SADAFCO سدافكو


# Trusted by Generations

## SAUDIA DAIRY & FOODSTUFF COMPANY

ANNUAL REPORT 2020-21

بسم الله الرحمن الرحيم

# King Salman bin Abdulaziz Al-Saud

The Custodian of the Two Holy Mosques

## His Royal Highness Prince Mohammed bin Salman bin Abdulaziz Al-Saud

Crown Prince, Deputy Prime Minister and Minister of Defense of the Kingdom of Saudi Arabia

# Table of Contents

## Strategic and Management Review

Our Vision, Mission & Values ........ 9
Message from the Chairman ........ 10
Message from the Chief Executive Officer ........ 11
Executive Management ........ 12
Introduction ........ 12
Main Activities of the Company ........ 13
History ........ 13
Products at a Glance ........ 14
Supply Chain ........ 16
Commercial ........ 18
Organizational Development ........ 20
Environmental, Social and Governance (ESG) ........ 24

## Governance

Main activities for the Company and its Subsidiaries ........ 34
Main Activities of Subsidiary Companies ........ 36
Key Performance Indicators ........ 40
Name of Board of Directors, Committees members & Executive Management ........ 48
Board Committees ........ 55
Details of Compensation and Remuneration ........ 60
Major Shareholders Owning 5% or more and Changes during the Financial Year ........ 62
Annual Internal Audit Results Review of the Effectiveness of the Internal Control Procedures ........ 62
Related Party Transactions ........ 63
SADAFCO's Dividend Distribution Policy ........ 64
Major Decision and Future Plans ........ 65
Financial Instruments Risk Management Objective and Policies ........ 66
Penalties and Sanctions ........ 68
Declarations ........ 69
Corporate Governance Compliance ........ 70

## Financial Statements

Independent auditor's report ........ 2-5
Consolidated statement of profit or loss ........ 6
Consolidated statement of comprehensive income ........ 7
Consolidated statement of financial position ........ 8
Consolidated statement of changes in equity ........ 9
Consolidated statement of cash flows ........ 10
Notes to the consolidated financial statements ........ 11-51


# Strategic and Management Review

Our Vision, Mission & Values ..... 9
Message from the Chairman ..... 10
Message from the Chief Executive Officer ..... 11
Executive Management ..... 12
Introduction ..... 12
Main Activities of the Company ..... 13
History ..... 13
Products at a Glance ..... 14
Supply Chain ..... 16
Commercial ..... 18
Organizational Development ..... 20
Environmental, Social and Governance (ESG) ..... 24


السعودية
saudia
milk
WHOLE
حليب
كامل الدسم
جرب
10%


saudia


## Vision

To be the Brand of Choice

## Mission

Develop, produce and market a range of nutritious food propositions for all age groups and create maximum shareholder value through teamwork

## Values

- Passion
- Courage to Innovate
- Embrace Change
- Quality of Execution

# Message from the Chairman

On behalf of the Board of Directors of Saudia Dairy and Foodstuff Company (SADAFCO), it is my pleasure to present to you SADAFCO's Annual Report for the twelve months ending 31st March 2021.

On behalf of the Board of Directors of Saudia Dairy and Foodstuff Company (SADAFCO), it is my pleasure to present to you SADAFCO's Annual Report for the twelve months ending 31st March 2021. This document includes the Financial Year-End Results, the Auditor's Report and a summary of the highlights of the year's performance and accomplishments.

We wrapped up the current financial year and welcome the next, the first signs of the world getting back to new normal are starting to appear. Regarding COVID-19, during this year we implemented numerous good practices in our manufacturing and sales facilities and combined workflows. All the good work and unquestioned dedication of our staff contributed during these tenacious times, and we were able to supply the much needed products to the wider public, doing our part to provide nutritious and healthy food propositions.

During 2020-21 your company made sales of SAR 2,105Mln resulting in Net profit of SAR 261Mln, which is SAR 4Mln (1.6%) lower than the prior year. This reflects earnings per share of SAR 8.14, versus SAR 8.32 last year. The result is lower than last year due to reduction in price per litre as VAT increased from 5% to 15%. This resulted in partial absorption of this tax by SADAFCO considering the competition in the industry.

The share buy-back program has now been active for more 2 years and is currently valid till 18 Nov 2021. If BoD believes that the market price is less than its fair value and should an opportunity arise to optimally utilize more of its spare available cash in this manner, the company will seek to do so.

Following the announcement of our Q2 interim financial results, Board of Directors approved in January 2021, an increase in the interim dividend from SAR 2.5/share to SAR 3/share. The then situation of COVID-19, with all its ensuing economic hardship, was specifically considered in such decision making to alleviate the situation.

Capital work in the new Ice Cream Factory (next to the existing premises of Jeddah Milk Factory) continues with trial production run being planned in July 2021.

SADAFCO, being a responsible member of the community, has initiated an Environment Social Governance (ESG) program. We will develop specific chart of action and associated KPI's and measure our performance against these. We aspire to achieve meaningful results and improve the quality of life of all stakeholders through this process.

On behalf of SADAFCO's Board of Directors, I would like to express gratitude to the Custodian of the Two Holy Mosques, His Royal Highness the 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 and all SADAFCO employees for their combined and continued efforts to develop and grow the Company.

**Chairman Board of Directors**

# Message from the Chief Executive Officer

**Over fiscal year 2020/2021 SADAFCO delivered:**

**Turnover**
SAR **2.1** Bln

**Gross Profit**
SAR **694** Mln

**Net Profit**
SAR **261** Mln /
**12.4% of Sales**

**Increase in Dividend**
SAR **6.0/** Share
**up 20%**

Although we aim for more attractive profitable growth and result numbers, we have been very blessed to be able to continue our operations and even to step them up at crucial times under challenging conditions. This has partly to do with being well organized with committed people, able to adapt to extreme circumstances across our value chain while fulfilling their roles and responsibilities in a proven business model.

In parallel, during last year challenging times we did not stop construction works on our current two main Capex projects:

1. The Jeddah Factory upgrade, to enable efficient continuous longer term growth and support new concepts (cholesterol lowering, high calcium, soya to name a few and more to come) for our biggest category drinking milk, and;

2. SADAFCO's New Ice Cream Factory, after successful 12+ years of strong growth of our ice cream business during which we have achieved leading market position, the existing production platform is soon reaching its limits. During 2021, we will transition to a new factory, fit for servicing future profitable growth of both existing and new product offerings.

Both projects will see their completion during our next fiscal 2021/22. Together with the earlier investments in our logistical infrastructure (modern distribution centre in Riyadh, our state of the art Jeddah Central Warehouse and depot upgrades) combined with improved training and development of our people, SADAFCO can continue its path of profitable growth and new concept offerings in the years to come.

Additional efforts are made to further enhance our ESG awareness and which areas we would like to focus on, both internally and externally. This concerns a variety of elements, which we soon expect to start reporting on. Within that, we strive for better gender representation and diversity of skills and approaches across functions and levels, based on merit.

Our flagship brand "Saudia" continues to strengthen its market shares across categories and we feel this is being appreciated amongst its consumers. In the drinking milk category, we play a strong and growing number 2 role. The tomato paste category with Saudia's 50% market share is only strengthening. Having added the organic range gives people a choice to further improve their quality of nutrition and taste of their food. Complemented with Ice cream Saudia is standing on three strong platforms. Smaller categories are consistently being worked on and new offerings across categories being developed.

The market is undergoing changes. Not only because what we experience due to Covid and related effects. Also the economies, both global and regional are changing, and some are changing fast. Extra efforts on development are made by governments and introduction on cost of living drivers like the increased VAT amongst others are some of them. At SADAFCO, we try to manage these changes in such a way that we provide our fair share of support by means of absorbing part of the cost, by means of donations and keep developing our people and company to stay competitive and attractive to work for.

On behalf of my Management Team, I would like to thank the Board of Directors for their continuous support, our dedicated and hard working staff including our customers & suppliers and last and most importantly, our consumers whom we try to serve better every day.

**Waltherus "Wout" Matthijs**
Chief Executive Officer

# Executive Management

The SADAFCO Executive Management team is (clockwise from the left) Wout Matthijs (Chief Executive Officer), Devasheesh Singh (Director Commercial Operations), Brian Strong (Director Supply Chain), Shehzad Altaf (Chief Financial Officer), and Paul van Schaik (Director Organizational Development).

# Introduction

SADAFCO achieved net sales of SAR 2.105 billion in 2020-21, reflecting a year-on-year increase of 2%. It also improved its market shares in key product categories (Milk, Tomato Paste & Ice Cream), indicating strong consumer loyalty towards the Company brands. The Company's total asset base expanded to SAR 2.229 billion, registering growth of 3% over last year. The total shareholder equity of the Company stands at SAR 1.533 billion, an increase of 5% over previous year. As at 31st March 2021, SADAFCO's market capitalization was 5.3 billion vs. SAR 4.5 billion in 31st March 2020.

# Main Activities of the Company

SADAFCO is a leading, world-class, Saudi Arabia-based company whose activities include local production, importation, distribution and marketing of a wide range of food and beverage products. The portfolio includes dairy products, ice cream, tomato paste, snacks, drinks and other foodstuff items.

SADAFCO currently offers around 128 Stock Keeping Units (SKU) with its core products being marketed under its flagship Saudia brand. Other trademarks in the portfolio include Crispy, Baboo, Majestique, Sensations, More and UFO.

The Company operates three factories in Jeddah (two) and Dammam, and a plant in Poland. All these factories have highest safety and environment standards and are also Halal certified. It has an established sales and distribution network, with three Regional Distribution Centres (RDCs) in Riyadh, Jeddah and Dammam and 20 depots across Saudi Arabia, Bahrain, Kuwait, Jordan and Qatar. The Company operates a fleet of more than 900 trucks and vans for its primary and secondary distribution network.

SADAFCO's products are also sold to selected Middle Eastern and North African markets such as Libya, Yemen, Mauritania, Iraq, Djibouti, Somalia, Sudan, UAE and Palestine along with USA and Brunei through the Company's export function.

**3** Factories

**20** Depots

**3** Regional Distribution Centres (RDCs)

**900** Trucks

# History

The Saudia Dairy and Foodstuff Company (SADAFCO) story began on 21st April 1976 and commenced production of Saudia Milk. Subsequently the European partners sold their shares to Saudi and Kuwaiti shareholders and in 1990 the three dairy companies merged into one to officially form SADAFCO.

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

From producing long life milk initially, the Company has diversified its product portfolio offering various food and beverage items.

During this period, SADAFCO has maintained its position as a market leader in Long Life Milk, Tomato Paste and Ice Cream categories in Saudi Arabia.

# Products at a glance

## Milk

SADAFCO's Plain milk product category comprises of items like whole milk, low-fat milk, skimmed milk, gold milk, junior milk, flavored, functional Milk, and instant milk powder. SADAFCO commenced operations with the production of UHT (Ultra High Temperature pasteurized) Milk in 1977. These products are marketed under the flagship "SAUDIA" brand.

**61.9%**
Market share*

## Tomato

Tomato Products include Tomato Paste and Tomato Ketchup. SADAFCO was the first company in Saudi Arabia to launch tomato paste in Tetra Pak in 1989. These products are marketed under the "SAUDIA" brand.

**49.6%**
Market share*

## Ice cream

Ice cream product line was launched in 1979. Over the years, SADAFCO has launched variety of new products to establish itself and increase sales in this segment. Ice creams are available in tubs, cones, push-ups, sandwich, cups, bars and sticks. These products are marketed under 'SAUDIA' and 'BABOO' brands.

**26.5%**
Market share*

As per Nielsen, market share on MAT basis as of Mar-21.

# Cheese


SADAFCO launched cheese product line in 1991. It's range of products include Feta cheese, Feta Tubs and Triangles. The company is a leading domestic producer of bulk feta cheese sub-segment. These products are marketed under the "SAUDIA" brand.


# Snacks


SADAFCO entered the snacks market in 1995, by acquiring Sara Snacks factory. The Snacks range consist of two well known formats: Crispy Rings and Letters, each of these are offered in individual and family size.


# Others


SADAFCO also offers range of other products including butter, french fries, still & flavored water, EVAP, cream etc. Most of these products are sold under 'SAUDIA' brand. New products included in this category are expected to contribute to the growth of the company with the company having plans to widen its product portfolio through constant product innovation.

# Supply Chain


**The Company's three factories produce the following products::**

- Jeddah Factory produces Plain and Flavored Milk, Laban with Fruit, Soy drink, Evaporated Milk, Date Milk and Thick Cream.
- Jeddah Ice Cream Factory produces a variety of different Ice Cream lines, cone waffle & sandwich biscuit.
- Dammam Factory produces Tomato Paste, Feta Cheese, Crispy Snacks and Flavored Water.

This year SADAFCO's manufacturing base has seen investment principally focused on increasing capabilities in all factories to meet the ever-changing consumer needs. The continued focus on automation and operation systems have again generated significant efficiency gains in Manufacturing and further down the Supply Chain.

Jeddah Milk Factory has undergone some extensive changes in several areas of the plant. The previous mixing plant area drain, and floor system are upgraded to prepare the filling machines expansion plan. High speed 125ml line was installed and commissioned in May 2020 which increased capacity by 60% to 24,000 pieces per hour. Additional 200 ml line installation is completed, which increased capacity by 18.6%. Robot palletizing area preparation was started which will increase automation level and decrease demand on labor. Jeddah Milk factory also maintained co-production for FrieslandCampina brand.

In the Dammam Factory, the focus has been to increase opportunities in the newer product ranges. Addition of 70 grams organic tomato paste SKU and increased SKU portfolio in snacks would add to future growth opportunities.

A new Ice Cream facility is being developed and the focus for the year was on quickly completing the same and shifting the Ice Cream production to this new facility. New factory is planned to be operational by year end with the first line relocation starting from July 2021. The focus in the new layout has been to increase the efficiency by adding a new extrusion line and setting the potential for future expansion in product volume.

The new Frozen Jeddah Central Warehouse (FJCW) with a capacity of 6,000 pallets is expected to be operational by end of April-21. It is used as an accommodation for our stock building for Frozen Products before the peak season. This will free up frozen storage spare in the depots and external rented warehouses along with adopting a pull approach rather than push. With this new facility, we will have greater flexibility and increased capacity & faster product handling therefore driving down logistics cost.

During the pandemic, all factories responded swiftly to a substantial increase in demand while protecting employees and site operation activities to counter the COVID-19 epidemic. SADAFCO continued production with high-level focus and cooperation across all divisions. proving its manufacturing agility for now and in future. All the laborers were relocated in secure accommodations where they were protected during the high peak of the pandemic. The casual laborers are still permanently living in company accommodations where they are kept in better living conditions under supervision of the company.

All four SADAFCO factories and our sales depot in Riyadh, are certified with ISO22000:2018 (for Food Safety), ISO14001:2015 (for Environment) and ISO 45000:2018 (for Occupational Health & Safety). All four factories (including JCW) are also formally Halal certified, Dammam site is certified as Organic tomato paste producer which opens up some exciting additional export opportunities for SADAFCO.

The Procurement department continues to globally source the highest quality ingredients at competitive prices and maintain strong supplier partnerships to secure top-class ingredients in each category. Despite the struggle in the global supply chain during COVID-19, they managed to secure the required


materials to guarantee smooth manufacturing and cope with the unexpected market demand.

