	√	√	√	√	√	√	√	√	√	√	12

\*A = Attended Board Meeting C = Resolution by Circulation

\*\* Mr Ahmed Mohamed Hamed Al Marzouki was appointed by the Board of Directors on 15 June 2014 and joined as a Board Member starting on 16 June 2014 up to the end of the current cycle on 31 March 2015, following the passing of Board Vice- Chairman Faick Al Saleh. This was later ratified by the AGM on 24 June 2014.

On 24 June 2014 the AGM, using the cumulative voting method, elected the SADAFCO Board Members for the 6th Cycle starting on 1 April 2015 and ending 31 March 2018. The results were announced on the Tadawul website.

<b>1- HH Sheikh Hamad Sabah Al-Ahmad</b>	representing United Industries Company
<b>2- Mr. Faisal Hamad Mubarak Al-Ayyar</b>	representing United Gulf Bank
<b>3- Mr. Abdullah Yaqoob Bishara</b>	
<b>4- Mr. Tariq Mohammed Abdulsalam</b>	representing Al Qurain Petrochemicals Industries Company
<b>5- Mr. Ahmed Mohamed Hamed Al Marzouki</b>	
<b>6- Mr. Sulaiman Saud Jarallah Al Jarallah</b>	
<b>7- Mr. Mussad Abdullah Abdul Aziz Al-Nassar</b>	

#### Board Members' Directorships In Joint Stock Companies:

#	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. Faisal Hamad Mubarak Al-Ayyar	1) Vice Chairman of KIPCO – Kuwait 2) Vice Chairman Gulf Insurance Company – Kuwait 3) Vice Chairman Kuwaiti Jordanian Bank 4) Board Member SADAFCO - Saudi Arabia 5) Vice Chairman of United Gulf Bank - Bahrain
3	Mr. Abdullah Yaqoob Bishara	1) Chairman of North Africa Holding Company 2) Board Member of SADAFCO - Saudi Arabia 3) Board Member of KIPCO - Kuwait
4	Mr. Tariq Mohammed 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
5	Mr. Ahmed Mohamed Hamed Al Marzouki	Board Member SADAFCO – Saudi Arabia
6	Mr. Sulaiman Saud Jarallah Al-Jarallah	Board Member SADAFCO – Saudi Arabia
7	Mr. Mussad Abdullah Abdul Aziz Al-Nassar	Board Member SADAFCO – Saudi Arabia

## 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 proficient in financial matters. The Audit Committee held two attended meetings and passed seven resolutions during the course of the Financial Year 2014-15. 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 function.
- 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 Membership, Meetings and Resolutions :

Name	Capacity	2014								2015	Total
		17/4 C*	11/5 C*	24/5 C*	17/6 C*	16/7 C*	27/10 C*	27/11 A*	27/11 A*	19/01 C*	
Mr. Faisal Al- Ayyar	Chairman	√	√	√	√	√	√	√	√	√	9
Mr .Tariq Abdulsalam	Member	√	√	√	√	√	√	√	√	√	9
Mr. Faick Al Saleh*	Member	√	√	√	X	X	X	X	X	X	3
Mr. Ahmed Mohamed Hamed Al Marzouki*	Member	X	X	X	√	√	√	√	√	√	6

\*A =Attended Board Meeting \*C= By Circulation

\*On 15 June 2014 the SADAFCO Board appointed Mr. Ahmed Mohamed Hamed Al Marzouki as an Audit Committee member as of 16 June 2014 to replace Mr. Faick Al Saleh, who passed away on 31 May 2014.

### Nomination and Remuneration Committee:

The Nomination and Remuneration Committee consists of three non-executive Board Members. The annual shareholders' meeting held on 28 June 2011 has approved the committee membership criteria their tenure and committee charter, 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 allocation of time to for SADAFCO Board affairs.
- 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 Members & Resolutions for 2014-15

Name	Capacity	2014				2015	Total
		17/4 C*	11/5 C*	19/5 C*	14/6 C*	19/3 C*	
Mr. Faisal Hamad Al-Ayyar	Chairman	√	√	√	√	√	5
Mr. Tariq AbdulSalam	Member	√	√	√	√	√	5
Mr. Sulaiman Saud Jarallah Al-Jarallah	Member	√	√	√	√	√	5

\*A = Attended Board Meeting \*C = By Circulation

## Board Members and Executive Management Remuneration:

#	(Saudi Riyals)	Non-executive BOD members (6)	Executive Board Member (1)	Senior Executives *
1	Salaries and wages	0	396,756	5,963,688
2	Allowances	0	226,482	2,447,112
3	Bonuses	200,000	261,497	2,981,137
	<b>Total</b>	<b>1,200,000</b>	<b>884,735</b>	<b>11,391,937</b>

