



SINCE 1976

THE JOURNEY CONTINUES













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



Crown Prince, Deputy Prime Minister and  
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**

## **Our Vision**

To be the Brand of Choice

## **Our Mission**

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

## **Our Values**

Integrity  
Respect For All  
Passion  
Quality



## Message From the Chairman

On behalf of the Board of Directors, I am pleased to present to you SADAFCO's Annual Report for the 12 months ending 31 March 2016. This document includes Financial Year-End Results, the Auditor's Report and a summary of the highlights of the year's performance and accomplishments.

The year ended on net sales of SAR 1.983 billion, a growth of 9.7% over last year delivering net operating income of SAR 276 million, an increase of 77% over last year. In this process SADAFCO strengthened its position as the manufacturer of Saudi Arabia's most popular Tomato Paste and Ice Cream and a strong No 2 in Plain Milk.

Capital Expenditure investments during the year amounted to SAR 68 million, focussing mainly on further improvement of our product supply capabilities and efficiencies in Sales & Distribution, Supply Chain and Manufacturing.

SADAFCO also emphasized its commitment to the environment by investing in means to help reduce wastage of the region's scarce resources and harness abundant renewable resources that exist in the Middle East. Systems have been introduced at SADAFCO's Jeddah Factory to minimize wastage and save scarce resources like water.

In the field of renewable resources, the previously-publicised, SAR2-million, Riyadh Regional Distribution Centre Solar Project is nearing completion. We expect solar generated power to come on line around May this year providing SADAFCO not only the opportunity to reduce costs but also to learn more about the technology for possible broader use at other company locations. Up to 40% of daytime energy requirements for the Riyadh RDC will be generated by the sun.

SADAFCO is now entering the 40th anniversary since it established its roots with a joint venture in Saudi Arabia in 1976. During the past 12 months the company has also marked the 10th anniversary of its listing on Tadawul.

Since listing SADAFCO has continued to deliver attractive yields and capital gains to its shareholders and this year the Board of Directors is recommending a SAR 4.00 per share dividend, subject to the approval of shareholders.

On behalf of the SADAFCO Board of Directors, I would like to express gratitude to the Custodian of the Two Holy Mosques, His Royal Highness the Crown Prince, His Royal Highness the Deputy Crown Prince and the government of Saudi Arabia for their continued efforts to support the private sector in the Kingdom.

My appreciation goes to my fellow Board Members, Shareholders, Executive Management Team members and SADAFCO employees for their combined and continued efforts to 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

## Message From the Chief Executive Officer

During 2015-16 SADAFCO achieved SAR 1.983 billion net sales, 9.7% up on last year.

This performance was backed by market share gains in Saudi Arabia across all major categories of participation, most notably the improvement of our market leadership positions in Tomato Paste and Ice Cream and the strengthening of our second place in Plain Milk .

These gains have been made in spite of increased challenges created by a shifting socio-economic landscape, especially in view of the sustained low global oil prices, resulting in an economic slowdown as our customers and consumers change the way they make their purchases .

The initial increases in fuel, electricity and water had no material impact on SADAFCO's results last year. The medium to long-term effects of these changes are being monitored .

In the meantime, SADAFCO continues to offer its service to customers through 24 of its own distribution points across the Middle East covering Saudi Arabia, Bahrain, Qatar, Kuwait and Jordan. These locations include larger Regional Distribution Centres (RDCs) in Riyadh, Jeddah and Dammam. SADAFCO feeds the depots with product from its three ISO22000:2005 accredited factories in Jeddah and Dammam .

Thanks to this wide-reaching network we are able to consistently deliver our quality products to our loyal customers and consumers. In January this year the company signed a Memorandum of Understanding to acquire the lease rights of land and buildings in Jeddah for SAR16.5 million. This action with the intent of increasing storage and logistic capabilities close to the two Jeddah factories will support the company's strategy to further boost manufacturing capacities .

In terms of future growth, product innovation remains high on the SADAFCO agenda and during the year we introduced *Crispy Tortilla Chips*, a gluten-free snack option produced for us in Europe, and *Majestique*, a sparkling apple-based fruit drink that previously proved to be a favourite among local consumers. While restricted to two launches during this year, the New Product Development (NPD) plan is an active program seeking out opportunities, investigating potential and, when appropriate, developing products for launch .

SADAFCO maintains pressure on the process of recruiting and retaining local talent. This has paid off as the company again achieved Green Status on the Saudi Ministry of Labour's Nitaqat system. In addition to this, the representation of women within the local work force ended the year at 4.7% .

Programs like Team Blue and The Program for Saudi Nationals have also been introduced to focus on the development of these individuals preparing them to be future leaders in various functions within the company .

Finally, I thank the Board of Directors for their continued support, our staff for their dedication and hard work in achieving the reported results and our suppliers and customers for their valuable contributions to making our achievements possible.

I commend the SADAFCO team on their perseverance and persistence in frequently overcoming obstacles and finding solutions in day to day operations .

And, as always, I thank the Saudia consumers throughout the region for their loyalty. This continued support is the ultimate endorsement of our actions .

Waltherus "Wout" Matthijs  
Chief Executive Officer

## Executive Management



**Waltherus "Wout" Matthijs**

CEO



**Mohammed Jameel Attar**

Director Marketing



**Raffael Reinders**

Director Supply Chain



**Marek Mierzejewski**

Director Sales & Distribution



**Paul van Schaik**

Director Organizational Development

## History

The Saudia Dairy and Foodstuff Company (SADAFCO) story began on 21 April 1976 when a joint venture between three dairy companies in Jeddah, Madinah and Dammam was formed between Saudi, Kuwaiti and European businessmen and the company began production at the Jeddah Factory in 1977. Ten years later the European partners sold their shares to the Saudi and Kuwaiti shareholders and in 1990 the three companies merged into one to officially form Saudia Dairy and Foodstuff Company .

An initial public offering (IPO) led to the company's listing on the Saudi Arabian Stock Exchange, Tadawul, on 23 May 2005.

The company celebrates its 40th anniversary in 2016 .

## Main Activities of the Company

SADAFCO is a leading, world-class, Saudi Arabia-based company whose activities include local production, importing, distribution and marketing of a wide range of products. The portfolio includes Dairy Products, Ice Cream, Tomato Paste, Snacks and Drinks in the Middle East and North Africa.

The company's core products are under its flagship *Saudia* brand. Other brand names in its portfolio are *Crispy*, *Baboo* and *Majestique*. It currently offers around 100 Stock Keeping Units (SKU) .

SADAFCO has three, ISO22000:2005-accredited factories in Jeddah (two) and Dammam, three Regional Distribution Centres (RDCs) in Riyadh, Jeddah and Dammam and 21 depots across Saudi Arabia, Bahrain, Qatar, Kuwait and Jordan. Products are also made available to other Middle Eastern and North African markets through the Export function in conjunction with distribution agents .

SADAFCO ended 2015-16 with net sales of SAR1.983billion, reflecting a growth of 9.7% over 2014-15 and increased retail market shares in key product categories, indicating a strengthening of consumer loyalty to the company brands .





## Sales & Distribution:

Not many local food companies can claim a reach of 35,000 customers each week and SADAFCO is one of the leaders in this area. A wide reach through around 500 sales routes of both controlled-temperature and freezer trucks allow us to safely distribute our products in sometimes harsh climatic conditions .