A great breakthrough toward automation and integration in the planning department to go live on the Distribution Resource Planning (DRP) System which will allow more time for validation and better fact-based decision making. It will also allow us to move forward on implementing other modules in Planning Department in coming fiscal year 21/22. These Modules will enable us to gather and adjust all the relevant data on one platform, facilitating the planning at different levels (Factories, central distribution point and Depots) with independent stock policies and parameterization.

Another important achievement was to decrease our inventory of Packaging materials by around 43% in the past 9 months by adopting a stricter strategy in Supply Planning as well as moving more and more items to "Just-in-time" concept, which works beneficially for both SADAFCO and Suppliers, leading to efficient production and avoid double handling throughout the supply chain.

# Commercial


The year has been different from almost every angle. After strong total FMCG market growth (both in terms of value and volume) in first quarter of 2020, the overall market dipped significantly, with low single digit growth, that too with volume declines offset in part by increased value due to VAT increase in August 2020. Within FMCG, Grocery grew fastest in Q3 2020 at 9.9% with Dairy coming in at +7% growth. The Out of Home business got affected by restaurant and other food establishments having restricted business operations for most of the year. Consumer behavior adapted to the new normal of restricted mobility and caution against the pandemic. A notable consumer trend that has been observed is that in the 2nd half of calendar year 2020, shopping frequency and total FMCG spends have declined sharply vs pre pandemic periods while the spend per trip has increased sharply, reflecting the current consumer sentiment. FMCG spending growth has halved from Q3 to Q4 of 2020, with similar trends observed across almost all FMCG segments, including food and dairy.

At a total Milk Category level, the market is moving more towards Long Life milk vs Fresh Milk, with Long Life milk contributing to more than 50% share since July 2019. SADAFCO's Plain Milk Value shares are flat at 32.4% (MAT March). The market has also seen significant discounting on UHT since September 2020 as manufacturers look for growth and consumers hunt for better deals in the current environment. Post VAT increase, SAR/L on UHT milk has decreased from SAR 5.1 to SAR 4.9, while Fresh milk has maintained the post VAT increase pricing of SAR 4.7 in the market.

**Long Life Milk represents >50% share of market**

**Market Share of Ice Cream and Tomato Paste has remained stable**

(Source: Nielsen). We continue to do meaningful ROI positive activities such as 1) increased exposure in Modern Trade visibility and Flyer activity, 2) engage our consumer base via Social and traditional media, 3) expansion and improvement of our service to Traditional channels and 4) an increased focus on ecommerce.

During the year, SADAFCO has launched Organic Tomato Paste in convenient single use packs, Low Sodium Water, Crispy snacks at a new size and relaunched Date Milk and Fruit Laban in our familiar 200ml pack.

Our Tomato Paste, which is part of our culinary consumer needs portfolio, was supported through advertising campaigns supported by value building in-store promotions, visibility, and engaging POSM. We also stepped up consumer engagement with relevant content on social media during the period, with encouraging results.

Mobility restrictions, especially on children, severely impacted the snacks category, with the category declining significantly. Despite this challenge, Crispy maintained its market share. Recently, a more consumer desired box pack with a larger size was launched as we prepare for a return to normalcy in the market.



SADAFCO continues to invest in the Ice Cream segment with wider availability resulting in an increase in Numeric Distribution. Consumer engagement has been led by robust loyalty creating promotional activities. Overall market share stood at 26.5% at MAT March level with strong growth on Sticks, Sandwich and Bars. During the year, we launched Baboo Tornadoo 3 flavor stick with encouraging results in the market.

SADAFCO Sales and Distribution Team continues to focus on ensuring the right level of Distribution and availability for our brands across all our Trade Channels. We have not only rapidly expanded our Frozen Distribution this year, but also strengthened and expanded our operations in the Ambient segment. We continue to use technology to optimize routes and to ensure that our Mobile Sales Force automation continues to enhance discipline and predictable coverage of all stores with the right level of replenishment.

We continue to improve our visibility and shopper communication in stores across all our locations.

# Organizational Development


**SADAFCO strives to be a gender balanced workforce**

## Introduction

Like most companies across the world, SADAFCO was significantly impacted by the COVID-19 outbreak. Our response was comprehensive and proved how flexible, decisive and adaptable SADAFCO is as an organization. A wide range of new health, safety & environment (HSE) measures were put in place, including a revised hygiene protocol, the measuring of body temperatures, housing of manufacturing staff at factories and a 'Work From Home' policy for office staff.

## Challenges Faced

An important step in ensuring all our products remained safe for customers was the implementation of new HSE measures to reinforce those already in place. We were among the first organizations to start measuring employees' body temperatures as they entered or left our facilities. Meetings with visitors were conducted virtually. Educating our employees on taking precautionary steps and following strict government health regulations became the norm. SADAFCO started to proactively manage the pandemic by forming 'Crisis teams' at Management level to ensure company-wide engagement with the new measures. Daily and weekly alignment meetings were organized to ensure necessary steps were undertaken to maintain a 'business as usual' approach. Additional steps like regular COVID-19 tests (as part of the strict protocols) for employees who showed symptoms, contact tracing, providing mobility letters (to enable our sales staff and drivers to continue work), organizing accommodation with WiFi and catered food (to ensure a comfortable though controlled environment), letting our staff stay within

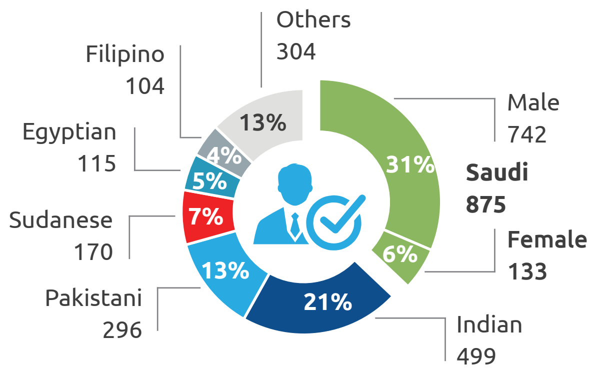
the factory premises and strict monitoring of infected employees during the quarantine period are among the important actions we took.

Despite our intensive efforts, 427 employees tested positive for COVID-19 out of the 1,757 employees tested during the past year. The in-house medical team, led by our dedicated company doctor, in collaboration with the Employee Services team ensured that all the affected employees return to work healthy after undergoing mandatory quarantine and tests. Unfortunately, we lost two employees to COVID-19 as they had developed complications due to existing medical conditions. All locations had to undergo mandatory cleaning procedures along with distribution of facemasks, gloves and sanitizers. Virtual meetings were imposed for all to avoid any possible contact with anyone outside the organization. With the vaccine process started in each of our locations, we are monitoring the vaccination status of all our employees. As of 31st Mar 2021, more than 500 of our employees have taken the first or both doses of the COVID-19 vaccine.

## Highlights

### Hiring:

Despite the challenges we faced during the last financial year, SADAFCO ended the year with a headcount (including casuals) of 2,937 (KSA: 2,766, Kuwait: 53, Bahrain: 71, Jordan: 45, Qatar: 2). We hired 392 new employees during the year compared to 423 the previous year. Our staff is diverse and includes people from 46 different countries. We continue to encourage hiring of women in the workforce and the female headcount grew from 110 to 135 at the end of the financial year with 74% employed at our manufacturing sites and the remainder in our offices.





## Learning & Development:

Our training & development department plays a vital role in supporting SADAFCO's mission and executing our overall strategy. We encourage employees to take responsibility for their own development by providing all required support in upgrading their skills using their IDPs (Individual Development Plans), thereby promoting a culture of learning within our organization. To ensure training could continue to be delivered, most of the planned programs migrated online successfully. 597 employees underwent various training programs (compared to 637 in the previous financial year), out of which 74% did their training sessions online. The crisis provided an opportunity to initiate the e-learning program, which will remain in place. We have signed up with an e-learning platform, thereby enabling our staff to continuously develop themselves. We also initiated succession planning discussions across functions as part of the overall Talent agenda. Several measures were implemented during the year to identify talented Saudi Nationals, who were moved into new roles that would enable their development and growth. In the past, such roles would have been filled externally.

**597**
**Employees underwent various training programs**

## Rewards:

In support of the Nationalization program, SADAFCO upgraded the salary of 73 Nationals to the new minimum salary level. The performance bonus and annual salary review for the year was executed for all eligible employees.

**The performance bonus and annual salary review were timely executed**

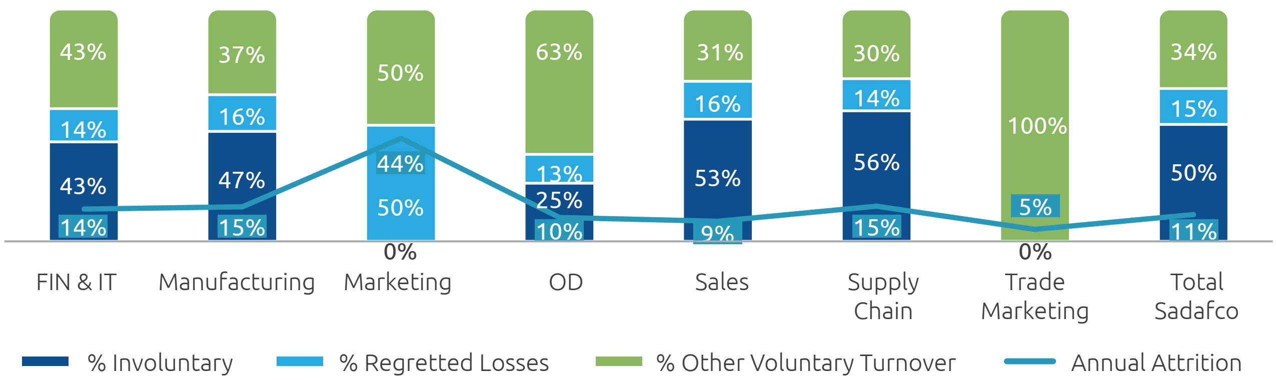
## Employee Health & Wellbeing:

In collaboration with our partner hospitals and medical health insurance partner, SADAFCO organized quarterly 'Health Zones' across various locations to monitor employees' health metrics (e.g. blood pressure, blood sugar and weight) as a proactive step so that employees take all the right steps in maintaining their health at an optimum level. Regular health webinars by expert doctors (Dr. Hanaa Tashkandi, Consultant in General and Laparoscopic Surgery, Dr. Soliman Fakeeh Hospital on 'Breast Cancer awareness'; Dr. Nezar Bahabri, Director of Internal Medicine


## Attrition:

Overall, 284 employees left during 2020-21 compared to 367 in the previous financial year. Annual attrition for the financial year 2020-21 totaled 11.41% (compared to 15.2% in 2019-20), which is below the average FMCG industry average attrition rate of 14.78% (source: Korn Ferry - Hay). To some extent, the pandemic may have helped SADAFCO in reducing the number of exits. In KSA, out of the 267 employees who left, 57% (152) were Saudi Nationals. Despite the challenges we faced and with our focused Nationalization efforts, SADAFCO continues to remain in solid green as determined by Nitaqat. The average age of employees in the company is 38 years.

**20-21 SADAFCO Employee Attrition (April - Mar)**




at Dr. Soliman Fakeeh Hospital on 'COVID-19 awareness'; Ms. Safa Murad, Psychologist on the topic 'My Life, Motherhood and Work' for female employees) were organized by the SADAFCO medical team, where employees could gain greater insights into important health topics. SADAFCO continued to offer employees 50% discounted fitness club memberships as a way to support their health and wellbeing.

All the above subjects will continue to be the focus of our undivided attention in the coming year.

# Environmental, Social and Governance (ESG)

## Sustainability at SADAFCO

At SADAFCO, purpose and profit go in tandem to drive long term growth and value creation for its stakeholders. Our vision to be the brand of choice is underpinned by the company's veritable commitment towards its consumers, people, the environment, and communities.

We have aligned our sustainability agenda with Saudi Arabia's Vision 2030 to support a thriving economy through the creation of a vibrant society in which all citizens can fulfil their dreams, hopes and ambitions. We are investing in the education, engagement, and training of local talent with a particular emphasis on developing technical skills and capabilities.

VISION رؤيـــــة
2030
المملكة العربية السعودية
KINGDOM OF SAUDI ARABIA

SADAFCO has always been committed to environmental and social responsibility. In its continuous endeavour to better align with the global sustainability imperatives, the management has embarked on developing its sustainability strategy based on stakeholder mapping and materiality assessment of various Environment, Social and Governance (ESG) parameters. The objective of the exercise will be to integrate sustainability into business strategy, identify strategic initiatives and devise an action plan to achieve its sustainability goals. As we progress on this journey, we shall continue to report on the most critical sustainability priorities for the company and its stakeholders.

The company continues to make significant strides towards achieving its sustainability priorities. Some of the key initiatives and activities undertaken during last year are presented in this section.

## Consumer Health and Safety

SADAFCO believes that product quality and safety is of utmost importance. Keeping this in mind, SADAFCO has secured ISO 22000:2005 certification for Food Safety Management System for all its factories and is committed to ensuring compliance with all applicable regulations on this front. Furthermore, all factories as well as the Riyadh Regional Distribution Centre (RRDC) have ISO14001:2015 Environmental Management System, and ISO45001:2018 Occupational Health and Safety certifications.

We are cognizant of the evolving Health & Nutrition needs of consumers in the backdrop of associated lifestyle changes. The company has a focus on launching new products that offer healthier and nutritious options to all age segments. Furthermore, feedback received from consumers are analysed and used in development of new products as well as making enhancements and improvements in the existing portfolio of products.

SADAFCO has a robust system for tracking and resolving consumer feedback and complaints captured through various direct and indirect channels of communication including 24/7 helpline, social media, etc. To adhere to our commitment on consumer delight, we have set an internal target to keep consumer complaints below 0.6 per 10 million packs and this target is monitored monthly.

## Energy and Fuel Efficiency

SADAFCO is cognizant of the challenges posed to businesses and society because of climate change. We are doing our part in addressing this challenge. We have implemented initiatives to improve energy and fuel efficiency at our factories and in our fleets.