\* This includes all Senior Executives (including CEO and CFO)





## Board members, Executive Management, Spouses and Minor Children Share ownership 2014-15:

#	Name	01/04/2014		31/03/2015		Change (+/-)
		Shares	Debt	Shares	Debt	
		Members of Board of Directors				
1	HH Sheikh Hammad Al-Sabah Rep: United Industries Company	3,272,001		1,000		( 3,271,001)
2	Mr. Faick Hussain Al-Saleh*	1,000		200		(800)
3	Mr. Faisal Mubarak Al-Ayyar Rep: United Gulf bank	1,000		1,000		0
4	Mr. Abdullah Yaqoob Bisharah	1,000		1,000		0
5	Mr. Tariq Abdulsalam Rep: United Industries Company	3,272,001		1,000		( 3,271,001)
6	Mr. Ahmed Mohamed Hamed Al Marzouki *	23,250		22,250		(1,000)
7	Mr. Sulaiman Saud Jarallah Al-Jarallah	1,000		1,000		0
8	Mr. Mussad Abdullah Abdul Aziz Al-Nassar	11,000		11,000		0
Executive Management						
1	Mr. Wout Matthijs	3,000		3,000		0
2	Mr. Khalid Abdulrahman Bakhsh	0		0		0
3	Mr. Mohammed Jameel Attar	0		0		0
4	Mr. Paul van Schaik	0		0		0
5	Mr. Raffael Reinders	0		0		0
6	Mr. Ioannis Theotokas	0		0		0
7	Mr. Johan Paelinck**	0		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.

\*Mr Ahmed Mohamed Hamed Al Marzouki was appointed by the Board of Directors on 15 June 2014 and joined as a Board Member starting on 16 June 2014 up to the end of the current cycle on 31 March 2015, following the passing of Board Vice Chairman Faick Al Saleh. This was later ratified by the AGM on 24 June 2014.

\*\* Mr Johan Paelinck joined the SADAFCO Executive Management Team on 27 October 2014 with the CMA being informed at the appropriate time.

## Major Shareholders As At 31 March 2015

#	Name	Number of shares on 1/04/2014	Number of shares on 31/03/2015	Percentage ownership 1/04/2014	Percentage ownership 31/03/2015
1	Al Qurain Petrochemicals Industries Company	9,425,000	13,036,461	29 %	40.11 %
2	Al-Samh Trading Co Ltd	3,798,008	3,798,008	11.69 %	11.69 %
3	United Industries Company	3,272,001	1,000	10.07%	0.003%

## Annual Internal Audit Results Review of the Effectiveness of the Internal Control Procedure

Within its day to day functions, SADAFCO's Internal Audit Department assessed the efficiency and effectiveness of the internal control systems 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 through 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. Noting that management has already taken action on previously reported issues, where it revised and published company's policies and procedures, including the code of conduct and whistle blowing policy, which will contribute to an enhanced control system.

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):

#	Name	Country	Nature of Transaction	Value in SAR (1,000s)	Closing Balance
1	Buruj Coop Insurance Company	KSA	Insurance Services	12,432	937

SADAFCO engaged in a related party contract with Al Buruj Cooperative Insurance as their offer was the best in overall terms. Al Buruj is 28.5% owned by Gulf Insurance Company (GIC). Mr. Faisal Hamad Al-Ayyar is a SADAFCO Board member and GIC Vice-Chairman. The SADAFCO AGM Meeting held on 24 June 2014 has approved the transaction above and agreed to its renewal for another year.

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## Dividend Distribution Policy:

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

- 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 be accumulated.
- There may be a distribution to 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 Board members, provided that the maximum allowable Board compensation is in compliance with CMA and MOCI rules and regulations.
- All remaining profits may then be distributed to shareholders as an extra dividend.

## Major Decisions and Future Plans:

The completion of the Riyadh Regional Distribution Center, the largest SADAFCO Distribution Center, presents opportunities to increase the efficiency and availability of products to customers in the Central Region and neighboring areas. SADAFCO will continue to develop new products and add to its current portfolio targeting the young segment of the population. SADAFCO looks to expand its sales to GCC countries and its Exports given the expansion in capacity during the year.



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## Risks:

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

- 1) Market risk (which includes commission and interest rate risk and currency risk)**
- 2) Credit risk**
- 3) Liquidity risk**
- 4) Operational risk**

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

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

### Market risk

Commission arises from the possibility that changes in commission rates will affect future profitability or the fair values of financial instruments. The company is subject to commission rate risk on its interest bearing assets and liabilities.

The management limits the company's interest rate risk by monitoring changes in interest rates in the currencies in which its interest bearing assets and liabilities are denominated and uses interest rate swaps to strategically hedge its risk, if considered necessary by the management. As at 31 March 2015, the company does not have any interest bearing assets and liabilities.