Our Sales & Distribution team is tasked with ensuring the right product mix reaches consumers at the right place and at the right time. This is a challenge for SADAFCO's large portfolio of Plain Milk, Flavoured Milk, Enhanced Nutrition Milk, Laban, Evaporated Milk, Instant Milk Powder, Cream, Tomato Paste, Tomato Ketchup, Arabic Coffee, Snacks, Cheeses, Drinks, Ice Cream, French Fries and Butter.

The space limitations on product mix on daily routes require careful planning, a daily focus of the sales team and their support structures. This brings together theory and practice to find the best mix for daily loading to ensure optimal sales with low returns of unsold products at the end of the day .

This approach, initiated late in 2013 and fully rolled out by end March 2016, helps enforce disciplines required for successful van sales to effectively meet consumer demand in a dynamic and competitive market. It has helped Business Managers target their energies and point them in the right direction for the best results .

This means we are now a more professional organisation when it comes to our efforts at the front line of the business across our Middle Eastern distribution network.

New to the Executive Management Team is Marek Mierzejewski, who has spent 20 years delivering growth in sales and market share for multi-nationals in Europe and Asia. He brings specific experience in emerging markets in Europe and Asia and has a record of designing long-term strategies to drive market penetration and optimizing channel management .



## Marketing:

A clear, independent measure of our marketing success is the retail market share audit data that tracks our progress in the main categories. These audits provide accurate trends and market rankings and they show *Saudia* has gained ground to strengthen its No 2 spot in the Plain Milk market to 30% from 28% a year ago .

*Saudia* Tomato Paste remains the No 1 choice for Tomato Paste in Saudi Arabia with a share of 46% (up two percentage points) and in the Ice Cream category *Saudia*'s selection of Impulse and Take-Home frozen items remain the most popular choice with Saudi consumers. In Ice Cream SADAFCO has improved from 19% to 20.4%.

During 2015-16 we introduced two new products.

In January 2016 we launched *Crispy* Tortilla Chips, an extension to the *Crispy* range. They are a gluten-free offering packed for SADAFCO in Europe and they allow our snack offering to target teenage and adult consumers.

*Majestique*, an old consumer favourite, was re-launched in February after almost 10 years off the market. The recipe of the re-launched product is unchanged from the original "apple juice, sparkling water with a dash of spearmint and orange", however, a new bottle design has been introduced and so far the feedback has been positive. Marketing activities have contributed positively to increased sales and market shares .

Campaigns on television and other media remain a part of this effort. In addition to this SADAFCO's products have gained increased presence on Social Media platforms with successful initiatives introduced to Facebook, Instagram and Twitter.

*Saudia Champions* and *My Saudia Kitchen* are mainstays of activation plans with the first using fun activities to educate young consumers about the importance of milk consumption for healthy development and the second introducing the company's products to young homemakers at Malls across the region .

## Manufacturing:

Capital expenditure to shore up capacity to meet increasing consumer demand remains important at SADAFCO's factories, especially at the main Jeddah Factory where *Saudia* Plain and Flavoured Milk and Laban are produced. This factory, established in 1976, accounts for the bulk of manufacturing output for the company .

Previously, continuous mixing processing lines were installed in the Jeddah factory but now we have taken things a step further in order to further improve efficiencies and to reduce wastage. Jeddah Factory has now also installed a recovery system that allows us to salvage production losses, this helps reduce wastage and saves on water usage .

We are already proud to use only three and a half litres of water to produce one finished litre of milk and as we further fine-tune the sustainable business model for milk production, we continue to find ways to minimize water usage in the processing of our products .

Capacity expansion through the acquisition of additional high-speed lines is an on-going process to ensure that filling capabilities keep abreast of the processing systems. The Quality Assurance function continued to uphold internationally- recognised standards to guarantee the highest levels of quality. In August 2015, Jeddah Factory re-affirmed their quality credentials with an ISO22000:2005 re-accreditation. Jeddah Ice Cream Factory was re-accredited earlier in the year and the Dammam Factory is already in the process of re-certifying .

Currently the three SADAFCO factories share the manufacturing load of the company as follows:

Jeddah Factory produces Plain and Flavoured Milk, Laban, Laban Twist, Evaporated Milk and Thick Cream.

Jeddah Ice Cream Factory produces all lines of Ice Cream.

Dammam Factory produces Tomato Paste, Feta Cheese, Crispy Snacks, Fruit Drinks and Arabic Coffee .

## Supply Chain:

Supply Chain has continued to play an important role in sourcing, purchasing, shipping and storing ingredients and packaging required for the local production of SADAFCO's products. They also source *Saudia* and *Crispy* products produced by third-party manufacturers including French Fries, Butter, Triangle Cheese, Ketchup, Tortilla Chips, Instant Milk Powder and Sterilized Cream in tins .

During the year Supply Chain transported about 49 million cases of finished goods from factories to depots across the region on trucks travelling a collective 21.5 million kilometres.

Key project work to highlight relates to traceability, a focus for SADAFCO Supply Chain for the past 12 months. The level of traceability achieved so far allows us to view product manufacturing history by pallet. This includes the tracking of product ingredients used and finished goods' pallet destination once it leaves the factory. Eventually the level of detail will be tracked down to each carton .

This complicated process is being introduced in phases with Jeddah Factory launched in November 2015 and Jeddah Ice Cream Factory following in March 2016. Other Go Live milestones for Dammam Factory and other, third-party raw material and packaging warehouses will occur during the remainder of 2016 .

A Memorandum of Understanding was signed in January 2016 for the acquisition of rights to the lease of land and buildings in Jeddah, close to our factories. This supports the company's strategy to continuously boost its current manufacturing and logistical capabilities and increase its storage capabilities .

Tracking moveable assets received a boost with the introduction of the first stage of GPS tracking for SADAFCO's fleet of tractor heads and trailers. This process not only allows for the tracking of assets but also allows for the monitoring of vehicle movements for route deviations and unnecessary down time .

## Organizational Development:

The growth of SADAFCO creates employment opportunities within the organisation and Organizational Development plays the lead role in promoting the company as an employer of choice to attract suitable, skilled candidates for recruitment and retention to keep the company's wheels in motion .

Furthermore, the function is responsible for the development, where necessary, of individuals within SADAFCO to fill skills gaps that exist within the workforce.

While staff retention remains a challenge, Organizational Development aims to limit attrition through education, training and, most importantly, the creation of a healthy work environment. Efficiencies within the function have improved with the further development of the HRMIS system we have called Jahiz. Launched on 1 April last year, the system continues to be expanded with a number of additional functionalities being added during the year, laying the foundation for further efficiencies, better managed processing and enhanced management reporting. Jahiz also helps to move the company towards a paperless environment .

SADAFCO remains on track with Saudization targets set by the Saudi Ministry of Labour's Nitaqat Program and during 2015-16 we have again achieved Green Status. By the year end, 104 women in the company accounted for 4,7% of the workforce and they continue to contribute to our efforts in laboratories, offices and production lines across the company.

We are also committed to providing opportunities to the physically and intellectually challenged and to date there are 25 men and women in this category who are working for the company and adding value to SADAFCO's operation .

The Organizational Development function was again active in the area of health education and awareness initiatives. These included early-detection check-ups around the Kingdom, regular communication concerning general health and health warnings related to MERS-Corona Virus and Zika Virus. A vaccination initiative also resulted in around 1,000 employees benefitting .