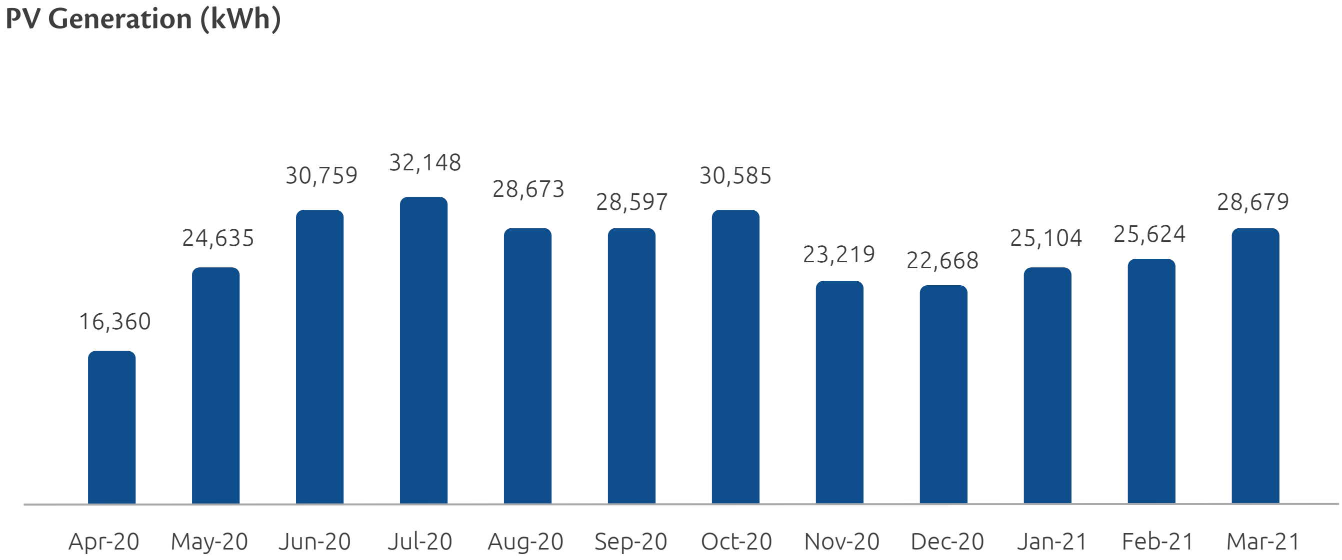
We have put in place an energy management and monitoring system to track our energy consumption online. In financial year 2019-20, we reduced average energy costs per MT by 10.2% at our Jeddah Factory and by 16.4% at our Dammam Factory.

## Embracing Renewable Energy

Efficient use of energy and shift towards renewable energy sources is essential for combating climate change. SADAFCO has installed a photovoltaic (PV) - Diesel Hybrid System at Riyadh Distribution Centre (RDC) and is in the process of installing a rooftop solar project at Jeddah Central Warehouse (JCW).

The PV - diesel hybrid system at RDC can deliver up to 40% of the facility's daytime energy requirements. It consists of ~2,088 solar panels covering a surface area of about 1,600m2. The installation utilises Fuel Saver Technology that reduces diesel consumption through advanced control algorithms between the solar energy output and the diesel generators. The installed solar panels have helped us in saving SAR 95,116 during financial year 2020-21.

**The monthly PV generation from solar panels at SADAFCO is depicted below:**




The new rooftop solar project planned at Jeddah Central Warehouse (JCW) has a total power of 1,453 KWp and annual energy generation potential of 2,438 MWh.

Furthermore, SADAFCO is planning to power its entire fleet of Electric Forklifts using solar panels to reduce the amount of power needed from the national grid. On an average, up to 18 solar panels, each with a capacity of 450Wp will be required to power a forklift for one day. The project is in the planning stage, and the company intends to implement it by 2022.

## Harnessing Technology to Reduce Emissions

SADAFCO understands that technology and data analytics can be leveraged to improve efficiencies and reduce emissions. To this end, we have implemented various strategic initiatives as summarized below:

**Smart Electronic Fuelling System (EFS):** A smart electronic fuelling system has been implemented at SADAFCO which has made the fuelling process cashless and hassle free. The system offers live online monitoring and control, and automated fuelling ensures maximum accuracy in the fuelling process. This project has reduced primary fleet fuel cost per KM (CPK) by 21.8% from financial year 2017-18 resulting in total savings of around SAR 1.3 million over the three-year period. Similarly, for the secondary fleet this initiative was implemented in financial year 2019-20 and reduced CPK for secondary fleet by 19.6% resulting in total savings of around SAR 1.1 million over the two-year period.

**Route Optimization:** To increase the efficiency of our last mile logistics to stores, we have started using cutting edge map technology and optimizing algorithms to determine sales routes. This initiative is expected to deliver better vehicle utilization by up to 10% and reduced fuel and operational costs by 10%. The first phase of optimization has been successfully rolled out across KSA in March 2021. Phase II is planned for Q1 2021-22.

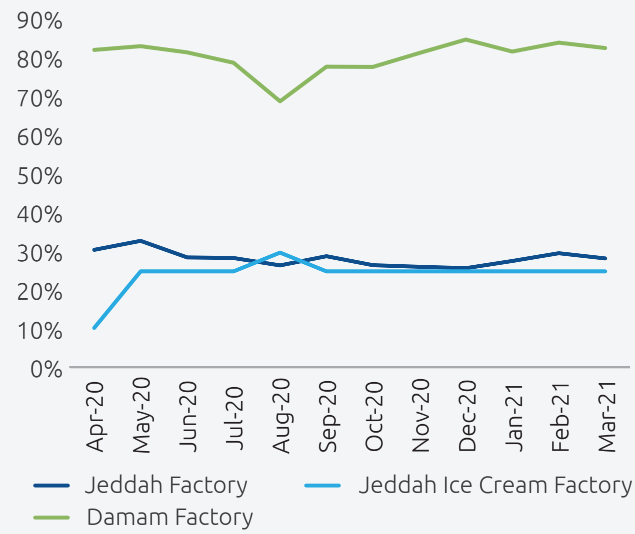
## Waste Management

Waste diverted to landfill or disposed by incineration not only leads to inefficient use of natural resources but also poses health hazards for society. SADAFCO's philosophy on waste management is centred around waste minimization at source, waste reuse and recycling where possible, and responsible disposal of waste that cannot be reused or recycled. The waste management practices apply to all categories of wastes such as food, hazardous and non-hazardous waste.

Through partnership with Tetra-pak, SADAFCO has successfully reviewed and improved the recycling mechanisms of packaging material. As a result of the initiative, SADAFCO has recorded a 20% reduction in operational wastage over a two-year period.

The monthly recycle rates of SADAFCO's factories for the financial year 2020/21 are depicted below:

**Recycle Rates**




**Below is a snapshot of quantities of various items which have been recycled/reused in the financial year 2020-21**

Empty Bags Sold
**433.2 MT**

Cartons Sold
**450.4 MT**

AMF/Plastic Drums Recycled
**505.0 MT**

Oil Drums Recycled
**193.5 MT**

Empty Tomato Paste Drums Recycled
**991.5 MT**

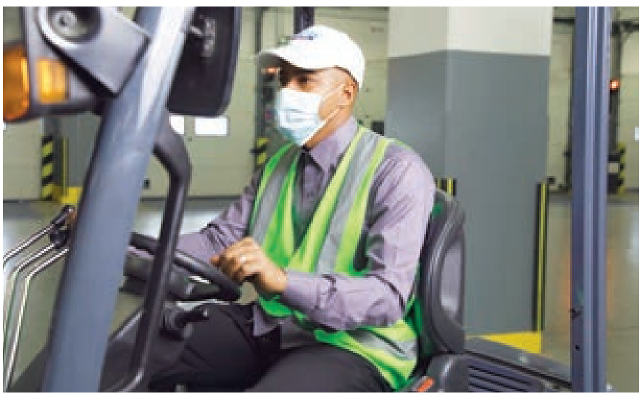
Other Plastic Materials Recycled
**11.4 MT**

## Employee Health & Happiness

SADAFCO subscribes to the core values of passion, courage to innovate, embrace change, and quality of execution. The management ensures that the employees are motivated, happy, valued and treated fairly.

Employee training & development and employee health & safety are key management imperatives for SADAFCO while employee engagement helps us ensure an inclusive and happy workforce.

The company's manufacturing sites are subjected to regular hazard identification and monitoring. Several risk mitigation controls are in place to ensure highest standards of occupational health & safety for our employees.



## Water Management

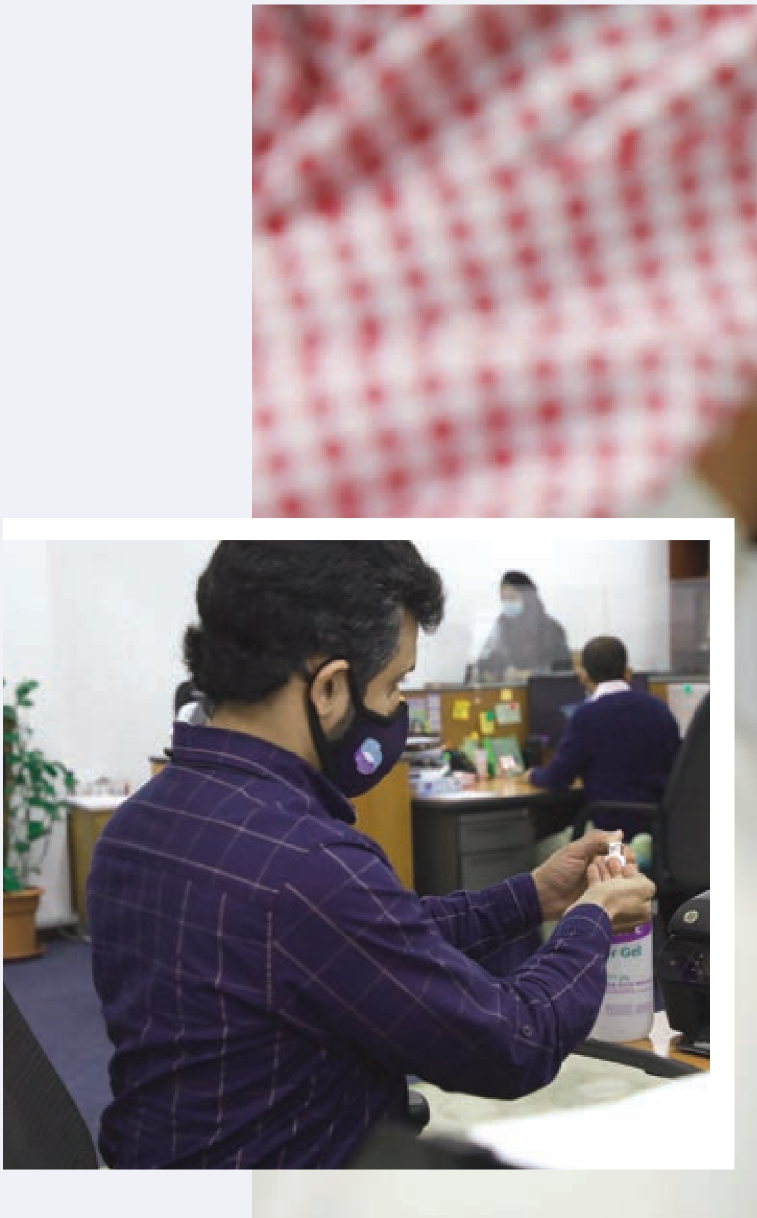
Access to fresh water is not only essential to human life but is also a human right. SADAFCO endeavours to responsibly utilize this scarce resource.

Initiatives undertaken to reduce wastage of water and improve efficiencies in water consumption have resulted in water consumption per MT of production reducing by 2.1% at our Jeddah Factory and 3.1% at our Dammam Factory during financial year 2020-21. Furthermore, SADAFCO's facilities, which joined the Green Box Community in January 2018, have successfully saved 58,826 litres of water to date.

## Employee Engagement and Wellbeing During COVID-19

COVID-19 created several challenges for employees due to persistent countrywide lockdowns and sudden disruption in workflow. This was in addition to the massive health hazard created due to the pandemic. Some of the initiatives taken at SADAFCO to promote hygiene and employee wellbeing are mentioned below:

- COVID-19 and hygiene posters were installed throughout the organisation as an informative measure to curb spread of infection
- Self-serve buffet style eating at canteens was switched to "Lunch Pack" to minimize contact
- Intensive sterilization and disinfection activities were carried out at all the facilities
- Remote work survey was conducted to understand employee perspective on the benefits and challenges of working at home.
- Employees were encouraged to stay fit and manage stress while being at home through the medium of company newsletter "Pulse"
- SADAFCO successfully concluded its first Psychological Awareness Webinar, "Psychological Support to face the 2nd Wave of COVID-19".
- Digital employee engagement activities such as "share your workspace" was undertaken to normalise the disruption caused by sudden work from home requirements



## Diversity & Inclusion

SADAFCO believes that respecting and including every individual, regardless of age, gender, ethnicity, or nationality is important to effectively engage the workforce and foster an environment where everyone can reach their full potential. The company employs people from 46 different countries including Saudi Arabia, India, Pakistan, Sudan, Egypt, Philippines. Moreover, during the year the female headcount at SADAFCO grew from 110 to 135 which is a testament to the company's diverse workforce.

The company strives to improve the gender balance throughout the organisation and has taken several steps over the last few years to employ more women in the factories and in other departments of the organisation.

For women outside the company, SADAFCO gives opportunities to local businesses run by women. On the Women's Day, the company celebrated the day by providing food stations for its employees which were run by women.

During the month of March, in celebration of Women's & Mother's days, SADAFCO organised a month-long event where series of initiatives were carried out to encourage and empower women in SADAFCO's workforce. This included interviews with female employees, providing special coupons for them to enjoy various services at major shops and salons throughout the year, and raising awareness for both genders through a well-planned webinar, "My life, motherhood, and work".


## Community Impact

CSR activities can have significant economic, social, cultural, and/or environmental impacts on local communities and SADAFCO prides itself in being a responsible company serving the society at large. Some of the CSR activities undertaken during the year are highlighted below:

### COVID-19 Related Contributions

- KSA: SAR 5 million in cash, SAR 5 million worth of products (at sales value)
- Jordan: SAR 500,000 worth of products (at sales value)
- Bahrain: SAR 500,000 in cash, SAR 500,000 worth of products (at sales value)
- Kuwait: SAR 1 million worth of products (at sales value)

### Sponsoring & Participation in Events

- Silver sponsor at the national junior show jumping competition aimed at supporting healthy lifestyles and sports activities
- Participated in the virtual Tamkeen career fair organized by the Ministry of Human Resources and Social Development

### Contribution in Cash and Products

- Saudi Special Forces for Roads' Security at checkpoints
- Day care and nursery in Jeddah to help teach young minds about recycling
- Products to recycling initiatives to provide recycling awareness by Naqaa Community
- Quran schools, schools catering to special needs and old age homes
- Elderly Care Center

### Promoting Health and Wellbeing

- In collaboration with Modon, SADAFCO constructed and provided free parking area to serve patients of Heraa Public hospital
- Provided health awareness lectures with pioneering doctors to cover significant topics such as Breast Cancer, COVID-19, as well as psychology Doctors to discuss how to face the stress from COVID-19 Pandemic and finding the balance between work, motherhood, and fatherhood
- Supported Ministry of Health vaccination programs

### Educational & Vocational Programs

- Technical vocational training program together with HIWPT for the 5th year
- Providing job opportunities to orphans to contribute towards achieving society's objective of building capabilities of orphans and including them in society

### Community Volunteering

- Distribution of the contributed products for the health fund was based on an execution plan to arrange a volunteering initiative for SADAFCO's frontline employees in the fight against the pandemic and support communities, and individuals affected by the crisis


## Corporate Governance

SADAFCO has put in place processes and controls to balance the relationship between various stakeholders. SADAFCO always aims to increase transparency & accountability, manage risks, disclose conflicts of interest, implement effective controls to ensure compliance and create value for all stakeholders. Corporate Governance related aspects including details on board of directors, board committees, internal controls, compliance are covered under different sections of the annual report.

The company strives to maintain the highest standards of ethics & integrity across the organization. SADAFCO has implemented effective controls to uphold business ethics and integrity including policies and initiatives to prevent bribery & corruption, whistle-blower protection, and prevention of anti-competitive selling practices. SADAFCO's corporate governance code detailing the above aspects is available on the company's website.