### Currency risk

Currency risk is the risk that value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The company is subject to fluctuations in foreign exchange rates in the normal course of its business. The company did not undertake significant transactions in currencies other than Saudi Arabian Riyals and US Dollars during the year. The company 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 company 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 balances with banks. The company manages this risk by depositing in banks with sound credit ratings.

At the balance sheet date, no significant concentrations of credit risk were identified by management. The company sells its products to a large number of customers. The five largest customers account for 43 % (2014: 42%) of outstanding accounts receivable a 31 March 2015.

### 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 company 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, other liabilities and dividend payable. All these financial liabilities are expected to be settled within 12 months from the date of the balance sheet and the company expects to have adequate liquid funds to do so.

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## 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

There were no fines or penalties imposed on SADAFCO by the CMA or any other regulatory or supervisory or Judicial Authority.

## Declarations:

SADAFCO declares and confirms the following:

1. Its accounts have been prepared in accordance with correct procedures.
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 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 Management Team member.
8. No shareholder waived his/her rights to dividends or other material benefits and none of the Executive Management 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 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	Number of articles	Fully Applied	Partially Applied	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	3	-	-	1	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	-	<ul style="list-style-type: none"> <li>• (A-1) Partially implemented as the risk management policy is not finalized.</li> <li>Not Applied:</li> <li>• (H/1,5) These are governed in each contract and CSR is determined annually.</li> </ul>

## Corporate Governance Compliance:

#	Article	Number of articles	Fully Applied	Partially Applied	Not Applied	Not Applicable	Comments
9	Eleven: Responsibilities of the Board	8	7	-	1	-	(11/H) The authority of each executive team member is defined in their individual 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	-	-	-	
		<b>91</b>	<b>83</b>	<b>2</b>	<b>4</b>	<b>2</b>	

In conclusion, we thank fellow Board members for their exceptional performance in steering the company and accomplishing this year's results, thanks also go to the Executive Management Team for their tremendous efforts to achieve the targets set. We also thank our consumers, shareholders and customers for their continued support to achieve the best results and to continue the efforts into years to come. The Board looks forward to more achievements and excellence throughout the next year.

Best Regards  
SADAFICO Board of Directors



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

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 MARCH 2015**

## **AUDITORS' REPORT TO THE SHAREHOLDERS OF SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO) (A SAUDI JOINT STOCK COMPANY)**

### **Scope of audit**

We have audited the accompanying consolidated balance sheet of Saudia Dairy & Foodstuff Company - a Saudi Joint Stock Company - ("the Company" or "the Parent Company") and its subsidiaries ("the Group") as at 31 March 2015, and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the Company's management 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:

- i) present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2015 and the consolidated results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- ii) comply with the requirements of the Regulations for Companies and the Company's Bylaws in so far as they effect the preparation and presentation of the consolidated financial statements.

for Ernst & Young

Ahmed I. Reda  
Certified Public Accountant  
Licence No. 356



28 Rajab 1436H  
17 May 2015

Jeddah

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

**CONSOLIDATED BALANCE SHEET**

As at 31 March 2015

	<i>Note</i>	<b>2015</b> <b>(SR '000)</b>	<b>2014</b> <b>(SR '000)</b>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	4	66,425	112,913
Accounts receivable	5	172,108	171,527
Deposits, prepayments and other current assets	6	25,725	44,106
Inventories	7	352,718	308,421
Assets relating to a subsidiary held for disposal	8	-	3,159
<b>TOTAL CURRENT ASSETS</b>		<b>616,976</b>	<b>640,126</b>
<b>NON-CURRENT ASSETS</b>			
Investments	9	243	243
Property, plant and equipment	10	591,854	497,678
<b>TOTAL NON-CURRENT ASSETS</b>		<b>592,097</b>	<b>497,921</b>
<b>TOTAL ASSETS</b>		<b>1,209,073</b>	<b>1,138,047</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable		108,869	56,859
Accruals and other current liabilities		50,669	60,145
Due to related parties	15	937	636
Accrued zakat	11	13,623	14,530
Dividend payable		1,975	2,207
Liabilities relating to a subsidiary held for disposal	8	-	425
<b>TOTAL CURRENT LIABILITIES</b>		<b>176,073</b>	<b>134,802</b>
<b>NON-CURRENT LIABILITY</b>			
Employees' end of service benefits		83,768	80,555
<b>TOTAL LIABILITIES</b>		<b>259,841</b>	<b>215,357</b>
<b>SHAREHOLDERS' EQUITY</b>			
<b>Equity attributable to shareholders of the Parent Company</b>			
Share capital	12	325,000	325,000
Statutory Reserve	12	162,500	162,500
Voluntary reserve	12	125,713	111,617
Foreign currency translation adjustments		(327)	(1,000)
Retained earnings		335,121	323,414
<b>Total equity attributable to the shareholders of the Parent Company</b>		<b>948,007</b>	<b>921,531</b>
Non-controlling interest		1,225	1,159
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>949,232</b>	<b>922,690</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>1,209,073</b>	<b>1,138,047</b>

Mussad Abdullah Al Nassar  
Member Board of Directors

Waltherus Cornelis Petrus Matthijs  
Chief Executive Officer

Khalid A. Bakhsh  
Chief Financial Officer

The attached notes from 1 to 23 form part of these consolidated financial statements.