## Main Activities of Subsidiary Companies:

The main activities of the SADAFCO subsidiary companies in Kuwait, Bahrain, Qatar and Jordan are selling and distributing SADAFCO products in these countries. SADAFCO also owns three subsidiaries based in Saudi Arabia which have not been active since their inception in 2008 .

## Corporate Social Responsibility:

During the year SADAFCO identified an opportunity to harness renewable energy resources and the Riyadh Regional Distribution Centre was selected for the company's first investment into solar power. The total financial commitment is SAR2 million, which the company views as a contribution to social responsibility through the application of green, environmentally-friendly principles. The project also allows SADAFCO to effectively reduce its energy consumption and to learn more about solar energy for successful application to other locations .

SADAFCO supports communities within which it operates by sponsoring sporting activities and supplying free products to schools in various locations across the Kingdom. The company has also contributed products to charities and schools catering to special needs .

For the fourth year running employees have benefitted from a reduced-fee fitness club membership in an effort to encourage a healthier lifestyle for its workforce .

## Sales Contribution by Product Category

#	Product	Contribution 2014-15	Contribution 2015-16	% Point Change
1	Milk	68%	69%	1%
2	Tomato Paste	9%	10%	1%
3	Ice Cream	10%	11%	1%
4	Powdered Milk	3%	2%	-1%
5	Cheese	3%	3%	0
6	Others	7%	5%	-2%
	Total	100%	100%	

## Sales for SADAFCO and Subsidiaries by geographic location:

#	Country	Sales 2014-15 (SAR Million)	Percentage (%)	Sales 2015-16 (SAR Million)	Percentage (%)
1	Saudi Arabia	1,681	93%	1,838	92.7%
2	Bahrain	39	2.2%	41	2.1%
3	Qatar	44	2.4%	49	2.5%
4	Kuwait	9	0.5%	8	0.4%
5	Jordan	13	0.7%	13	0.6%
6	Export (Other Countries )	21	1.2%	34	1.7%
	Total	1,807	100%	1,983	100%

SADAFCO owns shares in subsidiary companies to help achieve its targets and distribute its products, in addition to three other companies that have not been active since their inception.





**The subsidiaries names, main activities, headquarters locations and percentage of ownership are:**

#	Company	Main Activity	Country	Paid Up Capital	Number of Shares	Ownership
1	SADAFCO Qatar Company (LLC)	Sale, Distribution of dairy products and goods.	Qatar	QR1,500,000	1,500	75%
2	SADAFCO Bahrain Company (SPC)	Import, Export, Sale, Distribution of Dairy Goods, Ice Cream and Goods	Bahrain	BD50,000	500	100%
3	National Buildings Real Estate – Closed Joint Stock Company*	Acquisition and ownership of land, Real Estate development and investment in Real Estate Projects	KSA	SAR2,000,000	200,000	100%
4	United Gulfers Transport – Closed Joint Stock Company*	Transportation of goods, warehousing, storage and cooling	KSA	SAR 2,000,000	200,000	100%
5	National Sights Holding – Closed Joint Stock Company*	Investments through acquisition of controlling stakes	KSA	SAR 2,000,000	200,000	100%
6	SADAFCO Kuwait Foodstuff Company	Distribution of Dairy and foodstuffs	Kuwait	KD50,000	100	49%
7	SADAFCO Jordan Foodstuff Company LLC	Import, Sale, Distribution and Marketing of Dairy, Ice Cream and other foodstuffs	Jordan	JD250,000	250,000	100%

**Note:** On 17 May 2015 all legal procedures relating to the liquidation of Swiss Premium Food Company (SPF) were completed and the Commercial Registration was cancelled.

\* The SADAFCO Board of Directors recommended in its meeting on 21 March 2016 to the Board of Directors of the following subsidiaries:

1. National Sight Holding Company (Investments)
2. National Buildings Real Estate Company (Real Estate)
3. United Gulfers Transport Company (Transport Logistics)

to liquidate the above-mentioned companies and to take all necessary action to bring the liquidation to a close following the EGM approval of each subsidiary.

The above-mentioned subsidiaries have been inactive since their inceptions in 2008. This has already been announced on Tadawul.

None of the above-mentioned subsidiaries have any debt instruments issued.



## Key Performance Indicators:

1) The consolidated net profit for the year is SAR 260.828 million, compared to net profit for the same period last year of SAR 141.469 million an increase of 84.37% .

2) The earnings per share (EPS) for the year are SAR 8.03 compared to SAR 4.35 for the same period last year .

3) The total gross profit for the year is SAR 708.637 million compared to the same period last year of SAR 552.28 million an increase of 28.3% .

4) The operating net profit for the year is SAR275.658 million compared to operating net profit for the same period last year of SAR 155.593 million, an increase of 77.17% .

5) The key drivers for the increase in net profit of SAR 119.4 million (84.4%) during the twelve month period compared to the same period last year are: Mainly due to sales growth of 9.7% (SAR 176 million), attractive commodity prices contribution to gross profit growth of 28%; despite tough competitive market conditions, a less favorable economic situation and the increase in selling and distribution expenses of 6% and general and administrative expenses of 23% to support existing products, new product launches, training and retention programs for Nationals as well as salary adjustments across the company .

6) The company has achieved a full year high end single digit growth (9.7%) building upon its strong market shares: with high growth in drinking milk, Tomato paste and Ice Cream, despite the challenging market and economic conditions. The other less dominant product categories in the SADAFCO portfolio are performing satisfactorily while the new product launches, such as *Majestique* and *Crispy Tortilla* have started on a positive note. SADAFCO' business model has been able to absorb the recent tariff increases and is fit to take on foreseeable challenges .

Cash balance of SAR246 million with zero leveraging, strong working capital ratios all contributed to enhanced shareholder value. The earnings per share have almost doubled to SAR8.03 vs. SAR4.35 compared to the same period last year. EBITDA has improved from SAR225 to SAR358 million increase of SAR133 million (59%) due to the investment in capital expenditure . Cash generated from operating activities has increased by SAR 132 million reach to SAR 362 million as a result of higher profit and control of other working capital items.

Shareholders equity has increased by 15% to SAR 1,093 million.

Operating profit for the financial year ended 31 March 2016 was SAR 275.658 Million compared to the same period last year of SAR 155.593 Million with an increase of 77.17% the increase in the operating profit compared to the same period last year is mainly due to attractive prices of raw the main materials which has contributed to the increase in growth of gross profit by 28% and to an increas in sales by 9.7% (SAR 176 million) .