# Governance

Main activities for the Company and its Subsidiaries ............ 34
Main Activities of Subsidiary Companies.................................. 36
Key Performance Indicators....................................................... 40
Name of Board of Directors, Committees members & Executive Management.......................................................... 48
Board Committees ......................................................................... 55
Details of Compensation and Remuneration .......................... 60
Major Shareholders Owning 5% or more and Changes during the Financial Year ......................................................... 62
Annual Internal Audit Results Review of the Effectiveness of the Internal Control Procedures.................. 62
Related Party Transactions ....................................................... 63
SADAFCO's Dividend Distribution Policy.................................. 64
Major Decision and Future Plans............................................... 65
Financial Instruments Risk Management Objective and Policies ......................................................................... 66
Penalties and Sanctions .......................................................... 68
Declarations .................................................................................. 69
Corporate Governance Compliance.......................................... 70

# Main Activities for the Company and its Subsidiaries


## Revenue Geographical Analysis for the Company and its Subsidiaries (SAR million)

| Financial Year | KSA | GCC | Middle East | Poland | Total Revenue |
|---|---|---|---|---|---|
| 2020-21 | 1,811 | 64 | 71 | 159 | **2,105** |
| 2019-20 | 1,752 | 58 | 48 | 198 | **2,056** |
| 2018-19 | 1,567 | 58 | 42 | 146 | **1,813** |

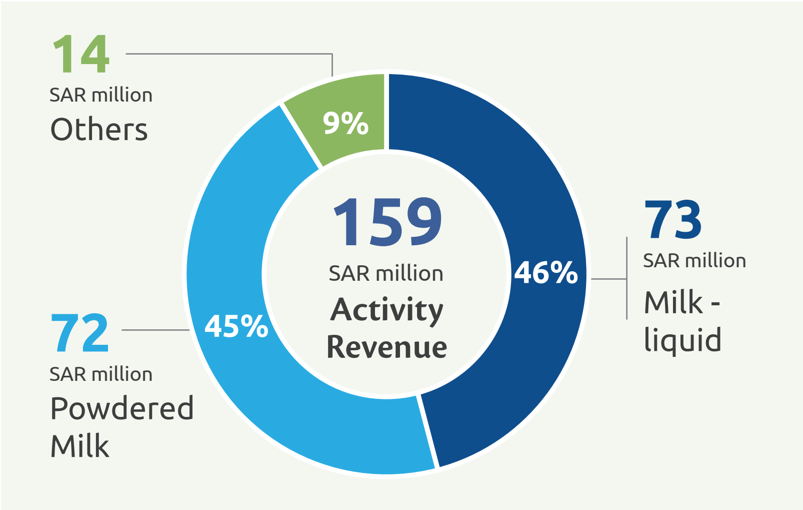

## Sales Contribution by Product Category

| Product | Contribution (%) 2020-21 | Contribution (%) 2019-20 | % Point Change |
|---|---|---|---|
| Milk | 64 | 65 | -1 |
| Tomato Paste | 10 | 9 | 1 |
| Ice Cream | 14 | 13 | 1 |
| Powdered Milk | 5 | 6 | -1 |
| Cheese | 2 | 2 | 0 |
| Others | 5 | 5 | 0 |
| **Total** | **100** | **100** | **0** |

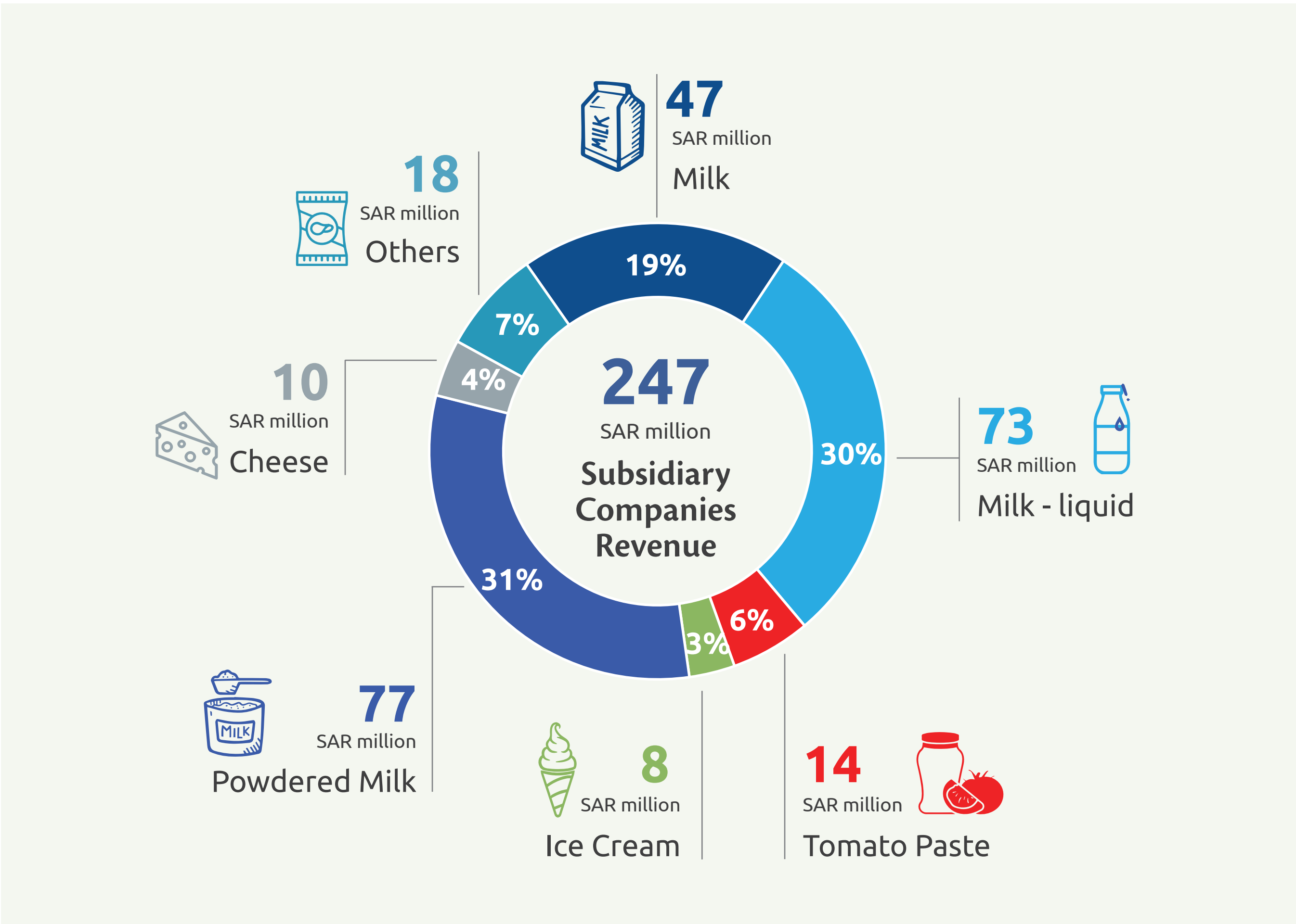
# Main Activities of Subsidiary Companies

The main activities of the SADAFCO subsidiary companies in Kuwait, Bahrain, Jordan and Qatar are selling and distributing SADAFCO products in these countries. The subsidiaries in Poland are manufacturing and distributing dairy products in Europe and MENA.

## SADAFCO Poland




## SADAFCO Subsidiary Companies Revenue (Including SADAFCO Poland)



## Revenue Geographical Analysis for Subsidiaries (SAR million)

| Financial Year | GCC | Middle East | Poland | Total Revenue |
|---|---|---|---|---|
| 2020-21 | 64 | 71 | 159 | **294** |
| 2019-20 | 58 | 48 | 198 | **304** |
| 2018-19 | 58 | 42 | 146 | **246** |

Includes export sales

## Sales for SADAFCO and Subsidiaries by Location

| Country | Sales 2020-21 (SAR million) | Percentage (%) | Sales 2019-20 (SAR million) | Percentage (%) |
|---|---|---|---|---|
| Saudi Arabia | 1,811 | 86 | 1,752 | 85 |
| Poland | 159 | 8 | 198 | 10 |
| Bahrain | 42 | 2 | 40 | 2 |
| Qatar | 0 | 0 | 0 | 0 |
| Kuwait | 21 | 1 | 18 | 1 |
| Jordan | 24 | 1 | 23 | 1 |
| Export | 48 | 2 | 25 | 1 |
| **Total** | **2,105** | **100** | **2,056** | **100** |

### SADAFCO's Subsidiaries names, main activities, headquarter locations and percentage ownership

SADAFCO owns shares in subsidiary companies to help achieve its targets and distribute its products as mentioned below:

| | Company | Main Activity | Country | Paid Up Capital | Number of Shares | Ownership (%) |
|---|---|---|---|---|---|---|
| 1 | SADAFCO Bahrain Company LLC | Import, Sale and Distribution of Dairy & Foodstuff. | Bahrain | BD 50,000 | 500 | 100% |
| 2 | SADAFCO Kuwait Foodstuff Co. W.L.L (*) | Import, Sale and Distribution of Dairy & Foodstuff. | Kuwait | KD 50,000 | 100 | 49% |
| 3 | SADAFCO Jordan Foodstuff Company LLC | Import, Sale and Distribution of Dairy & Foodstuff. | Jordan | JD 250,000 | 250,000 | 100% |
| 4 | SADAFCO Poland Sp. z o.o. ("SADAFCO Poland") | Own shares in companies and other activities | Poland | PLN 805,000 | 16,000 | 100% |
| | Mlekoma Sp. z.o.o. | Manufacturing of Dairy Products | Poland | PLN 8,728,000 | 17,456 | 76% |
| | Foodexo Sp. z.o.o. | Manufacturing of Dairy Products | Poland | PLN 1,000,000 | 2,000 | 76% |
| | Mlekoma Dairy Sp. z o.o | Wholesale of milk, dairy products | Poland | PLN 1,000,000 | 1,000 | 37% |
| 5 | SADAFCO Qatar W.L.L. | Import, Sale and Distribution of Dairy & Foodstuff. | Qatar | QR 1,500,000 | 1,500 | 75% |

* Remaining equity interest is beneficially held through parties nominated by the Company.

The Group's parent entity is Al Qurain Petrochemicals Industries Company ("QPIC"), which is an associate of Kuwait Projects Company Holding ("KIPCO"). QPIC holds shareholding equal to 40.11% of the share capital (2020: 40.11% of the share capital). Both, QPIC and KIPCO are listed on Kuwait Stock Exchange.

None of the above–mentioned Subsidiaries have any debt instruments issued.

## BAHRAIN

SADAFCO
Bahrain Company LLC

## KUWAIT

SADAFCO
Kuwait Fooddstuff Co. W.L.L

## JORDAN

SADAFCO
Jordan Foodstuff Company LLC

## QATAR

SADAFCO
Qatar W.L.L

## POLAND

- SADAFCO Poland sp. Z.o.o.
- Mlekoma Sp. z.o.o.
- Foodexo Sp. z.o.o.
- Mlekoma Dairy Sp. z o.o

# Key Performance Indicators

In a challenging year SADAFCO has been able to deliver a healthy net margin of 12.4% vs 12.9% for last year despite the challenging environment of COVID-19 and VAT increase. Net profit of SAR 261 Mln (vs SAR 265 Mln Last year) would have been higher by SAR 24 Mln (7.5%) without COVID-19 related costs and donations.

Value sales of milk were up +2% (albeit irrational discounting by competitors), ice cream + 10% and tomato paste +15%, which contributed to an overall increase of 5% for SADAFCO's branded business, delivered by growth across all channels.

Gross Margin remained steady at 33%, adverse effected by lower per kg realization and COVID-19 related costs of SAR 15 Mln and offset by better product mix.

Selling and distribution as % of sales stayed at 14.6% (SAR 301 Mln to SAR 307 Mln in absolute) even though delivering higher volume, driven by cost cutting and efficiency measures.

General and administration expenses increased as % of sales to 5.2% from 4.9% Last year (SAR 101 Mln to SAR 109 Mln in absolute) driven by SAR 8.7 Mln donation in cash and kind.

Impairment losses on financial assets (provision for trade receivables) is lower by SAR 12.1 Mln (SAR 2.1 Mln vs. SAR 14 Mln last year) due to more efficient collection and follow up.

**Overall increase of 5% for SADAFCO's branded business**

**Gross Margin remained steady at 33%**

**Net profit of SAR 261 Mln with healthy net margin of 12.4%**

Other operating income represents profit on sale of scrap. It is higher by 6.4 Mln (SAR 8.9 Mln vs SAR 2.5 Mln Last year).

Finance costs (SAR 7.7 Mln vs SAR 3.8 Mln Last year) driven by lease and put options on non-controlling interest liabilities.


# Income Statement (SAR million)

| | 2020-21 | 2019-20 |
|---|---|---|
| Net Sales | 2,105 | 2,056 |
| Cost of Sales | (1,411) | (1,367) |
| Gross Profit | 694 | 689 |
| Selling & Distribution Expenses | (307) | (301) |
| General & Administrative Expenses | (109) | (101) |
| Net Other Income/ (Expenses) | 8 | (11) |
| Net Financial Income | (2) | 8 |
| Zakat | (23) | (19) |
| Net Profit | 261 | 265 |

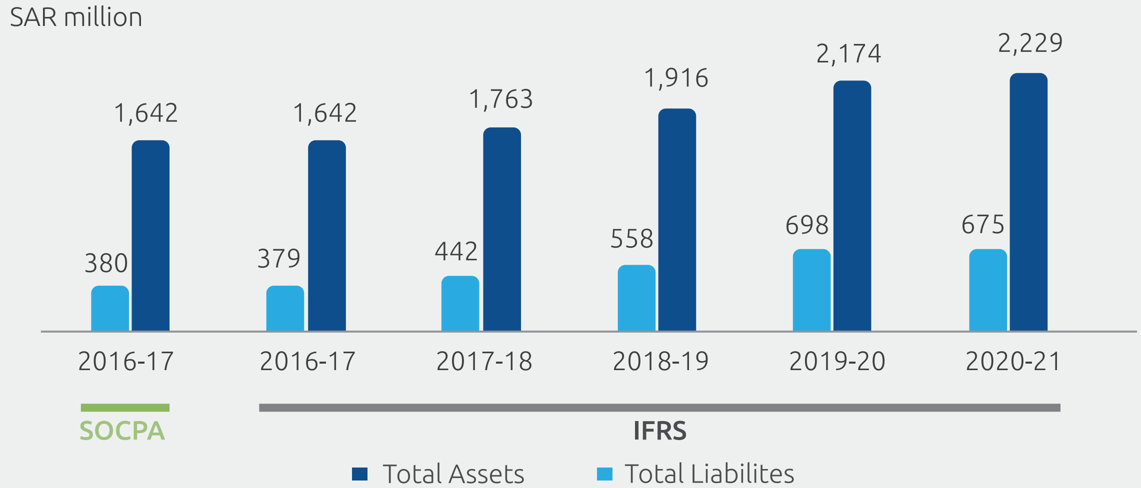

السعودية
saudia
حليب مبخر
Evaporated Milk
السعودية
saudia
حليب
مبخّر

## **Business Results Comparison** (SAR million)

| Details | 2020-21 | 2019-20 | 2018-19 | 2017-18 | 2016-17 | 2016-17 |
|---|---|---|---|---|---|---|
| Revenue | 2,105 | 2,056 | 1,813 | 1,693 | 1,787 | 1,858 |
| Cost of Revenue | -1,411 | -1,367 | -1,233 | -1,059 | -1,097 | -1,097 |
| Gross Profit | 694 | 689 | 580 | 634 | 690 | 761 |
| Net Profit | 261 | 265 | 216 | 260 | 304 | 302 |
| | IFRS | | | | | SOCPA |