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

**CONSOLIDATED STATEMENT OF INCOME**

For the year ended 31 March 2015

	<i>Note</i>	<b>2015</b> <b>(SR '000)</b>	<b>2014</b> <b>(SR '000)</b>
Sales – net		<b>1,806,878</b>	1,552,824
Cost of sales		<b>(1,254,598)</b>	(1,059,683)
<b>GROSS PROFIT</b>		<b>552,280</b>	493,141
<b>EXPENSES</b>			
Selling and distribution	13	<b>(319,569)</b>	(239,982)
General and administration	14	<b>(77,118)</b>	(69,209)
		<b>(396,687)</b>	(309,191)
<b>INCOME FROM MAIN OPERATIONS</b>		<b>155,593</b>	183,950
Other income, net		<b>102</b>	751
Financial (charges) / income – net		<b>(1,571)</b>	1,289
<b>NET INCOME FROM CONTINUING OPERATIONS</b>		<b>154,124</b>	185,990
<b>DISCONTINUING OPERATIONS</b>			
Net loss from discontinuing operations	8	<b>(389)</b>	(103)
<b>NET INCOME BEFORE ZAKAT</b>		<b>153,735</b>	185,887
Zakat	11	<b>(12,266)</b>	(14,353)
<b>NET INCOME FOR THE YEAR</b>		<b>141,469</b>	171,534
<b>Attributable to:</b>			
Equity shareholders of the Parent Company		<b>140,953</b>	171,113
Non-controlling interests		<b>516</b>	421
<b>NET INCOME FOR THE YEAR</b>		<b>141,469</b>	171,534
<b>Earnings per share:</b>			
Income from main operations (in SR per share)	18	<b>4.79</b>	5.66
Net income (in SR per share)	18	<b>4.35</b>	5.28
Net income attributable to equity shareholders of the Parent Company (in SR per share)	18	<b>4.34</b>	5.27

Mussad Abdullah Al Nassar  
Member Board of Directors

Waltherus Cornelis Petrus Matthijs  
Chief Executive Officer

Khalid A. Bakhsh  
Chief Financial Officer

The attached notes from 1 to 23 form part of these consolidated financial statements.

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

**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the year ended 31 March 2015

	<i>Note</i>	<b>2015</b> <b>(SR '000)</b>	<b>2014</b> <b>(SR '000)</b>
<b>OPERATING ACTIVITIES</b>			
Net income for the year		<b>141,469</b>	171,534
Adjustments for:			
Depreciation	10	<b>71,350</b>	56,959
Non-controlling interests		<b>(450)</b>	(704)
Gain on disposal of property, plant and equipment		<b>(585)</b>	(503)
		<b>211,784</b>	227,286
Changes in operating assets and liabilities:			
Accounts receivable		<b>(581)</b>	48,171
Prepayments, advances and other receivables		<b>18,381</b>	(11,319)
Inventories		<b>(44,297)</b>	(13,026)
Accounts payable		<b>52,010</b>	(51,803)
Due to related parties		<b>301</b>	(2,147)
Accrued zakat, accruals and other current liabilities		<b>(12,015)</b>	13,328
Cash from operations		<b>225,583</b>	210,490
Employees' end of service benefits - net		<b>3,213</b>	2,218
Net cash from operating activities		<b>228,796</b>	212,708
<b>INVESTING ACTIVITIES</b>			
Changes in net assets directly associated with a subsidiary held for disposal		<b>2,734</b>	1,038
Net movement in Murabaha term deposit		<b>-</b>	75,000
Sale proceeds from disposal of property, plant and equipment		<b>1,095</b>	2,930
Purchase of property, plant and equipment	10	<b>(166,036)</b>	(134,650)
Net cash used in investing activities		<b>(162,207)</b>	(55,682)
<b>FINANCING ACTIVITY</b>			
Dividends paid	19	<b>(113,750)</b>	(97,500)
Net cash used in financing activity		<b>(113,750)</b>	(97,500)
<b>(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(47,161)</b>	59,526
Effect of exchange rate fluctuations on cash and cash equivalents		<b>673</b>	308
Cash and cash equivalents at the beginning of the year		<b>112,913</b>	53,079
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>4</b>	<b>66,425</b>	112,913

Mussad Abdullah Al Nassar  
Member Board of Directors

Waltherus Cornelis Petrus Matthijs  
Chief Executive Officer

Khalid A. Bakhsh  
Chief Financial Officer

The attached notes from 1 to 23 form part of these consolidated financial statements.



# SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)

(A Saudi Joint Stock Company)

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 March 2015

	Attributable to equity shareholders of Parent Company					
	Capital (SR '000)	Statutory Reserve (SR '000)	Voluntary Reserve (SR '000)	Foreign currency translation adjustment (SR '000)	Retained earnings (SR '000)	Non- controlling interest (SR '000)
Balance as at 31 March 2013	325,000	162,500	94,506	(1,308)	268,312	1,442
Net income for the year	-	-	-	-	171,113	421
Dividend paid (note 19)	-	-	-	-	(97,500)	-
Transfer to reserve	-	-	17,111	-	(17,111)	-
Board of directors' remuneration	-	-	-	-	(1,400)	-
Foreign currency translation adjustments	-	-	-	308	-	(704)
Balance as at 31 March 2014	325,000	162,500	111,617	(1,000)	323,414	1,159
Balance as at 31 March 2014	325,000	162,500	111,617	(1,000)	323,414	1,159
Net income for the year	-	-	-	-	140,953	516
Dividend paid (note 19)	-	-	-	-	(113,750)	-
Transfer to reserve	-	-	14,096	-	(14,096)	-
Board of directors' remuneration	-	-	-	-	(1,400)	-
Foreign currency translation adjustments	-	-	-	673	-	(450)
Balance as at 31 March 2015	325,000	162,500	125,713	(327)	335,121	1,225
					948,007	949,232

Mussad Abdullah Al Nassar  
Member Board of Directors

Waltherus Cornelis Petrus Matthijs  
Chief Executive Officer

Khalid A. Bakhsh  
Chief Financial Officer

The attached notes from 1 to 23 form part of these consolidated financial statements.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

At 31 March 2015

**1. ORGANIZATION AND PRINCIPAL ACTIVITIES**

Saudia Dairy and Foodstuff Company (SADAFCO) ("the Company") is a Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 4030009917 dated 21 Rabi Al-Akhar 1396H, corresponding to 21 April 1976. The Company and its subsidiaries (as listed below), 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.

At 31 March 2015, the Company has investments in the following subsidiaries:

<i>Name</i>	<i>Principal activities</i>	<i>Country of incorporation</i>	<i>SADAFCO's beneficial interest</i>
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 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 subsidiaries:

Swiss Premium Foods Company SAE, Egypt (see Note 8)

**2. BASIS OF PREPARATION**

**(a) Statement of compliance**

The accompanying 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).

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2015

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

**(b) Basis of measurement**

These consolidated financial statements are prepared under the historical cost basis (except for investments and derivative financial instruments which are stated at fair values), using the accrual basis of accounting and the going concern concept.

**(c) Functional and presentation currency**

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

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

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected. Significant areas where management has used estimates, assumptions or exercised judgments 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.

*(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.



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

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**At 31 March 2015**

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

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

*(iii) Provision for impairment of trade receivables*

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

*(iv) Provision for slow moving inventory items*

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

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Basis of consolidation**

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

**Investments in subsidiaries**

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

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date 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 at consolidation. The attributable equity interest of third parties in the Group is included under the non controlling interests caption in these consolidated financial statements.

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**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

At 31 March 2015

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

**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 Company if their carrying amounts will be recovered principally through a sale or distribution rather than through continuing use. Such 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.

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.

**Account receivables**

Account receivables 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.

**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 consolidated statement of changes in shareholders' equity. However, any non-temporary decline in value is charged to the consolidated statement of income. Fair value is determined by reference to the market value.

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

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**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

At 31 March 2015

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

**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.

Property, plant and equipment are depreciated at the following annual rates:

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

**Revenue recognition**

Sales are recognized when products are delivered or shipped to customers and when risks and rewards are transferred. Sales represent the invoiced value of the goods supplied during the year, net of discounts and returns.

**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.

**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.

**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.



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**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
At 31 March 2015

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

**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.

**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.

**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 translated to Saudi Arabian Riyals (for the 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 difference, 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 difference is recorded as a separate component of shareholders' equity, whereas amounts relating to the non-controlling shareholders are included under non-controlling interests in the consolidated balance sheet.