## Assets & Liabilities And Key Financials over Five Years (SAR Millions):

#	Description	2011/12	2012/13	2013/14	2014/15	2015/16
1	Current Assets	773	680	640	617	813
2	Fixed Assets	323	422	498	592	577
3	Non-Current Assets	0	0	0	0	0
4	Current Liabilities	238	174	135	176	196
5	Non-Current Liabilities	73	78	81	84	100
6	Total Equity	785	850	922	949	1,094
7	Sales	1,336	1,549	1,553	1,807	1,983
	Net Income	152	165	171.5	141.5	260.8

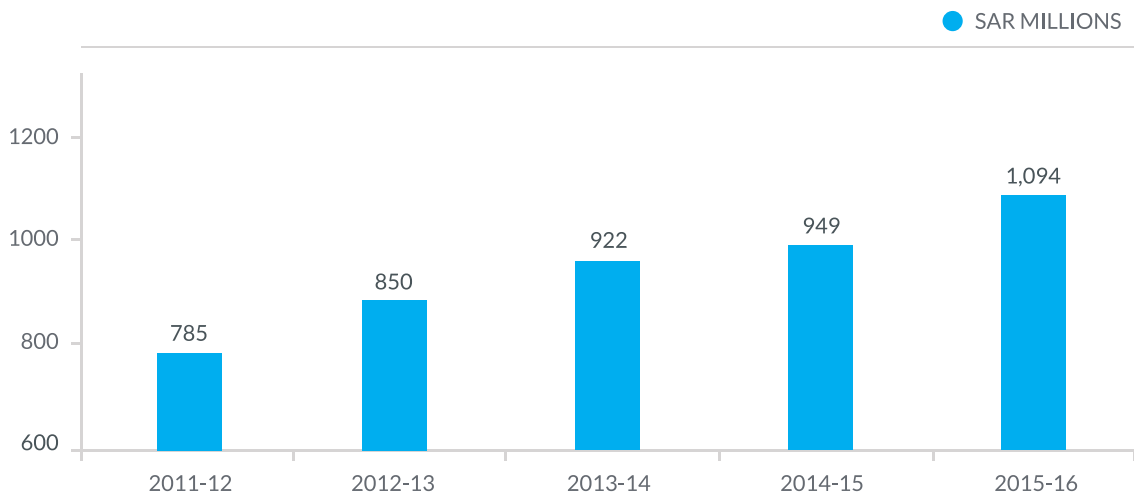
## Income Statement (SAR Millions)

#	Description	Mar 2015	Mar 2016
1	Net Sales	1,807	1,983
2	Cost of Sales	(1,255)	(1,274)
3	Gross Profit	552	709
4	Selling & Distribution	(320)	(338)
5	General & Administration Expenses	(77)	(95)
6	Financial & Bank Charges	(1.5)	0.1
7	Zakat	(12)	(15.3)
	Net Profit (Loss)	141.5	260.8

## Statutory Payments for 2015-16 (SAR Thousands)

#	Description	Due	Paid	Balance
1	Customs	30,181	30,181	-
2	Zakat	12,354	12,354	-
3	GOSI	10,130	10,130	-
4	Tadawul Contract	300	300	-
5	Government Fees & Visas	9,163	9,163	-
6	Tax	2,993	2,993	-
	<b>Total</b>	<b>65,121</b>	<b>65,121</b>	<b>-</b>

## Change in Shareholders' Equity



## Formation of the Board of Directors:

The Board of Directors is constituted of seven members elected for the cycle started on 1 April 2015 and ending on 31 March 2018. The board had three attended meetings and passed six resolutions by circulation.

### Board of Directors' Meetings for 2015-16:

Name	Capacity	Attended			Resolution by Circulation						Total
		2015		2016	2015					2016	
		23/04	7/10	21/03	21/04	17/05	18/06	13/07	19/10	14/01	
HH Sheikh Hamad Sabah Al-Ahmad	Non-executive	√	√	x	√	√	√	√	√	√	8
Mr Faisal Hamad Mubarak Al-Ayyar	Non-executive	√	√	√	√	√	√	√	√	√	9
Mr Abdullah Yaqoob Bishara	Independent	√	√	x	√	√	√	√	√	√	8
Mr Tariq Mohammad Abdulsalam	Non-executive	√	√	x	√	√	√	√	√	√	8
Mr Ahmed Mohamed Hamed Al-Marzouki	Independent	√	√	√	√	√	√	√	√	√	9
Mr Suleiman Saud Jarallah Al-Jarallah	Independent	√	√	√	√	√	√	√	√	√	9
Mr Mussad Abdullah Abdul Aziz Al-Nassar	Executive	√	√	√	√	√	√	√	√	√	9



## Board Members' Directorships in Joint Stock Companies:

#	Description	Description
1	HH Sheikh Hamad Sabah Al-Ahmad	<p>1.Chairman of KIPCO – Kuwait</p> <p>2.Chairman of SADAFCO – Saudi Arabia</p> <p>3.Chairman of Gulf Egypt Hotels &amp; Tourism Company - Egypt</p>
2	Mr Faisal Hamad Mubarak Al-Ayyar	<p>1.Vice Chairman of KIPCO – Kuwait</p> <p>2.Vice Chairman of Gulf Insurance Company – Kuwait</p> <p>3.Vice Chairman of Kuwait Jordanian Bank</p> <p>4.Board Member SADAFCO – Saudi Arabia</p> <p>5.Vice Chairman of United Gulf Bank – Bahrain</p>
3	Mr Abdullah Yaqoob Bishara	<p>1.Chairman of North Africa Holding Company – Kuwait</p> <p>2.Board Member SADAFCO – Saudi Arabia</p> <p>3.Board Member of KIPCO – Kuwait</p>
4	Mr Tariq Mohammad Abdulsalam	<p>1.Chairman United Real Estate Company – Kuwait</p> <p>2.Vice Chairman Kuwait Clearing Company – Kuwait</p> <p>3.Board Member Kuwait Jordanian Bank – Jordan</p> <p>4.Board Member SADAFCO – Saudi Arabia</p> <p>5.Board Member Al Qurain Petrochemicals Industries Company - Kuwait</p>
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	<p>1.Board Member SADAFCO – Saudi Arabia</p> <p>2.National Sights Holding – Saudi Arabia Chairman</p> <p>3.National Buildings Real Estate – Saudi Arabia Chairman</p> <p>4.United Gulfers Transport – Saudi Arabia Chairman</p>

## Board Committees

### 1) The Audit Committee :

The Audit Committee consists of three members, all non-executive members of SADAFCO's Board of Directors. Among them are members who are proficient in financial matters.

During 2015-16, the Audit Committee held three attended meetings and passed nine resolutions by circulation.

The Audit Committee's functions and responsibilities include:

1) Overseeing SADAFCO's Internal Audit (IA) function in order to determine adequacies in implementation of IA guidelines, actions and tasks set by the SADAFCO Board of Directors and establish the adequacy of internal control functions.

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 SADAFCO Board of Directors 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 study feedback remarks on the financial statements.

4) Review and give feedback on the financial statements before the initial and annual presentation to the SADAFCO Board of Directors.

5) Review accounting policies used and make recommendations to the SADAFCO Board of Directors.

### Audit Committee Members and their Meetings during 2015-16:

Name	Capacity	Attended			By Circulation										Total	
		2015		2016	2015											2016
		23/04	7/10	21/03	1/4	20/4	16/5	20/5	9/6	17/6	12/7	18/10	13/1			
Mr. Faisal Hamad Mubarak Al-Ayyar	Chairman	√	√	√	√	√	√	√	√	√	√	√	√	12		
Mr. Tariq Mohammad Abdulsalam	Member	√	√	X	√	√	√	√	√	√	√	√	√	11		
Mr. Ahmed Mohamed Hamed Al-Marzouki	Member	√	√	√	√	√	√	√	√	√	√	√	√	12		



## 2) The 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 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 a membership of the Board of Directors of another company.
- 6) Develop clear policies for the compensation and benefits of members of the Board of Directors and senior executives and take into account when developing policies to use criteria linked to performance.

The committee held two attended meetings and two resolutions were passed by circulation.