## **Assets & Liabilities Comparison** (SAR million)

| Details | 2020-21 | 2019-20 | 2018-19 | 2017-18 | 2016-17 | 2016-17 |
|---|---|---|---|---|---|---|
| Current Assets | 1,278 | 1,273 | 1,095 | 1,100 | 1,044 | 1,044 |
| Non-current Assets | 951 | 901 | 821 | 663 | 597 | 598 |
| Total Assets | 2,229 | 2,174 | 1,916 | 1,763 | 1,642 | 1,642 |
| Current Liabilities | 474 | 498 | 420 | 329 | 271 | 269 |
| Non-current Liabilities | 201 | 200 | 138 | 113 | 108 | 111 |
| Total Liabilities | 675 | 698 | 558 | 442 | 379 | 380 |
| | IFRS | | | | | SOCPA |




معجون
طماطم
عضوي
السعودية
saudia
معجون
طماطم
عضوي

## Operational Results and Major Changes (SAR million)

| Details | 2020-21 | 2019-20 | Changes (+) or (-) | % of Changes | 2018-19 |
|---|---|---|---|---|---|
| Revenue | 2,105 | 2,056 | 49 | 2% | 1,813 |
| Cost of Revenue | -1,411 | -1,367 | -44 | 3% | -1,233 |
| Gross Profit | 694 | 689 | 5 | 1% | 580 |
| Other Operational Expenses | -409 | -413 | 4 | -1% | -358 |
| Operational Profit | 285 | 276 | 9 | 3% | 222 |
| | IFRS | | | | |

## Change in Total Shareholders' Equity (SAR million)

| | |
|---|---|
| 2020-21 | 1,555 |
| 2019-20 | 1,476 |
| 2018-19 | 1,358 |
| 2017-18 | 1,321 |
| 2016-17 | 1,263 |

## Statutory Payments for 2020-21 (SAR thousand)

| Description | Due | Paid | Balance |
|---|---|---|---|
| Saudi Customs | 18,318 | 18,318 | - |
| General Authority of Zakat and Income Tax (for Zakat, VAT, WHT & Excise Tax) | 185,784 | 185,784 | - |
| GOSI | 16,087 | 16,087 | - |
| Tadawul Contract | 635 | 635 | - |
| Government Fees & Visas | 12,064 | 12,064 | - |
| **Total** | **232,888** | **232,888** | **-** |

SADAFCO ice cream factory operated by Saudi females

# Names of Board of Directors, Committees Members and Executive Management - Current and Previous Positions, Qualifications and Experience

## Board of Directors

| | Name | Current Positions in SADAFACO & Other Company | Previous Positions in SADAFCO & Other Company | Qualifications | Experience |
|---|---|---|---|---|---|
| 1. | HH Sheikh Hamad Sabah Al-Ahmad | Chairman | Chairman | Diploma from Storm King School, USA | ▪ Chairman of SADAFCO – Saudi Arabia<br>▪ Chairman of KIPCO – Kuwait<br>▪ Chairman of Gulf Egypt Hotels & Tourism Company – Egypt |
| 2. | Mr Faisal Hamad Mubarak Al-Ayyar | Vice Chairman | Vice Chairman | Aviation, USA | ▪ Vice Chairman of KIPCO – Kuwait<br>▪ Vice Chairman of Gulf Insurance Company – Kuwait<br>▪ Vice Chairman of Kuwait Jordanian Bank – Jordan<br>▪ Vice Chairman of SADAFCO – Saudi Arabia<br>▪ Vice Chairman of United Gulf Bank – Bahrain |
| 3. | Mr Abdullah Yaqoob Bishara | Member | Member | International Law University, Oxford, UK | ▪ Board Member SADAFCO – Saudi Arabia<br>▪ Board Member of KIPCO – Kuwait |
| 4. | Mr Saeid Ahmed Saeid Basamh | Member | Board member in various companies | B.Sc Business Administration – Marketing & Logistics Ohio State University, USA | ▪ Board Member - International Medical Center<br>▪ Chairman - Al Khair Industries Co. for Inorganic Chemicals<br>▪ Board Member - Basamh Group of Companies<br>▪ Chairman - Hala Supply Chain Company<br>▪ Board Member - IDEA International Investment & Development<br>▪ Board Member - Future Resources Company<br>▪ Board Member Sorooh Al-Madinah for Real Estate Investments Co. |
| 5. | Mr Ahmed Mohamed Hamed Al-Marzouki | Member | Member | MBA - California State University - America | ▪ Sales & Marketing SADAFCO – Saudi Arabia<br>▪ Board Member SADAFCO – Saudi Arabia<br>▪ Executive Management in various companies<br>▪ Board Member of Buruj Co-Op Insurance Company |

| | Name | Current Positions in SADAFACO & Other Company | Previous Positions in SADAFCO & Other Company | Qualifications | Experience |
|---|---|---|---|---|---|
| 6. | Mr Suleiman Saud Jarallah Al-Jarallah | Member | Member | Military School - Saudi Arabia | ▪ Manager Al Jarallah for Gold and Jewellery – Saudi Arabia<br>▪ Board Member SADAFCO – Saudi Arabia<br>▪ Chairman Nomination and Remuneration Committee SADAFCO – Saudi Arabia |
| 7. | Mr Mussad Abdullah Abdul Aziz Al-Nassar | Member | Member | Bachelor of Public Administration - Al Bakrki University - USA | ▪ Board Member SADAFCO – Saudi Arabia<br>▪ Sales Administration SADAFCO<br>▪ Executive Manager SADAFCO<br>▪ Manager of SADAFCO Bahrain<br>▪ Manager of SADAFCO Qatar<br>▪ Vice Chairman of SADAFCO Jordan<br>▪ Board member SADAFCO Poland sp. Z.o.o. |

## Board of Directors Formation and Capacity

The Board of Directors is constituted of seven members elected for the term starting 1st April 2018 and ending 31st March 2021.

| Name | Capacity |
|---|---|
| HH Sheikh Hamad Sabah Al-Ahmad | Non-executive |
| Mr Faisal Hamad Mubarak Al-Ayyar | Non-executive |
| Mr Abdullah Yaqoob Bishara | Independent |
| Mr  Saeid Ahmed Saeid Basamh | Non-executive |
| Mr Ahmed Mohamed Hamed Al-Marzouki | Independent |
| Mr Suleiman Saud Jarallah Al-Jarallah | Independent |
| Mr Mussad Abdullah Abdul Aziz Al-Nassar | Executive |

## Audit Committee

| | Name | Current Position | Previous Position | Qualifications | Experiences |
|---|---|---|---|---|---|
| 1. | Mr Faisal Hamad Mubarak Al-Ayyar | Chairman | Chairman | Aviation, USA | ▪ Vice Chairman of KIPCO – Kuwait<br>▪ Vice Chairman of Gulf Insurance Company – Kuwait<br>▪ Vice Chairman of Kuwait Jordanian Bank – Jordan<br>▪ Vice Chairman of SADAFCO – Saudi Arabia<br>▪ Vice Chairman of United Gulf Bank – Bahrain |
| 2. | Mr Tariq Mohammad Abdulsalam | Member | Member | Bachelor of Commerce - Kuwait University | ▪ CEO of Investment Sector, KIPCO - Kuwait<br>▪ CEO United Real Estate Company – Kuwait<br>▪ Vice Chairman and Director of KIPCO Kuwait |
| 3. | Mr Ahmed Mohamed Hamed Al-Marzouki | Member | Member | MBA - California State University - USA | ▪ Sales & Marketing SADAFCO – Saudi Arabia<br>▪ Board Member SADAFCO – Saudi Arabia<br>▪ Executive Management in various companies<br>▪ Board Member Buruj Co-Op Insurance Company |

## Nomination & Remuneration Committee

| | Name | Current Position | Previous Position | Qualifications | Experiences |
|---|---|---|---|---|---|
| 1. | Mr Suleiman Saud Jarallah Al-Jarallah | Chairman | Chairman | Military School - Saudi Arabia | ▪ Manager Jarallah Jewellery – Saudi Arabia<br>▪ Board Member SADAFCO – Saudi Arabia<br>▪ Chairman Nomination and Remuneration Committee SADAFCO – Saudi Arabia |
| 2. | Mr Faisal Hamad Mubarak Al-Ayyar | Member | Member | Aviation, USA | ▪ Vice Chairman of KIPCO – Kuwait<br>▪ Vice Chairman of Gulf Insurance Company – Kuwait<br>▪ Vice Chairman of Kuwait Jordanian Bank – Jordan<br>▪ Vice Chairman of SADAFCO – Saudi Arabia<br>▪ Vice Chairman of United Gulf Bank – Bahrain |
| 3. | Mr Tariq Mohammad Abdulsalam | Member | Member | Bachelor of Commerce - Kuwait University | ▪ CEO of Investment Sector, KIPCO – Kuwait<br>▪ CEO United Real Estate Company – Kuwait<br>▪ Vice Chairman and Director of KIPCO Kuwait |

## Executive Management

**Mr Waltherus C.P. Matthijs**
Chief Executive Officer

Wout's professional experience spans over 35 years in the FMCG food and diverse industrial sectors across Europe, Central America, Africa and the Middle East. He joined SADAFCO as its Chief Executive Officer in January 2008 and devised & implemented a well-crafted strategy focused on rejuvenating the Company and accelerating its growth. Under his stewardship, SADAFCO has more than doubled its turnover and quadrupled its profits and market capitalization. Wout is an advisor to the Chairman and a member of Remuneration and Nomination Committee in Al Hassan Ghazi Ibrahim Shaker Co, a company listed on Tadawul.

Prior to joining SADAFCO, Wout had a decade long stint at Friesland Campina, an international leader in the FMCG food sector, where he headed the Exports division and thereafter its GCC operations. Prior to that he worked in leadership roles at diverse industrial firms such as Royal van Ommeren Ceteco (a multinational trading, distribution and industrial conglomerate), DEC Flexible Technologies (a producer of HVAC components) and SPMetalWavin (then a subsidiary of Shell producing industrial & household packaging materials).

Education: Wout has graduation degrees in Naval Architecture from the "H.T.S. Dordrecht" as well as in Business Administration from The Netherlands.

**Mr Shehzad Altaf**
Chief Financial Officer

Shehzad is responsible for SADAFCO's financial management, accounting and reporting practices. He has previously worked as Director Corporate Strategy & Business Development, and Director Marketing & Trade Marketing within the organization. Before joining SADAFCO, he spent 12 years with Royal Friesland Campina in Saudi Arabia and Ghana.

Education: Shehzad graduated in Electrical Engineering from Oklahoma University and completed his MBA from Lahore University of Management Sciences. He is also a Chartered Financial Analyst.

**Mr Paul van Schaik**
Director Organizational Development

Paul is responsible for projects enhancing the organizational development and performance across the Company. He joined SADAFCO in March 2011. His professional career spans over 35 years of which more than 15 years in the FMCG industry. Prior to joining SADAFCO, he worked internationally with Friesland Campina, Deloitte & Touche, Netherlands Foreign Investment Agency and KLM Royal Dutch Airlines.

Education: Paul has completed his Master's in Business Administration from University of Amsterdam.

**Mr Devasheesh Singh**
Director Commercial Operations

Devasheesh is responsible for the Sales, Marketing & Trade Marketing. He joined SADAFCO in 2019. Devasheesh has more than 19 years commercial experience with him from Procter & Gamble. In particular, he has gained experience in the execution of Sales, Trade Marketing, Route to Market and Organization Development in India, Malaysia, Switzerland and lastly in Kenya from where he also managed the business in Ethiopia, Uganda and Tanzania.

Education: Devasheesh graduated with a Degree in Commerce from St Xavier's College in Kolkata, India and completed his Master's degree in Management from the Indian Institute of Management (IIM) in Lucknow, India.

**Mr Brian Strong**
Director Supply Chain

Brian is responsible for the management, development and enhancement of the process of "Plan, Source, Make and Deliver" in an efficient and cost-effective way so that the supply meets the demands of the market; the right products and goods at the right time, in the right place at the right costs. Brian has recently rejoined the SADAFCO team in November 2020 and brings with him over 25 years of FMCG experience, of which 21 years has been in KSA.

Education: Bachelor's degree in Business Administration with majors in Marketing and Management from Northwood University in Michigan, USA

## The names of companies inside or outside the Kingdom of which the board member is a member in its current Board of Directors and former Boards of Directors or a Manager

| Name of BOD Member | Name of current companies of the BOD Member who is a member in their boards or its directors | Inside/ Outside KSA | Legal Entity (Listed/ Unlisted/ Limited) | Name of former Companies of the BOD Member who is a member in their boards or its directors | Inside/ Outside KSA | Legal Entity (Listed/ Unlisted/ Limited) |
|---|---|---|---|---|---|---|
| HH Sheikh Hamad Sabah Al-Ahmad | ▪ Saudia Dairy & Foodstuff Co. (SADAFCO)<br>▪ Kuwait Project Company (Holding)<br>▪ Gulf Egypt Hotels and Tourist Company | KSA<br>Kuwait<br>Egypt | Listed<br>Listed<br>Listed | ▪ Burgan Bank<br>▪ National Mobile Company<br>▪ United Real Estate Company<br>▪ United Gulf Bank | Kuwait<br>Kuwait<br>Kuwait<br>Bahrain | Listed<br>Listed<br>Listed<br>Unlisted |
| Mr Faisal Hamad Mubarak Al-Ayyar | ▪ Saudia Dairy & Foodstuff Co. (SADAFCO)<br>▪ Kuwait Project Company (Holding)<br>▪ United Gulf Holding Company<br>▪ United Gulf Bank<br>▪ Jordan Kuwait Bank<br>▪ Gulf Insurance Group<br>▪ Panther Media Group | KSA<br>Kuwait<br>Bahrain<br>Bahrain<br>Jordan<br>Kuwait<br>UAE | Listed<br>Listed<br>Listed<br>Unlisted<br>Listed<br>Listed<br>Limited | | | |
| Mr Abdullah Yaqoob Bishara | ▪ Saudia Dairy & Foodstuff Co. (SADAFCO)<br>▪ Kuwait Project Company (Holding)<br>▪ Consulting Office for Strategic Studies | KSA<br>Kuwait<br>Kuwait | Listed<br>Listed<br>Limited | ▪ United Real Estate Company<br>▪ North Africa Holding | Kuwait<br>Kuwait | Listed<br>Unlisted |
| Mr Saeid Ahmed Saeid Basamh | ▪ Saudia Dairy & Foodstuff Co. (SADAFCO)<br>▪ International Medical Center<br>▪ Al Khair Industries Co. for Inorganic Chemicals | KSA<br>KSA<br>KSA | Listed<br>Closed listed<br>Closed listed | ▪ Basamh Group of Companies<br>▪ Hala Supply Chain Company<br>▪ IDEA International Investment & Development<br>▪ Future Resources Company<br>▪ Sorooh Al-Madinah for Real Estate Investments Co. | KSA<br>KSA<br>KSA<br>KSA<br>KSA | Limited<br>Limited<br>Unlisted<br>Unlisted<br>Unlisted |
| Mr Ahmed Mohamed Hamed Al-Marzouki | ▪ Saudia Dairy & Foodstuff Co. (SADAFCO)<br>▪ Saudi Arabian Drug Store<br>▪ Buruj Cooperative Insurance Company | KSA<br>KSA<br>KSA | Listed<br>Limited<br>Limited | ▪ Swiss Premium Food<br>▪ Saudi New Zealand Milk Products Co.<br>▪ Multiple Investments for Medical Services | Egypt<br>KSA<br>KSA | Unlisted<br>Limited<br>Limited |
| Mr Suleiman Saud Jarallah Al-Jarallah | ▪ Saudia Dairy & Foodstuff Co. (SADAFCO)<br>▪ Al Jarallah for Gold & Jewellery | KSA<br>KSA | Listed<br>Est. | | | |
| Mr Mussad Abdullah Abdul Aziz Al-Nassar | ▪ Saudia Dairy & Foodstuff Co. (SADAFCO)<br>▪ SADAFCO Jordan<br>▪ SADAFCO Qatar<br>▪ SADAFCO Bahrain<br>▪ SADAFCO Poland sp. Z.o.o. | KSA<br>Jordan<br>Qatar<br>Bahrain<br>Poland | Listed<br>Limited<br>Limited<br>SPC<br>Limited | ▪ National Buildings Real Estate<br>▪ United Gulfers Transport<br>▪ National Sights Holding<br>▪ Swiss Premium Food<br>▪ Saudi New Zealand Milk Products Co. | KSA<br>KSA<br>KSA<br>Egypt<br>KSA | Unlisted<br>Unlisted<br>Unlisted<br>Unlisted<br>Limited |