**Cash and cash equivalents**

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

**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.

**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.

**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

At 31 March 2015

**4 CASH AND CASH EQUIVALENTS**

	<i>2015</i> <i>(SR '000)</i>	<i>2014</i> <i>(SR '000)</i>
Cash and cheques in hand	<b>8,726</b>	14,477
Balances with banks - current account	<b>57,699</b>	98,436
	<b>66,425</b>	112,913

**5 ACCOUNTS RECEIVABLE**

	<i>2015</i> <i>(SR '000)</i>	<i>2014</i> <i>(SR '000)</i>
Trade receivables	<b>176,876</b>	171,248
Less: Provision for doubtful accounts (see below)	<b>(18,124)</b>	(17,066)
Net trade receivables	<b>158,752</b>	154,182
Net advances and other receivables	<b>10,737</b>	13,870
Due from related parties (note 15)	<b>2,619</b>	3,475
	<b>172,108</b>	171,527

At 31 March 2015, trade receivables at nominal value of SR 18.1 million (2014: SR 17.1 million) were impaired. Movements in the provision for doubtful accounts were as follows:

	<i>2015</i> <i>(SR'000)</i>	<i>2014</i> <i>(SR'000)</i>
At the beginning of the year	<b>17,066</b>	17,189
Charge/(reversal) for the year	<b>1,058</b>	(123)
At the end of the year	<b>18,124</b>	17,066

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

	<i>Total</i> <i>SR'000</i>	<i>Neither</i> <i>past due nor</i> <i>impaired</i> <i>SR'000</i>	<i>Past due but not impaired</i>		
			<i>Upto 30</i> <i>days</i> <i>SR'000</i>	<i>31 – 60</i> <i>days</i> <i>SR'000</i>	<i>61 and over</i> <i>days</i> <i>SR'000</i>
<b>2015</b>	<b>158,752</b>	<b>148,976</b>	<b>9,010</b>	<b>766</b>	-
2014	154,182	122,542	20,972	7,477	3,191

It is not the practice of the Group to obtain collateral over receivables and the vast majority of receivables are therefore, unsecured. However, unimpaired receivables are expected, on the basis of past experience, to be fully recoverable.

**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

At 31 March 2015

**6 DEPOSITS, PREPAYMENTS AND OTHER CURRENT ASSETS**

	<i>2015</i> <i>(SR '000)</i>	<i>2014</i> <i>(SR '000)</i>
Prepayments	24,771	32,258
Security and other deposits	790	11,691
Others	164	157
	<u>25,725</u>	<u>44,106</u>

**7 INVENTORIES**

As at 31 March, inventories comprise the following:

	<i>2015</i> <i>(SR '000)</i>	<i>2014</i> <i>(SR '000)</i>
Raw and packing materials	249,979	126,120
Finished goods	51,991	62,934
Spare parts, supplies and other items	33,262	26,060
Goods-in-transit	27,621	102,910
	<u>362,853</u>	<u>318,024</u>
Less: Provision for slow moving and obsolete inventories (see below)	<u>(10,135)</u>	<u>(9,603)</u>
	<u>352,718</u>	<u>308,421</u>

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

	<i>2015</i> <i>(SR'000)</i>	<i>2014</i> <i>(SR'000)</i>
At the beginning of the year	9,603	7,894
Charge for the year	592	2,500
Write-off	(60)	(791)
At the end of the year	<u>10,135</u>	<u>9,603</u>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

At 31 March 2015

**8 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 31 December 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 was classified in the other assets net of payments made towards other accrued expenses.

The formalities relating to liquidation have been completed on 24 March 2015 and cancellation of commercial registration is still in progress. The bank balance amounting to SR 1,642 thousands (LE 3,318 thousands), after settlement of all accrued expenses is being held by an affiliate on behalf of SADAFCO. The results of the subsidiary are presented below:

	<i>For the year ended</i>	
	<b>2015</b>	<b>2014</b>
	<b>(SR '000)</b>	<b>(SR '000)</b>
Net loss from discontinuing operations	<b>(389)</b>	<b>(103)</b>

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

	<b>2015</b>	<b>2014</b>
	<b>(SR '000)</b>	<b>(SR '000)</b>
<b>Assets:</b>		
Others	-	3,159
Assets classified as held for disposal	-	3,159
<b>Liabilities:</b>		
Accrued liabilities	-	425
Liabilities classified as held for disposal	-	425
Net assets directly associated with subsidiary held for disposal	-	2,734

**9 INVESTMENTS**

	<b>2015</b>	<b>2014</b>
	<b>(SR '000)</b>	<b>(SR '000)</b>
Investments available for sale (unquoted)	<b>1,336</b>	<b>1,336</b>
Less: Provision for non-temporary decline in value	<b>(1,093)</b>	<b>(1,093)</b>
	<b>243</b>	<b>243</b>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