### Nomination and Remuneration Committee Members & Meetings and Resolutions during 2015-16

Name	Capacity	Attended Meetings		Resolutions By Circulation		Total
		2015	2016	2015	2016	
		7/10	21/3	1/4	17/6	
Mr Faisal Hamad Mubarak Al-Ayyar	Chairman	√	√	√	√	4
Mr Tariq Mohammad Abdulsalam	Member	√	x	√	√	3
Mr Suleiman Saud Jarallah Al-Jarallah	Member	√	√	√	√	4

### Board Members and Executive Management Team Remuneration:

#	Description	Non-Executive BOD Members (6)	Executive Board Member (1)	Senior Executives (8) *
1	Salaries & Wages	0	410,400	5,648,481
2	Allowances	0	234,259	2,006,199
3	Bonuses & Incentives	200,000 each	261,497	2,154,454
4	Benefits in Kind	0	0	0
(SAR)	Total	1,200,000	906,156	9,809,134

\* The senior executives who received the highest remuneration were eight members, including the CEO and CFO. Three members of the total 8 have left the company during the financial year.

## Share Ownership of Board of Directors, Executive Management Team, Spouses and Minor Children:

	Name	01 April 2015	31 March 2016	Change
	<b>Board of Directors</b>			
1	HH Sheikh Hamad Sabah Al-Ahmad Representing: United Industries Company	1,000	1,000	0
2	Mr Faisal Hamad Mubarak Al-Ayyar Representing: United Gulf Bank	1,000	1,000	0
3	Mr Abdullah Yaqoob Bishara	1,000	1,000	0
4	Mr Tariq Abdulsalam Rep: Al Qurain Petrochemicals Industries	13,036,461	13,036,461	0
5	Mr Ahmed Mohamed Hamed Al-Marzouki	22,250	22,250	0
6	Mr Sulaiman Saud Jarallah Al-Jarallah	1,000	1,000	0
7	Mr Mussad Abdullah Abdul Aziz Al-Nassar	11,000	11000	0
	<b>Executive Management Team</b>			
1	Mr Waltherus 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 Josef Reinders	0	0	0
6	Mr Ioannis Theotokas**	0	0	0
7	Mr Johan Paelinck***	0	0	0
8	Mr Marek Mierzejewski****	0	0	0

The BOD members and Executive team members , their spouses and children do not have any rights or preference shares or debt instruments relating to the company or any of its subsidiaries.

\* Mr Khalid Abdulrahman Bakhsh (CFO) left the company on 17 May 2015 (as disclosed to CMA)

\*\* Mr Ioannis Theotokas (Director Commercial Operations) left the company on 25 August 2015 (as disclosed to CMA)

\*\*\* Mr Johan Paelinck (Director Supply Chain) left the company on 27 January 2016 (as disclosed to CMA)

\*\*\*\* Mr Marek Mierzejewski (Director Sales & Distribution) joined the company on 12 January 2016 (as disclosed to CMA).

## Major Shareholders as at 31 March 2016:

Name	Number of Shares on 01 April 2015	Number of Shares on 31 March 2016	Percentage Ownership on 01 April 2015	Percentage Ownership on 31 March 2016	Change
Al Qurain Petrochemicals Industries Company	13,036,461	13,036,461	40.11%	40.11%	0
Al-Samh Trading Co Ltd	3,798,008	3,798,008	11.69 %	11.69 %	0

## Annual Internal Audit Results Review of the Effectiveness of the Internal Control Procedures:

Within its day-to-day functions, SADAFCO's Internal Audit Department assessed the efficiency and effectiveness of the internal control systems framework and its reports were issued and presented to the Audit Committee.

There were no major gaps in the company's Internal Controls that require disclosure. However, the reports 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.

The Audit Committee of SADAFCO continues to review the efficiency of internal controls on an on-going basis and supervises the work of the Internal Auditors in accordance with Article 14 of the Corporate Governance Regulations. The committee receives feedback in the form of regular reports which highlight areas of concern.

## Related Party Transactions:

The company enters into transactions with related parties using the same criteria applied to all 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 (CMA) and the Ministry of Commerce and Industry (MOCI) in this regard. Transactions with these parties require disclosure.

Below a summary of these related party transactions that the Board recommends for approval and renewal for another year starting 1 July 2016 by the shareholder's Assembly meeting.

Company Name	Country	Nature of Transaction	Value SAR 000s	Closing Balance
Buruj Co-Op Insurance Company	KSA	Service	14,149	0

SADAFCO entered into a one year contract with Al Buruj Cooperative Insurance (offering insurance services) starting on 1 July 2015 and ending on 30 June 2016, 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 is GIC Board of Directors' Vice-Chairman. The SADAFCO Ordinary General Assembly meeting held on 30 June 2015 approved this transaction and agreed to its renewal for another year starting on 01 July 2015 to 30 June 2016.

## SADAFCO's Dividend Distribution Policy

The SADAFCO Articles of Association state in Article 35 that Annual Net Profits may be distributed after the deduction of all general expenses and other costs. They may be distributed in the following way:

- 1) 10% of the Annual Net Profits are to be set aside for a Statutory Reserve. The General Assembly may choose to stop this Reserve once it is equal to half of the company's capital.
- 2) The General Assembly may suggest to the SADAFCO Board of Directors that another Reserve where a further 10% of Net Profits may be accumulated.
- 3) There may be a distribution to shareholders thereafter where a first payment/dividend equal to 5% of the paid up capital is payable.
- 4) After the above distributions are made there may be an allocation of 10% of net profits to reward the Board of Director Members, provided that the maximum allowable Board compensation is in compliance with CMA and MOCI rules and regulations.
- 5) All remaining profits may then be distributed to shareholders as an extra dividend.

## Major Decisions and Future Plans:

On 28 January 2016 SADAFCO signed a memorandum of understanding with the Saudi Factory for Electrical Appliances Company (Ltd) regarding the acquisition of the lease rights of land and buildings in First Industrial City in Jeddah for SAR 16.5 million. This reflects the company's continued strategy to boost its current manufacturing and logistical capabilities and increase its storage capabilities. Due to its close proximity SADAFCO's Jeddah factories, the land creates ideal opportunities for the creation of infrastructure for further growth. This transaction will be finalized upon completion of the lease transfer formalities .

## IFRS implementation plan:

In compliance with Saudi Organization for Certified Public Accountants (SOCPA) resolution and CMA's instructions regarding its implementation, SADAFCO's Board of Directors and management have formulated an action plan for IFRS implementation and convergence.

The Plan consists of following phases:

### Phase 1

- Analyzing and identifying the differences between the current accounting policies based on SOCPA standards and the requirements of IFRS (gap analysis).

### Phase 2

- Giving adequate training courses for accounting staff to increase their skills and awareness of IFRS requirements
- Choosing between alternative accounting policies recommended by IFRS and identifying the financial impact of each policy.
- Reviewing all IFRS recommended policies and procedures adopted by the company to ensure its internal compliance.
- Identifying the impact of IFRS convergence on IT Systems to support IFRS financial disclosure.

### Final phase

- Preparation of IFRS compliant financial statements as per SOCPA's instructions.

We are confident that due to the progress in the implementation phases that SADAFCO will be ready to issue the first IFRS compliant interim financial statement as of first quarter ending 30 June 2017 .

## SADAFCO Risk Exposure:

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

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

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. Senior management are responsible for developing and monitoring the Company's risk management policies and report regularly to the Board of Directors on their activities .