## Number and date of Board of Directors Meetings during the financial year (01/04/2020 to 31/03/2021)

The board had fifteen meetings; 3 attended and passed 12 resolutions by circulation.

| Name | Attended (3) | | | Resolution by Circulation (12) | | | | | | | | | | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 04/01/2021 | 04/01/2021 | 04/01/2021 | 02/04/2020 | 23/04/2020 | 27/04/2020 | 03/05/2020 | 05/05/2020 | 12/05/2020 | 30/06/2020 | 26/07/2020 | 15/09/2020 | 19/10/2020 | 19/10/2020 | 20/01/2021 | 26/01/2020 | 15 |
| HH Sheikh Hamad Sa-bah Al-Ahmad | × | × | × | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 12 |
| Mr Faisal Hamad Mubarak Al-Ayyar | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 15 |
| Mr Abdullah Yaqoob Bishara | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 15 |
| Mr Saeid Ahmed Saeid Basamh | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 15 |
| Mr Ahmed Mohamed Hamed Al-Marzouki | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 15 |
| Mr Suleiman Saud Jarallah Al-Jarallah | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 15 |
| Mr Mussad Abdullah Abdul Aziz Al-Nassar | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 15 |

The last Extraordinary General Meeting (EGM) was held on 18 November 2020

## Share Ownership of Board of Directors, Spouses and Minor Children

| | Name | 1st April 2020 | 31st March 2021 | % Change (+/-) |
|---|---|---|---|---|
| 1. | HH Sheikh Hamad Sabah Al-Ahmad<br>Representing: United Industries Company | 1,000 | 1,000 | - |
| 2. | Mr Faisal Hamad Mubarak Al-Ayyar<br>Representing: United Gulf Bank | 1,000 | 1,000 | - |
| 3. | Mr Abdullah Yaqoob Bishara | 1,000 | 1,000 | - |
| 4. | Mr. Saeid Ahmed Saeid Basamh<br>Representing: Alsamh Trading Co. | 3,798,008 | 3,798,008 | - |
| 5. | Mr Ahmed Mohamed Hamed Al-Marzouki | 21,000 | 20,000 | -1000 |
| 6. | Mr Suleiman Saud Jarallah Al-Jarallah | 1,000 | 1,000 | - |
| 7. | Mr Mussad Abdullah Abdul Aziz Al-Nassar | 11,000 | 11,000 | - |

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

| | Name | 1st April 2020 | 31st March 2021 | % Change (+/-) |
|---|---|---|---|---|
| 1. | Mr Waltherus Matthijs | 3,500 | 3,500 | - |
| 2. | Mr Paul van Schaik | 0 | 0 | - |
| 3. | Mr Shehzad Altaf | 0 | 0 | - |
| 4. | Mr Brian Strong | 0 | 0 | - |
| 5. | Mr Devasheesh Singh | 0 | 0 | - |

The Board of Directors and Executive Management 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.

# Board Committees

## 1) The Audit Committee

**Competencies, powers and responsibilities of the Audit Committee**

The Audit Committee shall be competent in monitoring the Company's activities and ensuring the integrity and effectiveness of the reports, financial statements and internal control systems. The duties of the audit committee shall particularly include the following:

**A. Financial Reports:**

1) Analysing the Company's interim and annual financial statements before presenting them to the Board and providing its opinion and recommendations thereon to ensure their integrity, fairness and transparency;

2) Providing its technical opinion, at the request of the Board, regarding whether the Board's report and the Company's financial statements are fair, balanced, understandable, and contain information that allows shareholders and investors to assess the Company's financial position, performance, business model, and strategy;

3) Analysing any important or non-familiar issues contained in the financial reports;

4) Accurately investigating any issues raised by the Company's chief financial officer or any person assuming his/her duties or the Company's compliance officer or external auditor;

5) Examining the accounting estimates in respect of significant matters that are contained in the financial reports; and

6) Examining the accounting policies followed by the Company and providing its opinion and recommendations to the Board thereon.

7) The committee will review with Executive Management and External & Internal Auditors separately the following:

   - Any major difference between management and independent auditor or internal audit administration relating to preparation of financial statement
   - Any difficulties aroused during audit (including any restrictions) to the scope of work or reaching to the required information

8) The committee should discuss with the Auditor without attendance of the management, their opinion regarding the quality, relevance and acceptability to the Company's accounting principles and disclosure practices as followed currently by the Company when issuing the financial reports.

**B. Internal Audit:**

1) Examining and reviewing the Company's internal and financial control systems and risk management;

2) Analysing the internal audit reports and following up the implementation of the corrective measures in respect of the observations made in such reports;

3) Monitoring and overseeing the performance and activities of the Internal Auditor and Internal Audit department of the Company, if any, to ensure the availability of the necessary resources and their effectiveness in performing the assigned activities and duties. If the Company has no Internal Auditor, the committee shall provide a recommendation to the Board on whether there is a need to appoint an Internal Auditor.

4) Providing a recommendation to the Board on appointing the manager of the Internal Audit unit or department, or the Internal Auditor and suggest his/her remunerations.

**C. External Auditor:**

1) Providing recommendations to the Board to nominate External Auditors, dismiss them, determine their remunerations, and assess their performance after verifying their independence and reviewing the scope of their work and the terms of their contracts;

2) Verifying the independence of the External Auditor, its objectivity, fairness, and effectiveness of the audit activities, taking into account the relevant rules and standards;

3) Reviewing the plan of the Company's External Auditor and its activities, and ensuring that it does not provide any technical or administrative works that are beyond its scope of work, and provides its opinion thereon;

4) Responding to queries of the Company's External Auditor; and

5) Reviewing the External Auditor's reports and its comments on the financial statements, and following up the action taken in connection therewith.

**D. Ensuring Compliance:**

1) Reviewing the findings of the reports of supervisory authorities and ensuring that the Company has taken the necessary actions in connection therewith;

2) Ensuring the Company's compliance with the relevant laws, regulations, policies and instructions;

3) Reviewing the contracts and proposed Related Party transactions, and providing its recommendations to the Board in connection therewith; and

4) Reporting to the Board any issues in connection with what it deems necessary to take action on, and providing recommendations as to the steps that should be taken.

The committee held four attended meeting and four resolutions were passed by circulation.

### Audit Committee Members and their Meetings during 2020-21:

| Name | Capacity | Attended (4) | | | | By Circulation (4) | | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 25/07/2020 | 18/10/2020 | 04/01/2021 | 19/01/2021 | 20/04/2020 | 02/05/2020 | 05/05/2020 | 28/05/2020 | 8 |
| Mr Faisal Hamad Mubarak Al-Ayyar | Chairman | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 8 |
| Mr Tariq Mohammad Abdulsalam | Member | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 8 |
| Mr Ahmed Mohamed Hamed Al-Marzouki | Member | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 8 |

## 2) The Nomination and Remuneration Committee

The Nomination and Remuneration Committee consists of three members.

### Competencies of the Nomination and Remuneration Committee

The competences of the Nomination and Remuneration Committee are:

**A. Remunerations:**

1) Preparing a clear policy for the remunerations of the Board Members and its committees and the Executive Management, and presenting such policy to the Board in preparation for approval by the General Assembly, provided that such policy follows standards that linked to performance, and disclosing and ensuring the implementation of such policy;

2) Clarifying the relation between the paid remunerations and the adopted remuneration policy and highlighting any material deviation from that policy.

3) Periodically reviewing the remuneration policy and assessing its effectiveness in achieving its objectives; and

4) Providing recommendations to the Board in respect of the remunerations of its members, the Committee Members and Senior Executives, in accordance with the approved policy.

**B. Nominations:**

1) Suggesting clear policies and standards for membership of the Board and the Executive Management;

2) Providing recommendations to the Board for the nomination or re-nomination of its members in accordance with approved policies and standards, taking into account that nomination shall not include any person convicted of a crime involving moral turpitude or dishonesty;

3) Preparing a description of the capabilities and qualifications required for membership of the Board and Executive Management positions;

4) Determining the amount of time that the member shall allocate to the activities of the Board;

5) Annually reviewing the skills and expertise required of the Board Members and the Executive Management;

6) Reviewing the structure of the Board and the Executive Management and providing recommendations regarding changes that may be made to such structure;

7) Annually ensuring the independence of Independent Directors and the absence of any conflicts of interest if a Board Member also acts as a member of the Board of Directors of another company;

8) Providing job descriptions for the Executive, Non-Executive and Independent Directors and the Senior Executive Management;

9) Setting procedures to be followed if the position of a member of the Board or a Senior Executive becomes vacant; and

10) Determining the strengths and weaknesses of the Board and recommending remedy solutions that serve the Company's interests.

11) Setting a mechanism for training the new board members and introducing them to the company duties and activities, to enable them to perform their work competently.

12) Analyzing and reviewing the company organizational structure and reviewing the Executive Management and the company senior executives' performance.

In addition to the above-mentioned duties, Remuneration and Nomination Committee has the right to:

1) Investigate and enquire any subject within its duties and specialties or any subject requested by the board.

2) Review the company records and documents and requesting any clarification or indication from the board or executive management members or the company employees, for the purpose of inquiry about any information.

3) The committee may seek assistance from any experts or specialists, whether internal or external, within the scope of its powers. This shall be included in the minutes of the committee meeting; the minutes states the name of the expert and his relation to the Company or its Executive Management, and the company may request the attendance of any employee, manager, the company lawyers, or the independent auditors, for holding a meeting with the committee or with any of its members or consultants.

The N&R committee held two attended meeting and three resolutions were passed by circulation.

## Nomination and Remuneration Committee Members, Meetings and Resolutions during 2020-21

| Name | Capacity | Attended (2) | | By Circulation (3) | | | Total |
|---|---|---|---|---|---|---|---|
| | | 18/10/2020 | 04/01/2021 | 05/05/2020 | 29/06/2020 | 13/09/2020 | 5 |
| Mr Suleiman Saud Jarallah Al-Jarallah | Chairman | ✓ | ✓ | ✓ | ✓ | ✓ | 5 |
| Mr Faisal Hamad Mubarak Al-Ayyar | Member | ✓ | ✓ | ✓ | ✓ | ✓ | 5 |
| Mr Tariq Mohammad Abdulsalam | Member | ✓ | ✓ | ✓ | ✓ | ✓ | 5 |

**Procedure taken to the Board to inform its members, Non-Executive Directors in particular, of the shareholders' suggestions and remarks on the Company and its performance:**

Remarks, suggestions, and questions raised by the shareholders are recorded in the Ordinary/ Extraordinary General Assembly's minutes. The answers for their queries are recorded in the minutes and followed-up with the implementation of any applicable suggestion with the Company's Executive Management. These suggestions shall be represented during the Board meetings following the General Assemblies of the Company and shall be discussed among its members.

**Performance Assessment of the Board of Directors**

The Board of Directors shall encourage its members to perform their duties effectively to achieve the Company's purpose through convening meetings and circular resolutions, whenever it deems necessary to review specific matters or any requests by the Executive Management to the Board in order to make decisions thereof. Assemblies and circular resolutions may be convened as necessity arises.

The Board shall effectively discuss all essential matters, allocate appropriate time, improve the Company's strategy, and monitor the Company's performance to achieve its objective in accordance with its approved annual budget by the Board. The Executive Management shall provide periodic reports for the Company performance to the Board, furthermore, the Board shall ensure compliance with its competences and duties in conformity with the Companies' Law, Capital Market Law and its Executive Regulations, the Company's Bylaw, and any related laws.

The Board shall oversee the process of updating and improving the Company's Governance rules.

The Nomination & Remuneration Committee of the Board shall assess the performance of the Board, its members, its committees, and the Executive Management using key performance indicators linked to the extent to which the strategic objectives of the Company have been achieved, the quality of the risk management and the efficiency of the internal control systems, among others, provided that weaknesses and strengths shall be identified and a solution shall be proposed for the same in the best interests of the Company.