At 31 March 2015

**10 PROPERTY, PLANT AND EQUIPMENT**

	<i>Land and buildings SR'000</i>	<i>Machinery and equipment SR'000</i>	<i>Vehicles and trailers SR'000</i>	<i>Furniture, fixtures and office equipment SR'000</i>	<i>Capital work-in- progress SR'000</i>	<i>Total 2015 SR'000</i>	<i>Total 2014 SR'000</i>
<b>Cost :</b>							
At the beginning of the year	266,295	734,449	211,409	69,695	61,018	1,342,866	1,213,807
Additions (see note 10c)	16,682	1,222	839	722	146,571	166,036	134,650
Disposals	(89)	(22,097)	(28,025)	(798)	-	(51,009)	(5,591)
Transfers, net	65,402	56,364	17,040	1,155	(139,961)	-	-
At the end of the year	<b>348,290</b>	<b>769,938</b>	<b>201,263</b>	<b>70,774</b>	<b>67,628</b>	<b>1,457,893</b>	<b>1,342,866</b>
<b>Depreciation:</b>							
At the beginning of the year	159,625	483,527	144,412	57,624	-	845,188	791,393
Charge for the year (see note 10a)	8,700	39,321	19,164	4,165	-	71,350	56,959
Disposals	(524)	(21,235)	(27,930)	(810)	-	(50,499)	(3,164)
At the end of the year	<b>167,801</b>	<b>501,613</b>	<b>135,646</b>	<b>60,979</b>	<b>-</b>	<b>866,039</b>	<b>845,188</b>
<b>Net book amounts:</b>							
At 31 March 2015	<b>180,489</b>	<b>268,325</b>	<b>65,617</b>	<b>9,795</b>	<b>67,628</b>	<b>591,854</b>	
At 31 March 2014	106,670	250,922	66,997	12,071	61,018		497,678



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**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

At 31 March 2015

**10 PROPERTY, PLANT AND EQUIPMENT (continued)**

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

	<i>2015</i> <i>SR'000</i>	<i>2014</i> <i>SR'000</i>
Cost of sales	<b>42,267</b>	29,483
Selling and distribution expenses (note 13)	<b>27,063</b>	25,589
General and administrative expenses (note 14)	<b>2,020</b>	1,887
	<b>71,350</b>	56,959

- (b) The ownership interest of the Company in certain freehold land held in Madinah amounting to SR 1,538 thousand (2014: SR 1,538 thousand) is through a shareholder of the Company. The Company holds legal documents confirming its beneficial interest.
- (c) The additions during the year amounting to SR 166,036 thousand (2014: SR 134,650 thousand), mainly represent purchase of machinery for Dammam and Jeddah factories which are under commissioning and completion of Riyadh Distribution Centre.

**11 ZAKAT**

**Charge for the year**

The zakat charge for the year is based on the separate financial statements of the Parent Company and its subsidiaries.

The zakat and income tax charge for the year ended 31 March, consists of the following:

	<i>2015</i> <i>SR'000</i>	<i>2014</i> <i>SR'000</i>
Charge for the year	<b>12,266</b>	14,353

**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

At 31 March 2015

**11 ZAKAT (continued)**

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:

	<i>2015</i>	<i>2014</i>
	<i>SR'000</i>	<i>SR'000</i>
Capital	325,000	325,000
Adjusted net income	151,700	181,813
Adjusted reserves, provisions and others at the beginning of the year	704,859	636,310
Deduction for long-term assets	(692,777)	(586,608)
Deduction for investments	-	(7,000)
Zakat base	<u>488,782</u>	<u>549,515</u>

**Movements in provision during the year**

The movement in the zakat provision for the year was as follows:

	<i>2015</i>	<i>2014</i>
	<i>SR'000</i>	<i>SR'000</i>
At the beginning of the year	14,530	13,720
Charge for the year	12,266	14,353
Payment during the year	(13,173)	(13,543)
At the end of the year	<u>13,623</u>	<u>14,530</u>

**Status of assessments**

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".

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. The HAC has recently issued its decision on the Company's appeal against the Preliminary Appeal Committee (PAC). Based on HAC's decision, the assessed liability will reduce to SR 3,550 thousands, approximately. The Company has filed an appeal against HAC's decision with the BOG. BOG review of the Company's appeal is awaited. The Company has lodged a bank guarantee with the DZIT for SR 4,576 thousands and paid SR 166 thousand "under protest". Recently, the DZIT issued revised assessment based on HAC decision with an additional Zakat liability of SR 4,426 thousands. The Company intends to make appropriate submission in this regard.

**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

At 31 March 2015

**11 ZAKAT (continued)**

**Status of assessments (continued)**

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. PAC has recently rendered its decision on the Company's appeal against the DZIT's additional assessment. Based on the Company's understanding of the PAC's decision, the additional assessed liability will reduce to approximately SR 5,270 thousand. However, the Company has filed an appeal with HAC against PAC's decision. The Company 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 is required. The DZIT has not yet raised assessments for the years 2012 through 2014.