### Market risk

Commission arises from the possibility that changes in commission rates will affect future profitability or the fair values of financial instruments. The 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. The Company does not have any interest bearing assets, except murabaha short-term deposits, 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 large number of customers. The five largest customers account for 46 % (2015: 43%) of outstanding accounts receivable at 31 March .

### Liquidity risk

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

## 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 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 .

## Fines imposed on SADAFCO

A fine of SAR 50,000 was imposed in favour of the Ministry of Commerce and Industry relating to an incident of non-disposal of materials immediately after their expiry.

## 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 and company law (not already included in SADAFCO's by laws). There are no fines or penalties imposed neither by the CMA nor any other legal or supervisory entity other than the aforementioned fine of SAR 50,000 relating to the MOCI penalty imposed by the Board of Grievance .
- 6) None of the BOD members and senior management, including the CEO and CFO, their spouses or children owns any shares in affiliate companies; and no contracts were issued where any of them had a material interest other than those transactions disclosed in this Board Report .
- 7) No loans were made to any Board Member; SADAFCO has not guaranteed any loans made by 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 .



## Conclusion

In conclusion, we would like to thank our fellow Board Members for their exceptional performance in steering the company and accomplishing the results for 2015-16 .

Thanks go to the Executive Management Team for their efforts in achieving their targets set. Important stakeholders in SADAFCO's existence are our consumers, customers and shareholders and we note our gratitude to them for their continued support to help us achieve top results both during the year under review and in years to come

We look forward to greater achievements and continued excellence in the year ahead .

Best regards,

Board of Directors  
SADAFCO



## Corporate Governance Compliance

#	Article	Number of articles	Fully Applied	Partially Applied	Partially Applied	Partially Applied	Partially Applied
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>
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>	

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

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 MARCH 2016**

## **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 2016, 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 2016 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



24 Rajab 1437H  
1 May 2016

Jeddah

16/288/AIR

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

CONSOLIDATED BALANCE SHEET

As at 31 March 2016

	<i>Note</i>	<i>2016</i> <i>(SR '000)</i>	<i>2015</i> <i>(SR '000)</i>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	4	<b>246,284</b>	66,425
Accounts receivable	5	<b>171,192</b>	172,108
Deposits, prepayments and other current assets	6	<b>14,462</b>	25,725
Inventories	7	<b>381,120</b>	352,718
<b>TOTAL CURRENT ASSETS</b>		<b>813,058</b>	616,976
<b>NON-CURRENT ASSETS</b>			
Investments	8	<b>243</b>	243
Property, plant and equipment	9	<b>577,203</b>	591,854
<b>TOTAL NON-CURRENT ASSETS</b>		<b>577,446</b>	592,097
<b>TOTAL ASSETS</b>		<b>1,390,504</b>	1,209,073
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable		<b>67,304</b>	108,869
Accruals and other current liabilities		<b>110,286</b>	50,669
Due to related parties	14	-	937
Accrued zakat	10	<b>16,602</b>	13,623
Dividend payable		<b>2,306</b>	1,975
<b>TOTAL CURRENT LIABILITIES</b>		<b>196,498</b>	176,073
<b>NON-CURRENT LIABILITY</b>			
Employees' end of service benefits		<b>100,422</b>	83,768
<b>TOTAL LIABILITIES</b>		<b>296,920</b>	259,841
<b>SHAREHOLDERS' EQUITY</b>			
<b>Equity attributable to shareholders of the Parent Company</b>			
Share capital	11	<b>325,000</b>	325,000
Statutory Reserve	11	<b>162,500</b>	162,500
Voluntary reserve	11	<b>151,734</b>	125,713
Foreign currency translation and other adjustments		<b>(1,178)</b>	(327)
Retained earnings		<b>454,163</b>	335,121
<b>Total equity attributable to the shareholders of the Parent Company</b>		<b>1,092,219</b>	948,007
Non-controlling interests		<b>1,365</b>	1,225
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>1,093,584</b>	949,232
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>1,390,504</b>	1,209,073

Mussad Abdullah Al Nassar  
Member Board of Directors

Waltherus Cornelis Petrus Matthijs  
Chief Executive Officer

Syed Fahim Hassan Hamdani  
Group Accounting Manager

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 2016

	Note	2016 (SR '000)	2015 (SR '000)
Sales – net		1,982,764	1,806,878
Cost of sales		(1,274,127)	(1,254,598)
<b>GROSS PROFIT</b>		<b>708,637</b>	552,280
<b>EXPENSES</b>			
Selling and distribution	12	(337,934)	(319,569)
General and administration	13	(95,045)	(77,118)
		<b>(432,979)</b>	(396,687)
<b>INCOME FROM MAIN OPERATIONS</b>		<b>275,658</b>	155,593
Other income, net		423	(287)
Financial income / (charges) – net		80	(1,571)
<b>NET INCOME BEFORE ZAKAT</b>		<b>276,161</b>	153,735
Zakat	10	(15,333)	(12,266)
<b>NET INCOME FOR THE YEAR</b>		<b>260,828</b>	141,469
<b>Attributable to:</b>			
Equity shareholders of the Parent Company		260,213	140,953
Non-controlling interests		615	516
<b>NET INCOME FOR THE YEAR</b>		<b>260,828</b>	141,469
<b>Earnings per share:</b>			
Income from main operations (in SR per share)	17	8.48	4.79
Net income (in SR per share)	17	8.03	4.35
Net income attributable to equity shareholders of the Parent Company (in SR per share)	17	8.01	4.34

Mussad Abdullah Al Nassar  
Member Board of Directors

Waltherus Cornelis Petrus Matthijs  
Chief Executive Officer

Syed Fahim Hassan Hamdani  
Group Accounting Manager

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 CASHFLOWS

For the year ended 31 March 2016

	<i>Note</i>	<i>2016</i> <i>(SR '000)</i>	<i>2015</i> <i>(SR '000)</i>
<b>OPERATING ACTIVITIES</b>			
Net income for the year		<b>260,828</b>	141,469
Adjustments for:			
Depreciation	9	<b>82,173</b>	71,350
Gain on disposal of property, plant and equipment		<b>(1,018)</b>	(585)
Provision for doubtful accounts	5	<b>6,230</b>	1,058
Provision for slow moving and obsolete inventories	7	<b>4,150</b>	592
Provision for employees' end of service benefits		<b>22,908</b>	8,626
		<b>375,271</b>	222,510
Changes in operating assets and liabilities:			
Accounts receivable		<b>(5,314)</b>	(1,639)
Deposits, prepayments and other receivables		<b>11,263</b>	18,381
Inventories		<b>(32,552)</b>	(44,889)
Accounts payable		<b>(41,565)</b>	52,010
Due to related parties		<b>(937)</b>	301
Accrued zakat, accruals and other current liabilities		<b>62,927</b>	(10,615)
Cash from operations		<b>369,093</b>	236,059
Employees' end of service benefits paid		<b>(6,254)</b>	(5,413)
Net cash from operating activities		<b>362,839</b>	230,646
<b>INVESTING ACTIVITIES</b>			
Changes in net assets directly associated with a subsidiary held for disposal		-	2,734
Sale proceeds from disposal of property, plant and equipment		<b>1,332</b>	1,095
Purchase of property, plant and equipment	9	<b>(67,836)</b>	(166,036)
Net cash used in investing activities		<b>(66,504)</b>	(162,207)
<b>FINANCING ACTIVITIES</b>			
Dividend paid	18	<b>(113,750)</b>	(113,750)
Board of Directors remuneration paid		<b>(1,400)</b>	(1,400)
Non-controlling interests		<b>(475)</b>	(450)
Net cash used in financing activities		<b>(115,625)</b>	(115,600)
<b>INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>180,710</b>	(47,161)
Effect of exchange rate fluctuations on cash and cash equivalents		<b>(851)</b>	673
Cash and cash equivalents at the beginning of the year		<b>66,425</b>	112,913
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	4	<b>246,284</b>	66,425