## Details of the General Assembly meetings held during the last financial year and the names of the members of the Board of Directors present

**Attendance record:**

| | Name | EGM 16/06/2020 | EGM 18/11/2020 |
|---|---|---|---|
| 1. | Mr Mussad Abdullah Abdul Aziz Al-Nassar | ✓ | ✓ |
| 2. | Mr Ahmed Mohamed Hamed Al-Marzouki | ✓ | ✓ |
| 3. | Mr Suleiman Saud Jarallah Al-Jarallah | ✓ | ✓ |
| 4. | Mr Saeid Ahmed Saeid Basamh | ✓ | ✓ |

## Number of Company's requests of shareholders records, dates and reasons thereof from 1st April 2020 to 31st March 2021:

| No. of Request | Date of Request | Reason |
|---|---|---|
| 1 | 26/04/2020 | Company Requirement |
| 1 | 16/06/2020 | Dividend |
| 1 | 06/01/2021 | Dividend |
| 1 | 26/01/2021 | Dividend |

# Details of Compensation and Remuneration

## Board Members

| | Fixed Remuneration (SAR) | | | | | | | Variable Remuneration (SAR) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | A certain amount | Attendance allowance for board meetings | Total Committees attendance allowance | In-kind benefits | Details of board members earnings as workers or administrative or other earnings for technical, administrative and consultant services or technical services | Remuneration of Chairman or Managing Director or BOD Secretary if he is a member | Total | % of profit | Periodic Remuneration | Short term motivational plans | Long term motivational plans | Given Shares (value) | Total | End of Service Benefit (SAR) | Grand Total (SAR) | Expenses Allowance (SAR) |
| **Independent Members** | | | | | | | | | | | | | | | | |
| Mr Abdullah Yaqoob Bishara | 400,000 | | | | | | 400,000 | | | | | | | | 400,000 | |
| Mr Ahmed Mohamed Hamed Al-Marzouki | 400,000 | | 40,000 | | | | 440,000 | | | | | | | | 440,000 | |
| Mr Suleiman Saud Jarallah Al-Jarallah | 400,000 | | 20,000 | | | | 420,000 | | | | | | | | 420,000 | |
| **Total** | **1,200,000** | | **60,000** | | | | **1,260,000** | | | | | | | | **1,260,000** | |
| **Non-Executive Members** | | | | | | | | | | | | | | | | |
| HH Sheikh Hamad Sabah Al-Ahmad | 400,000 | | | | | | 400,000 | | | | | | | | 400,000 | |
| Mr Faisal Hamad Mubarak Al-Ayyar | 400,000 | | 60,000 | | | | 460,000 | | | | | | | | 460,000 | |
| Mr Saied Ahmed Saied Basamh | 400,000 | | | | | | 400,000 | | | | | | | | 400,000 | |
| **Total** | **1,200,000** | | **60,000** | | | | **1,260,000** | | | | | | | | **1,260,000** | |
| **Executive Members** | | | | | | | | | | | | | | | | |
| Mr Mussad Abdul-lah Abdul Aziz Al-Nassar | 400,000 | | | | 497,511 | | 897,511 | | | | | | | 49,124 | 946,635 | 237,195 |
| **Total** | **400,000** | | | | **497,511** | | **897,511** | | | | | | | **49,124** | **946,635** | **237,195** |

## Executive Management Remuneration for Six Members including CEO and CFO*

| | Fixed Remuneration (SAR) | | | | Variable Remuneration (SAR) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Salaries | Allowances | In-kind Benefits | Total | Periodic Remuneration | Dividends | Short term plan incentives | Long term plan incentives | Given Shares (Value) | Total | End of Service benefit | Total Remuneration of BOD Executive if any | Total (SAR) |
| No. of staff (6) | 4,961,420 | 1,481,875 | | 6,443,295 | | | 2,938,000 | 2,394,000 | | 5,332,000 | 517,980 | | 12,293,275 |
| **Total** | **4,961,420** | **1,481,875** | | **6,443,295** | | | **2,938,000** | **2,394,000** | | **5,332,000** | **517,980** | | **12,293,275** |

* SADAFCO has complied with the disclosure of the components of the senior executives' remuneration on aggregate in line with the requirements of subparagraph (b) of paragraph (4) of Article 93 of the Corporate Governance Regulations issued by CMA, but to protect the interests of the Company, its shareholders and employees, and to avoid any damage that may occur as a result of disclosing the detailed senior executives' remuneration by position, the Company did not disclose the details as per Appendix (1) of the CG Regulations.

## Audit Committee Remuneration

| | Member | Fixed remuneration (except for the allowance for attending meetings) | Allowance for attending the meetings | Total (SAR) |
|---|---|---|---|---|
| 1. | Mr Faisal Hamad Mubarak Al-Ayyar | | 40,000 | 40,000 |
| 2. | Mr Tariq Mohammad Abdulsalam | | 40,000 | 40,000 |
| 3. | Mr Ahmed Mohamed Hamed Al-Marzouki | | 40,000 | 40,000 |
| | **Total** | | **120,000** | **120,000** |

### Remuneration for Nomination & Remuneration Committee

| | Member | Fixed remuneration (except for the allowance for attending meetings) | Allowance for attending the meetings | Total (SAR) |
|---|---|---|---|---|
| 1. | Mr Faisal Hamad Mubarak Al-Ayyar | | 20,000 | 20,000 |
| 2. | Mr Tariq Mohammad Abdulsalam | | 20,000 | 20,000 |
| 3. | Mr Suleiman Saud Jarallah Al-Jarallah | | 20,000 | 20,000 |
| | **Total** | | **60,000** | **60,000** |

### The relation between the paid remuneration and the adopted Remuneration Policy:

Based on the remuneration policy of the Board of Directors and its Committees and Executive Management, mentioned above, and in light of the remuneration paid for the Board, its Committees, and the Executive Management and what is proposed for the Board, SADAFCO conforms compliance with the approved policy without any deviation from it.

## Major Shareholders Owning 5% or more and Changes during the Financial Year

| | Name | Number of Shares on 1st April 2020 | Number of Shares on 31st March 2021 | Percentage Ownership on 1st April 2020 | Percentage Ownership on 31st March 2021 | % Change (+/-) |
|---|---|---|---|---|---|---|
| 1. | Al Qurain Petrochemicals Industries Company | 13,036,461 | 13,036,461 | 40.11% | 40.11% | - |
| 2. | Al-Samh Trading Co Ltd | 3,798,008 | 3,798,008 | 11.68% | 11.68% | - |

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

The Board has approved the annual risk-based internal audit plan and ensured its timely and effective implementation. The Internal Audit (IA) department reviews the adequacy, efficiency and effectiveness of the internal control systems and ensures that such systems are being properly implemented. This is accomplished as part of the approved risk-based audit annual plan and executed throughout the year. The Board also ensures that management is taking action on reported issues, including the introduction of policies and procedures, which will enhance controls. Management is implementing an effective and systemic Risk Management process, and is reporting results to the board of directors on a quarterly basis.

Based on the work of the internal and external auditors and the conclusions contained in their audit reports issued during the current year and management's representation with respect to the effectiveness of the Company's internal and financial control systems, no major control issues that require disclosure have been noted and thus the Board believes that these systems are effectively run. It should be noted that management is working on updating the (business continuity plan) as a result of certain personnel related changes, which once finalized needs to be activated.

# 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 Investment (MOCI) in this regard. Transactions with these parties require disclosure.

Below are the related party transactions.

| Company Name | Country | Nature of Transaction | Value (SAR million) | Closing Balance (SAR million) |
|---|---|---|---|---|
| Buruj Co-Op Insurance Company* | KSA | Insurance Services | 11.65 | 2.31 |

* These transactions represent the insurance expense net of any claims received from Buruj Cooperative insurance Company.

SADAFCO entered into a one year contract with Al Buruj Cooperative Insurance Company (offering insurance services) starting on 1st July 2020 and ending on 30th June 2021 as its offer was the most suitable in terms of the price and benefits. Mr. Faisal Hamad Al-Ayyar (Vice Chairman of SADAFCO), is the Vice Chairman of the Gulf Insurance Company owning 28.5% in Al Buruj Cooperative Insurance Company (indirect interest). Mr. Ahmed Mohamed Hamed Al-Marzouki (Board Member of SADAFCO) is also a Board Member of Buruj Cooperative Insurance Company.

| Company Name | Country | Nature of Transaction | Value (SAR million) | Closing Balance (SAR million) |
|---|---|---|---|---|
| PKC Advisory | India | Consultation Services | 1.02 | 0.02 |

SADAFCO had a consultancy contract with PKC Advisory for various business advisory services for the period of one year during 2020/2021. SADAFCO and PKC Advisory are part of Kuwait Investment Projects Company (KIPCO) Group. Sheikh Hamad Sabah Al Ahmed and Mr. Faisal Hamad Al-Ayyar are the Chairman and Vice Chairman of both SADAFCO and KIPCO. Mr. Abdullah Yagoub Bishara is also BOD Member of both KIPCO and SADAFCO (indirect interest).

The SADAFCO Shareholders General Assembly meeting held on 16th June 2020 approved the transactions with Buruj Cooperative Insurance Company and PKC Advisory

# SADAFCO's Dividend Distribution Policy

**A. According to Article 50 of the Company bylaws, the Company's annual net profits shall be distributed as follows:**

1. 10% of the net profits are to be set aside to form the Company's statutory reserve. The Ordinary General Assembly may choose to stop this reserve once it reaches 30% of the capital paid.
2. The Ordinary General Assembly based on the proposal of the Board may set aside (10%) of the net profits to form voluntary reserve to be allocated to the determined objective or objectives as per the resolution made by the Shareholders Ordinary General Assembly.
3. The Ordinary General Assembly may resolve to form other reserves to meet the interests of the Company, or to ensure the distribution of fixed dividends for shareholders, as possible. The mentioned assembly may likewise deduct amounts from the net profits to establish social institutions for the Company's employees or to assist the performance of such institutions.
4. The balance thereafter shall be distributed among the shareholders in a proportion representing (5%) of the paid-up capital.
5. Subject to the provisions laid down in Article 24 of the Company Bylaws, and Article 76 of the Companies' Law, a proportion of (10%) of the balance shall thereafter be allocated to remunerate the Board of Directors, provided that the remunerations and financial benefits for each BOD member shall not exceed SAR 500,000.

## b) Distribution of Interim Dividends:

The Company may distribute interim dividends to its shareholders on a bi-annual or quarterly basis after fulfilling the following legal requirements:

1. The issuance of annual resolution by the General Assembly authorizing the Board to distribute interim dividends.
2. The Company should be generating profits on a regular basis.
3. The Company should have a sound liquidity position and be able to reasonably foresee the scale of its profits.
4. The Company shall have distributable profits based on the latest audited financial statements. These profits should be sufficient to cover the proposed dividend distribution, after deducting the amounts already distributed as cash dividends or capitalized as stock dividends, after the date of these financial statements.

In addition to any official requirements that may be requested by any concerned bodies in KSA.

| | % Dividends during the financial year from 01/04/2020 to 31/03/2021 | | Total Dividend |
|---|---|---|---|
| | 1st Half Year Dividend | Final Dividend recommended for distribution | |
| % | 30% | 30% | 60% |
| **Total (SAR million)** | **96.00** | **96.00** | **192.00** |

- On 16/06/2020, General Assembly Meeting approved distribution of SAR 2.50/ share (SAR 81.25 million) representing 25% of the Share Capital for the financial year ended 31/03/2020.
- On 04/01/2021, Board of Directors of SADAFCO approved distribution of SAR 3/ share (SAR 96 million) representing 30% of the Share Capital as interim cash dividends to the shareholders for the first half year ended 30/09/2020.

# Major Decisions and Future Plans

## New Ice Cream Factory

A new Ice Cream facility is being developed and the focus for the year was on quickly completing the same and shifting the Ice Cream production to this new facility. Work on the new ice cream facility continues at pace with target of trial production run in July. Frozen warehouse storage of 6,000 pallets when operational would provide key storage facility during peak season.

## Upgrade of Jeddah Factory

Jeddah Milk Factory has undergone some extensive changes in several areas of the plant. The previous mixing plant area drain, and floor system are upgraded to prepare the filling machines expansion plan. High speed 125ml line was installed and commissioned in May 2020 which increased capacity by 60% to 24,000 pieces per hour. Additional 200 ml line installation is completed, which increased capacity by 18.6%. Robot palletizing area preparation was started which will increase automation level and decrease demand on labor. Jeddah Milk factory also continued co-production for FrieslandCampina brand.

## Revival of SADAFCO Qatar Depot

With diplomatic relations being restored between Qatar and Saudi Arabia. SADAFCO is re-opening its Qatar Depot and reviving operations.

## Buyback of Treasury Shares

| No. of Shares | Value | Date of Purchase | Details of Use |
|---|---|---|---|
| 500,250 | SAR 51.6 Mln | 19, 26, 27 & 28 Feb 2019 | Treasury Shares |

At an Extraordinary General Assembly Meeting (EGM) of SADAFCO held on 18th December 2018 the shareholders approved the purchase of up to 10% of company shares to be used as treasury shares. Subsequent resolutions were passed at EGM's held on 3rd December 2019 and 18th November 2020, extending the buyback window by another 12 months. Any purchases can be made in one or several phases, within a maximum period of twelve (12) months, following the EGM. The EGM also approved to hold the purchased treasury shares for a period up to 5 years. As at 31st March 2021 SADAFCO has purchased 500,250 shares, at a cost of SAR 51.6 million.

## Future Investments

The Company continues to invest in future growth and is continuously evaluating new opportunities. Any concrete development will be announced as and when necessary.

# Financial Instruments Risk Management Objective and Policies

The Group's principal financial liabilities comprise trade and other payables, accruals and other liabilities, due to related parties and lease liabilities. The Group's principal financial assets include trade and other receivables and cash and cash equivalents. The carrying amounts of the Group's financial instruments are reasonable approximations of fair values.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The Group's senior management is supported by a financial risk committee that advises on financial risks and the appropriate financial risk governance framework for the Group. The financial risk committee provides assurance to the Group's senior management that the Group's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarized below:

## Market risk

Market risk is the risk that changes in market prices - such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing the returns. Market risk is the risk that the fair value or the future cash flows of a financial instrument may fluctuate as a result of changes in market profit rates or the market prices of securities due to change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk such as equity price risk.

The sensitivity analyses in the following sections relate to the position as at March 31, 2021.

### i) Interest rate risk

Interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's financial position and cash flows. The Group manages the interest rate risk by regularly monitoring the interest rate profiles of its interest-bearing financial instruments. At March 31, 2021 and 2020, the Group does not have any borrowings and accordingly no interest rate risk sensitivity is presented. Interest bearing financial assets comprises of short term murabaha deposits which are at fixed interest rates; therefore, have no exposure to cash flow interest rate risk and fair value interest rate risk.

### ii) Currency risk

Currency risk is the risk that value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in currency that is not the Group's functional currency. During the year, the Group's transactions were in Saudi Riyals, Bahraini Dinars, Polish Złoty, Kuwaiti Dinars, Jordanian Dinars, Euros and United States Dollars.

The Group's exposure to currency risk arising from currencies that are not pegged to Saudi Riyals is not material to these consolidated financial statements. The Group is not significantly exposed to fluctuations in foreign exchange rates during its ordinary course of business as significant transactions of the Group, during the year were either in Saudi Riyals or US Dollars.

### iii) Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from special commission rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instruments or it's issuer, or factors affecting all similar financial instruments traded in the market. The Group does not have any financial instruments which are subject to other price risk.

### iv) Credit risk

Credit risk is the risk that counterparty to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group manages credit risk by assessing the credit worthiness of counter parties before entering into transactions as well as monitoring any outstanding exposures on a periodic basis to ensure timely settlement. Credit risk arises from cash and cash equivalents, credit exposures to customers, including outstanding receivables and securities and other deposits arising due to its operating activities.

#### (a) Trade receivables

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of the customer is assessed based on a set of qualitative and quantitative factors and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored and provided that are considered doubtful of recovery.

At March 31, 2021, the Group had 5 customers that accounted for approximately 48% (March 31, 2020: 44%) of total outstanding trade receivable. Trade receivables outstanding balance comprises 88% (2020: 82%) in KSA, 5% (2020: 7%) in GCC (other than KSA) and 7% (2020: 11%) in other countries. Due to short term nature of the trade receivable, their carrying amount is considered to be the same as their fair value.

The requirement for an impairment is analyzed at each reporting date on an individual basis for major customers. Additionally, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. A significant increase in credit risk is presumed if a debtor is more than 90 days past due in making a contractual payment. A default on a trade receivable is when the counterparty fails to make contractual payments within 90 days when they fall due. The Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in the consolidated statement of profit or loss. The Group writes off financial assets, in a whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery.

The Group establishes that there is no reasonable expectation of the recovery once they are not subject to enforcement activity.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets. The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables as low, as its customer base is diversified.