**12 SHAREHOLDERS' EQUITY**

**Capital**

The capital of the Company is SR 325,000 thousand (2014: SR 325,000 thousand) divided into 32,500 thousand shares of SR 10 each, which is fully paid.

**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, accordingly, the Company has resolved to discontinue such transfers. This reserve is not available for distribution.

**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.

**13 SELLING AND DISTRIBUTION EXPENSES**

	<i>2015</i> <i>SR'000</i>	<i>2014</i> <i>SR'000</i>
Employee costs	112,708	103,241
Advertising and sales promotion	131,936	71,304
Depreciation (note 10a)	27,063	25,589
Repairs and maintenance costs	7,819	8,231
Insurance	4,868	4,347
Rent	3,546	2,620
Communication	2,527	1,991
Others	29,102	22,659
	<u>319,569</u>	<u>239,982</u>

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**14 GENERAL AND ADMINISTRATIVE EXPENSES**

	<b>2015</b>	<b>2014</b>
	<b>SR'000</b>	<b>SR'000</b>
Employee costs	<b>53,075</b>	49,890
Depreciation (note 10a)	<b>2,020</b>	1,887
Professional fees	<b>5,491</b>	3,925
Travel and other expenses	<b>2,903</b>	4,103
Repairs and maintenance costs	<b>1,760</b>	1,258
Communication	<b>1,475</b>	1,306
Insurance	<b>636</b>	491
Rent	<b>180</b>	180
Others	<b>9,578</b>	6,169
	<b>77,118</b>	69,209

**15 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, 5, 8, 9, 10b and 16b, significant related party transactions for the year ended 31 March and balances arising there from are described as under:

<i>Transactions with</i>	<i>Nature of transaction</i>	<i>Amount of transactions</i>		<i>Balance from / (due to) related parties</i>	
		<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
		<b>(SR '000)</b>	<b>(SR '000)</b>	<b>(SR '000)</b>	<b>(SR '000)</b>
Affiliates	Current account	<b>786</b>	(434)	<b>2,619</b>	3,475
Affiliates	Sale of a subsidiary	<b>(1,642)</b>	-	-	-
				<b>2,619</b>	3,475
Affiliates	Purchase of goods and services*	<b>(12,432)</b>	(2,682)	<b>(937)</b>	(636)
	Net settlement against purchase of goods and services*	<b>12,131</b>	4,828	-	-
				<b>(937)</b>	(636)

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

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**16 COMMITMENTS AND CONTINGENCIES**

- (a) At 31 March 2015, the Group has outstanding commitments for future capital expenditures amounting to SR 52,232 thousand (2014: SR 87,546 thousand).
- (b) As at 31 March 2015, the Group has a contingent liability of SR 15,274 thousand (2014: SR 10,004 thousand) in respect of guarantees issued by the Company's bankers to the Department of Zakat and Income Tax (Note 11).

**17 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:

	<b>2015</b> <b>SR'000</b>	<b>2014</b> <b>SR'000</b>
Not later than one year	<b>6,718</b>	3,971
Later than one year but not later than five years	<b>3,568</b>	3,339
Later than five years	<b>98</b>	79
	<b>10,384</b>	<b>7,389</b>

**18 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 Company are calculated by dividing the net income attributable to equity holders of the Parent Company 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 2015 was 32.5 million (2014: 32.5 million) shares of SR 10 each. The calculation of diluted earnings per share is not applicable to the Company.

**19 DIVIDEND**

In the Annual General Assembly meeting of the Company held on 24 June 2014, the shareholders authorised a final dividend of SR 3.5 per share (2013: SR 3 per share) amounting to SR 113,750 thousand (2013: SR 97,500 thousand), which was appropriated from the retained earnings and paid during the quarter ended 30 September 2014.



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**20 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.

**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 interest bearing assets and liabilities. The management limits the Group's interest rate risk by monitoring changes in interest rates in the currencies in which its interest bearing assets and liabilities are denominated and uses interest rate swaps to strategically hedge its risk, if considered necessary by the management. As at 31 March 2015, the Group does not have any interest bearing assets and liabilities.

**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 balances with banks. The Group manages this risk by depositing 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 43 % (2014 : 42%) of outstanding accounts receivable at 31 March.

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**20 RISK MANAGEMENT (continued)**

**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, other liabilities and dividend payable. 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 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.

**21 SEGMENT INFORMATION**

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

**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, accounts receivable and other current assets, its financial liabilities consist of accounts payable, payable to affiliates, other liabilities and dividend payables. The fair values of financial instruments are not materially different from their carrying values.

**23 APPROVAL OF FINANCIAL STATEMENTS**

These consolidated financial statements were authorised for issue by the Board of Directors on 28 Rajab 1436H, corresponding to 17 May 2015.