Mussad Abdullah Al Nassar  
Member Board of Directors

Waltherus Cornelis Petrus Matthijs  
Chief Executive Officer

Syed Fahim Hassan Hamdani  
Group Accounting Manager

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



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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 March 2016

	Attributable to shareholders of Parent Company						Non-controlling interest (SR '000)	Total (SR '000)
	Capital (SR '000)	Statutory Reserve (SR '000)	Voluntary Reserve (SR '000)	Foreign currency translation and other adjustment (SR '000)	Retained earnings (SR '000)	Total (SR '000)		
Balance as at 31 March 2014	325,000	162,500	111,617	(1,000)	323,414	921,531	1,159	922,690
Net income for the year	-	-	-	-	140,953	140,953	516	141,469
Dividend paid (note 18)	-	-	-	-	(113,750)	(113,750)	-	(113,750)
Board of Directors' remuneration	-	-	-	-	(1,400)	(1,400)	-	(1,400)
Transfer to reserve	-	-	14,096	-	(14,096)	-	-	-
Foreign currency translation and other adjustments	-	-	-	673	-	673	(450)	223
Balance as at 31 March 2015	325,000	162,500	125,713	(327)	335,121	948,007	1,225	949,232
Balance as at 31 March 2015	325,000	162,500	125,713	(327)	335,121	948,007	1,225	949,232
Net income for the year	-	-	-	-	260,213	260,213	615	260,828
Dividend paid (note 18)	-	-	-	-	(113,750)	(113,750)	-	(113,750)
Board of Directors' remuneration	-	-	-	-	(1,400)	(1,400)	-	(1,400)
Transfer to reserve	-	-	26,021	-	(26,021)	-	-	-
Foreign currency translation and other adjustments	-	-	-	(851)	-	(851)	(475)	(1,326)
<b>Balance as at 31 March 2016</b>	<b>325,000</b>	<b>162,500</b>	<b>151,734</b>	<b>(1,178)</b>	<b>454,163</b>	<b>1,092,219</b>	<b>1,365</b>	<b>1,093,584</b>

Muhsad Abdullah Al Nassar  
Member Board of Directors

Waltherus Cornelis Petrus Matthijs  
Chief Executive Officer

Syed Fahim Hassan Hamdani  
Group Accounting Manager

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 2016

**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 2016, 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* <sup>^</sup>	Real estate	Kingdom of Saudi Arabia	100%
United Gulfers Logistics Company* <sup>^</sup>	Logistics	Kingdom of Saudi Arabia	100%
National Sight Holding Company* <sup>^</sup>	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.

\*During the year, the Board of Directors (BoD) of SADAFCO have resolved that these inactive subsidiaries be liquidated and legal procedures to commence immediately following the approval of shareholders of these subsidiaries.

<sup>^</sup> Part of the investments are beneficially held through parties nominated by the Company.

Other subsidiaries:

Swiss Premium Foods Company SAE, Egypt, has been liquidated and the commercial registration has been cancelled on 7 May 2015.

**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).

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

At 31 March 2016

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

**(b) Basis of measurement**

These consolidated financial statements are prepared under the historical cost basis (except for investments 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 or 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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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
At 31 March 2016

**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.

*(v) Useful lives of property, plant and equipment*

The Company's management determines the estimated useful lives of its property, plant and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

**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.



SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)  
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
At 31 March 2016

**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.

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

At 31 March 2016

**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.

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

Commission income on short-term deposits are recognised on an accrual basis.

**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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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
At 31 March 2016

**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 interests 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, 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 (continued)

At 31 March 2016

**4 CASH AND CASH EQUIVALENTS**

	<i>2016</i> <i>(SR '000)</i>	<i>2015</i> <i>(SR '000)</i>
Cash in hand	<b>9,030</b>	8,726
Balances with banks - current account	<b>37,254</b>	57,699
Murabaha short-term bank deposits	<b>200,000</b>	-
	<b>246,284</b>	66,425

**5 ACCOUNTS RECEIVABLE**

	<i>2016</i> <i>(SR '000)</i>	<i>2015</i> <i>(SR '000)</i>
Trade receivables	<b>177,205</b>	176,876
Less: Provision for doubtful accounts (see below)	<b>(14,447)</b>	(18,124)
Net trade receivables	<b>162,758</b>	158,752
Net advances and other receivables	<b>8,434</b>	10,737
Due from related parties (note 14)	-	2,619
	<b>171,192</b>	172,108

At 31 March 2016, trade receivables at nominal value of SR 14.4 million (2015: SR 18.1 million) were impaired. Movements in the provision for doubtful accounts were as follows:

	<i>2016</i> <i>(SR '000)</i>	<i>2015</i> <i>(SR '000)</i>
At the beginning of the year	<b>18,124</b>	17,066
Charge for the year	<b>6,230</b>	1,058
Amount written-off during the year	<b>(9,907)</b>	-
At the end of the year	<b>14,447</b>	18,124

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>Up to 30</i> <i>days</i> <i>SR '000</i>	<i>Over 31</i> <i>days</i> <i>SR '000</i>
<b>2016</b>	<b>162,758</b>	<b>157,125</b>	<b>5,296</b>	<b>337</b>
2015	158,752	148,976	9,010	766

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
At 31 March 2016

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

	2016 (SR '000)	2015 (SR '000)
Prepayments	13,465	24,771
Security and other deposits	912	790
Others	85	164
	<u>14,462</u>	<u>25,725</u>

**7 INVENTORIES**

As at 31 March, inventories comprise the following:

	2016 (SR '000)	2015 (SR '000)
Raw and packing materials	225,862	249,979
Finished goods	59,926	51,991
Spare parts, supplies and other items	27,341	33,262
Goods-in-transit	81,419	27,621
	<u>394,548</u>	<u>362,853</u>
Less: Provision for slow moving and obsolete inventories (see below)	<u>(13,428)</u>	<u>(10,135)</u>
	<u><u>381,120</u></u>	<u><u>352,718</u></u>

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

	2016 (SR '000)	2015 (SR '000)
At the beginning of the year	10,135	9,603
Charge for the year	4,150	592
Amount written off during the year	(857)	(60)
At the end of the year	<u>13,428</u>	<u>10,135</u>

**8 INVESTMENTS**

	2015 (SR '000)	2014 (SR '000)
Investments available for sale (unquoted)	250	1,336
Less: Provision for non-temporary decline in value	(7)	(1,093)
	<u>243</u>	<u>243</u>

During the year ended 31 March 2016, an investment amounting to SR 1.1 million has been written off against the provision.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)  
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
At 31 March 2016

9 PROPERTY, PLANT AND EQUIPMENT

	<i>Land and buildings</i> SR '000	<i>Machinery and equipment</i> SR '000	<i>Vehicles and trailers</i> SR '000	<i>Furniture, fixtures and office equipment</i> SR '000	<i>Capital work-in-progress</i> SR '000	<i>Total</i> 2016 SR '000	<i>Total</i> 2015 SR '000
Cost :							
At the beginning of the year	348,290	769,938	201,263	70,774	67,628	1,457,893	1,342,866
Additions (see note 9c)	2,129	657	195	1,624	63,231	67,836	166,036
Disposals	-	(4,941)	(1,595)	-	-	(6,536)	(51,009)
Transfers, net	6,337	58,241	16,091	2,494	(83,163)	-	-
At the end of the year	<b>356,756</b>	<b>823,895</b>	<b>215,954</b>	<b>74,892</b>	<b>47,696</b>	<b>1,519,193</b>	<b>1,457,893</b>
Depreciation:							
At the beginning of the year	167,801	501,613	135,646	60,979	-	866,039	845,188
Charge for the year (see note 9a)	15,940	41,522	19,972	4,739	-	82,173	71,350
Disposals	-	(4,941)	(1,281)	-	-	(6,222)	(50,499)
At the end of the year	<b>183,741</b>	<b>538,194</b>	<b>154,337</b>	<b>65,718</b>	<b>-</b>	<b>941,990</b>	<b>866,039</b>
Net book amounts:							
<b>At 31 March 2016</b>	<b>173,015</b>	<b>285,701</b>	<b>61,617</b>	<b>9,174</b>	<b>47,696</b>	<b>577,203</b>	
At 31 March 2015	180,489	268,325	65,617	9,795	67,628		591,854

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)  
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
At 31 March 2016

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

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

	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
Cost of sales	<b>51,518</b>	42,267
Selling and distribution expenses (note 12)	<b>28,452</b>	27,063
General and administrative expenses (note 13)	<b>2,203</b>	2,020
	<b>82,173</b>	71,350

(b) The ownership interest of the Company in certain freehold land held in Madinah amounting to SR 1,538 thousand (2015: 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 mainly represent purchase of machinery for factories and sales and distribution vehicles and freezers.

**10 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>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
Charge for the year	<b>15,333</b>	12,266

**Movements in provision during the year**

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

	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
At the beginning of the year	<b>13,623</b>	14,530
Charge for the year	<b>15,333</b>	12,266
Payment during the year	<b>(12,354)</b>	(13,173)
At the end of the year	<b>16,602</b>	13,623

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

At 31 March 2016

## 10 ZAKAT (continued)

### 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 has encashed the bank guarantee

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". The DZIT has issued revised assessment based on HAC decision with an additional Zakat liability of SR 4,426 thousands. The Company has submitted a letter with the DZIT requesting them to correct errors in revised assessment.

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. In addition, the Company has lodged a bank guarantee with the DZIT for SR 5,270 thousands and paid SR 1,846 thousand "under protest". Recently, the DZIT issued revised assessment based on PAC decision with an additional Zakat liability of SR 4,027 thousands. The Company has submitted a letter with the DZIT requesting them to correct errors in revised assessment.

The DZIT has not yet raised assessments for the years 2012 through 2015.

## 11 SHAREHOLDERS' EQUITY

### Capital

The capital of the Company is SR 325,000 thousand (2015: 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 10% of net income for the year to a statutory reserve until such reserve equals 50% 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 10% 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.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 March 2015

**12 SELLING AND DISTRIBUTION EXPENSES**

	<i>2016</i>	<i>2015</i>
	<i>SR'000</i>	<i>SR'000</i>
Employee costs	<b>135,652</b>	112,708
Advertising and sales promotion	<b>117,596</b>	131,936
Depreciation (note 9a)	<b>28,452</b>	27,063
Repairs and maintenance costs	<b>8,728</b>	7,819
Insurance	<b>5,604</b>	4,868
Rent	<b>3,303</b>	3,546
Communication	<b>2,413</b>	2,527
Others	<b>36,186</b>	29,102
	<b>337,934</b>	319,569

**13 GENERAL AND ADMINISTRATIVE EXPENSES**

	<i>2016</i>	<i>2015</i>
	<i>SR'000</i>	<i>SR'000</i>
Employee costs	<b>72,612</b>	53,075
Depreciation (note 9a)	<b>2,203</b>	2,020
Professional fees	<b>5,009</b>	5,491
Travel and other expenses	<b>2,184</b>	2,903
Repairs and maintenance costs	<b>1,339</b>	1,760
Communication	<b>1,484</b>	1,475
Insurance	<b>659</b>	636
Rent	<b>360</b>	180
Others	<b>9,195</b>	9,578
	<b>95,045</b>	77,118



# SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)

(A Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 March 2016

### 14 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, 9b, and 15b, significant related party transactions and balances for the year ended 31 March and balances arising there from are described as under:

Transactions with	Nature of transaction	Amount of transactions		(Due to) /from related parties	
		2016 (SR '000)	2015 (SR '000)	2016 (SR '000)	2015 (SR '000)
Affiliates	Purchase of goods and services*	<b>(14,149)</b>	(12,432)	-	(937)
	Net settlement against purchase of goods and services*	<b>15,086</b>	12,131	-	-
				-	(937)
Affiliates	Sale of a subsidiary	-	(1,642)	-	-
Affiliates	Current account	<b>(2,619)</b>	786	-	2,619
				-	2,619

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

### 15 COMMITMENTS AND CONTINGENCIES

- (a) At 31 March 2016, the Group has outstanding commitments for future capital expenditures amounting to SR 71,051 thousand (2015: SR 52,232 thousand).
- (b) As at 31 March 2016, the Group has a contingent liability of SR 9,924 thousand (2015: SR 15,274 thousand) in respect of guarantees issued by the Company's bankers to the Department of Zakat and Income Tax (Note 10).

### 16 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.



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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 March 2016

**16 OPERATING LEASES (continued)**

At 31 March, operating lease rental commitments are as follows:

	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
Not later than one year	<b>7,503</b>	6,718
Later than one year but not later than five years	<b>3,567</b>	3,568
Later than five years	<b>275</b>	98
	<b>11,345</b>	10,384

**17 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 2016 was 32.5 million (2015: 32.5 million) shares of SR 10 each. The calculation of diluted earnings per share is not applicable to the Company.

**18 DIVIDEND**

In the Annual General Assembly meeting of the Company held on 30 June 2015, the shareholders authorised a final dividend of SR 3.5 per share (2014: SR 3.5 per share) amounting to SR 113,750 thousand (2014: SR 113,750 thousand), which was appropriated from the retained earnings.

**19 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.

## 19 RISK MANAGEMENT (continued)

### Market risk

Commission arises from the possibility that changes in commission rates will affect future profitability or the fair values of financial instruments. The Group is subject to commission rate risk on its 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. The Group does not have any interest bearing assets, except murabaha short-term deposits, 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 46 % (2015 : 43%) of outstanding accounts receivable at 31 March.

### Liquidity risk

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

The Group's financial liabilities primarily consist of accounts payable, payable to affiliates, 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 March 2016

**20 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.

**21 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.

**22 APPROVAL OF FINANCIAL STATEMENTS**

These consolidated financial statements were authorised for issue by the Board of Directors on 24 Rajab 1437H, corresponding to 1 May 2016.

**23 COMPARATIVE FIGURES**

Certain of the prior year amounts have been reclassified to conform to the presentation in the current year.