Cash at banks are placed with banks with sound credit ratings. Security and other deposits are considered to have low credit risk; therefore, 12 months expected loss model was used for impairment assessment. Based on management impairment assessment, there is no provision required in respect of these balances for years presented.

For trade receivable, the Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. Further, the expected credit losses also incorporate forward looking information.

The provision matrix takes into account historical credit loss experience (24 quarter-periods) and is adjusted for average historical recovery rates. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the inflation rate, GDP and the unemployment rate of the countries in which it sells its goods to be the most relevant factors and, accordingly, adjusts the historical loss rates based on expected changes in these factors.

### (b) Cash and cash equivalents

Credit risk from balances with banks and financial institutions is managed in accordance with the Group's policy. Counterparty credit limits are reviewed by the Group's Board of Directors on an annual basis and may be updated throughout the period subject to approval of the Group's Finance Committee. The limits are set to minimize the concentration of risks and therefore mitigate financial loss through potential counterparty's failure to make payments. The Group deals with reputable banks with investment grade credit ratings and the credit quality of the cash and cash equivalents can be assessed by reference to external credit ratings.

Credit risk on bank balances is limited as cash balances are held with banks with sound credit ratings.

### v) Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available through committed credit facilities to meet any future commitments. This includes consideration of future cashflow forecasts, prepared using assumptions about the nature, timing and amount of future transactions, planned course of actions and other committed cash flows that can be considered reasonable and achievable in the circumstances of the Group. The Group monitors its liquidity risk by regular working capital excess/shortage assessment and ensuring that it has adequate liquidity to fund its day to day operations. Where necessary, the Group may enter into borrowing facility with banks in order to ensure continued funding of operations.

# Penalties and Sanctions

SADAFCO was not charged any penalties or sanctions during year 2020-2021 by any supervisory, regulatory, or judicial authority.

# Declarations

SADAFCO declares and confirms the following:

1) Its accounts have been prepared in accordance with correct procedures.

2) The internal auditing has been prepared on a sound basis and has been implemented effectively.

3) There is no doubt about its ability to continue its operations.

4) There are no outstanding loans or dues on the Company.

5) The Company is fully committed to adhere to the rules and regulations stipulated in the Company's by-laws, Companies Law and other relevant ministerial resolutions and Company Law.

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 waivered his/ her rights to dividends or other material benefits and none of the Board of Directors and 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; whether for shareholders, board members, executive managers, their relatives or its employees.

10) Following the review and audit of the consolidated financial statements by PricewaterhouseCoopers, it was reported that SADAFCO's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA"). The External Auditors' report was issued without reservation. The consolidated financial statements were found to be a true and fair reflection of the SADAFCO's financial position and in line with the requirements of Regulations of Companies and SADAFCO articles of association.

11) There is no transaction in the nature of a bargain between the company and any related party

12) The Company does not implement any stock options and has not issued any convertible debt instruments.

13) The Company has not set up any reserves or investments for the benefit of its employees.

14) The Company did not acquire treasury shares during the financial year ending 31 March 2021

15) The company nor any of its affiliates do not have any redeemable debt instruments.

16) No convertible debt instruments, contractual securities, warrants or any similar rights issued or granted by the Company, nor has the Company received any compensation.

17) No conversion or subscription rights under convertible debt instruments, contractual securities or warrants issued or granted by the Company.

# Corporate Governance Compliance

Corporate governance articles unimplemented and the reasons

| Article/Sub Article | Details of Article / Sub Article | Reasons |
|---|---|---|
| 32/B | The Board shall convene no less than four meetings per year, and no less than one meeting every three months. | Guiding article. |
| 54/b | The Chairman of the Audit Committee shall be an Independent Director. | Guiding article. |
| 70 | **Composition of the Risk Management Committee**<br>The Company's Board shall, by resolution therefrom, form a committee to be named the "Risk Management Committee". Chairman and majority of its members shall be Non-Executive Directors. The members of that committee shall possess an adequate level of knowledge in risk management and finance. | Guiding Article. Risk management is under taken by Audit Committee. |
| 71 | **Competencies of the Risk Management Committee**<br>The competences of the Risk Management Committee shall include the following:<br>1. developing a strategy and comprehensive policies for risk management that are consistent with the nature and volume of the Company's activities, monitoring their implementation, and reviewing and updating them based on the Company's internal and external changing factors;<br>2. determining and maintaining an acceptable level of risk that may be faced by the Company and ensuring that the Company does not go beyond such level;<br>3. ensuring the feasibility of the Company continuation, the successful continuity of its activities and determining the risks that threaten its existence during the following twelve (12) months;<br>4. overseeing the Company's risk management system and assessing the effectiveness of the systems and mechanisms for determining and monitoring the risks that threaten the Company to determine areas of inadequacy therein;<br>5. regularly reassessing the Company's ability to take risks and be exposed to such risks (through stress tests as an example);<br>6. preparing detailed reports on the exposure to risks and the recommended measures to manage such risks, and presenting them to the Board;<br>7. providing recommendations to the Board on matters related to risk management;<br>8. ensuring the availability of adequate resources and systems for risk management;<br>9. reviewing the organizational structure for risk management and providing recommendations regarding the same before approval by the Board;<br>10. verifying the independence of the risk management employees from activities that may expose the Company to risk;<br>11. ensuring that the risk management employees understand the risks threatening the Company and seeking to raise awareness of the culture of risk; and<br>12. reviewing any issues raised by the audit committee that may affect the Company's risk management. | Guiding Article. Risk management is under taken by Audit Committee. |
| 72 | **Meetings of the Risk Management Committee**<br>The Risk Management Committee shall convene periodically at least once every six months, and as may be necessary. | Guiding Article. Risk management is under taken by Audit Committee. |

| Article/Sub Article | Details of Article / Sub Article | Reasons |
|---|---|---|
| 85 | **Employee Incentives**<br>The Company shall establish programs for developing and encouraging the participation and performance of the Company's employees. The programs shall particularly include the following:<br>1. forming committees or holding specialized workshops to hear the opinions of the Company's employees and discuss the issues and topics that are subject to important decisions;<br>2. establishing a scheme for granting Company shares or a percentage of the Company profits and pension programs for employees, and setting up an independent fund for such programs; and<br>3. establishing social organizations for the benefit of the Company's employees. | Guiding article. |
| 87 | **Social Responsibility**<br>The Ordinary General Assembly, based on the Board recommendation, shall establish a policy that guarantees a balance between its objectives and those of the community for purposes of developing the social and economic conditions of the community. | Guiding article. |
| 88 | **Social Initiatives**<br>The Board shall establish programmes and determine the necessary methods for proposing social initiatives by the Company, which include:<br>1. establishing indicators that link the Company's performance with its social initiatives and comparing it with other companies that engage in similar activities;<br>2. disclosing the objectives of the Company's social responsibility to its employees and raising their awareness and knowledge of social responsibility;<br>3. disclosing plans for achieving social responsibility in the periodical reports on the activities of the Company's; and<br>4. establishing awareness programs to the community to familiarize them with the Company's social responsibility. | Guiding article. |
| 95 | **Formation of a Corporate Governance Committee**<br>If the Board forms a Corporate Governance Committee, it shall assign to it the competences stipulated in Article (94) of these Regulations. Such committee shall oversee any matters relating to the implementation of governance, and shall provide the Board with its reports and recommendations at least annually. | Guiding article. Corporate Governance is the responsibility of a team comprising of representatives from legal, finance, investor relations departments and executive management. |

# Financial Statements

Independent auditor's report .......................................... 2-5
Consolidated statement of profit or loss............................ 6
Consolidated statement of comprehensive income ......... 7
Consolidated statement of financial position.................... 8
Consolidated statement of changes in equity ................... 9
Consolidated statement of cash flows ............................. 10
Notes to the consolidated financial statements ....... 11-51

حجم أكبر، قيمة أفضل!
السعودية
saudia
حليب بالشوكولاتة
ستيرول النبات
مخفض للكوليسترول
حليب
قليل الدسم

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

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2021 AND INDEPENDENT AUDITOR'S REPORT


| | Page |
|---|---|
| Independent auditor's report | 2–7 |
| Consolidated statement of profit or loss | 8 |
| Consolidated statement of comprehensive income | 9 |
| Consolidated statement of financial position | 10 |
| Consolidated statement of changes in equity | 11 |
| Consolidated statement of cash flows | 12 |
| Notes to the consolidated financial statements | 13–51 |

# *Independent auditor's report to the shareholders of Saudia Dairy & Foodstuff Company (SADAFCO)*

## *Report on the audit of the consolidated financial statements*

### *Our opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Saudia Dairy & Foodstuff Company (SADAFCO) (the "Company") and its subsidiaries (together the "Group") as at March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants (SOCPA).

#### What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of profit or loss for the year ended March 31, 2021;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of financial position as at March 31, 2021;
- the consolidated statement of changes in equity for the year ended March 31, 2021;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We are independent of the Group in accordance with the code of professional conduct and ethics, endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the consolidated financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### *Our audit approach*

#### Overview

| | |
|---|---|
| Key audit matter | • Carrying value of goodwill |

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

#### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

# Independent auditor's report to the shareholders of Saudia Dairy & Foodstuff Company (SADAFCO) (continued)

## Our audit approach (continued)

| Key audit matter | How our audit addressed the Key audit matter |
|---|---|
| *Carrying value of goodwill* | |
| As at March 31, 2021, the Group had goodwill amounting to Saudi Riyal 17.6 million, which arose on the acquisition of a total stake of 76% in Mlekoma group ("Mlekoma") on July 2, 2018, through SADAFCO Poland, a wholly owned subsidiary of the Group.<br><br>In accordance with accounting standard IAS 36, "Impairment of assets", an entity is required to test goodwill acquired in a business combination for impairment at least annually irrespective of whether there is any indication of impairment.<br><br>Goodwill is monitored by management at the level of cash-generating units ("CGUs"), which are the primary operating elements of the business concerned. Management carried out an impairment exercise in respect of goodwill allocated to Mlekoma by determining a recoverable amount based on value-in-use discounted cash flow model, which utilized the most recent five-year business plan prepared by the management. The outcome of this exercise did not result in any impairment loss to be recognized.<br><br>We considered impairment testing of goodwill performed by management to be a key audit matter since the assessment of the recoverable amount of goodwill under the value-in-use basis is complex and requires considerable judgment on the part of management. The critical judgmental elements of management's assessment were:<br><br>(a) assumptions concerning the expected economic conditions, especially growth, beyond the forecasted period, in the markets in which Mlekoma primarily operates; and<br>(b) earnings before interest, taxes, depreciation and amortisation (EBITDA) margins and discount rate used in the value-in-use cash flow model.<br><br>*Refer to Note 4 and Note 14 for estimates, judgements and assumptions made in applying the accounting policy and for related disclosures.* | We assessed management's impairment assessment of goodwill by performing the following procedures:<br><br>• Assessed the methodology used by management to determine the recoverable value based on the value-in-use and compared it to that required by IAS 36. We also tested the arithmetical accuracy and logical integrity of the underlying calculations in the model.<br><br>• Tested the accuracy and relevance of the input data by reference to supporting evidence, such as approved business plan and considered the reasonableness of five-year business plan by comparison to the Group's historical results and performance against budgets.<br><br>• Engaged our valuation experts to assist in the review of the methodology of the value-in-use calculations and use of assumptions of discount rates and long-term growth rates.<br><br>• Reviewed the sensitivity analysis, performed by management, over key assumptions in order to assess the potential impact of a range of possible outcomes.<br><br>We also reviewed the adequacy and appropriateness of the disclosures included in the notes to the accompanying consolidated financial statements in relation to testing goodwill for possible impairment. |

## *Independent auditor's report to the shareholders of Saudia Dairy & Foodstuff Company (SADAFCO) (continued)*

### *Other information*

Management is responsible for the other information. The other information comprises the information included in the annual report of the Group, (but does not include the consolidated financial statements and our auditor's report thereon), which is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

### *Responsibilities of management and those charged with governance for the consolidated financial statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, and the applicable requirements of the Regulations for Companies and the Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, i.e. the Board of Directors, are responsible for overseeing the Group's financial reporting process.

### *Auditor's responsibilities for the audit of the consolidated financial statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

# *Independent auditor's report to the shareholders of Saudia Dairy & Foodstuff Company (SADAFCO) (continued)*

## *Auditor's responsibilities for the audit of the consolidated financial statements (continued)*

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

PricewaterhouseCoopers

Mufaddal A. Ali
License Number 447

May 10, 2021

PRICEWATERHOUSECOOPERS
CERTIFIED PUBLIC ACCOUNTANTS
Lic No. 323/11/25/1
C.R. 4030289002

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Consolidated statement of profit or loss
(All amounts in Saudi Riyals thousands unless otherwise stated)

| | Note | Year ended March 31, 2021 | 2020 |
|---|---|---|---|
| Revenue – net | 6 | 2,105,398 | 2,056,091 |
| Cost of revenue | 8 | (1,411,572) | (1,366,912) |
| Gross profit | | 693,826 | 689,179 |
| | | | |
| Selling and distribution expenses | 9 | (306,661) | (300,646) |
| General and administrative expenses | 10 | (108,526) | (100,767) |
| Impairment losses on financial assets | 17 | (2,107) | (14,220) |
| Other operating income | | 8,931 | 2,556 |
| Operating profit | | 285,463 | 276,102 |
| | | | |
| Finance income | | 6,159 | 11,410 |
| Finance costs | | (7,767) | (3,817) |
| Profit before zakat | | 283,855 | 283,695 |
| | | | |
| Zakat expense | 22 | (22,962) | (18,583) |
| Profit for the year | | 260,893 | 265,112 |
| | | | |
| Profit is attributable to: | | | |
| Owners of SADAFCO | | 260,553 | 266,260 |
| Non-controlling interests | | 340 | (1,148) |
| | | 260,893 | 265,112 |
| Earnings per share: | | | |
| Basic and diluted earnings per share (Saudi Riyals) attributable to owners of SADAFCO | 11 | 8.14 | 8.32 |

The notes from 1 to 30 form part of these consolidated financial statements.

| Mussad Abdullah Al Nassar<br>Member Board of Directors | Waltherus Cornelis Petrus Matthijs<br>Chief Executive Officer | Shehzad Altaf<br>Chief Financial Officer |
|---|---|---|

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Consolidated statement of comprehensive income
(All amounts in Saudi Riyals thousands unless otherwise stated)

| | Note | Year ended March 31, 2021 | 2020 |
|---|---|---|---|
| Profit for the year | | 260,893 | 265,112 |
| Other comprehensive loss | | | |
| *Items that may be reclassified to profit or loss* | | | |
| Exchange differences on translation of foreign operations | | (4,463) | (437) |
| *Items that will not be reclassified to profit or loss* | | | |
| Remeasurements of post-employment benefit obligations | 26 | (3,574) | (2,068) |
| Other comprehensive loss for the year | | (8,037) | (2,505) |
| Total comprehensive income for the year | | 252,856 | 262,607 |
| Total comprehensive income for the year is attributable to: | | | |
| Owners of SADAFCO | | 252,518 | 262,382 |
| Non-controlling interests | | 338 | 225 |
| | | 252,856 | 262,607 |

The notes from 1 to 30 form part of these consolidated financial statements.

| Mussad Abdullah Al Nassar | Waltherus Cornelis Petrus Matthijs | Shehzad Altaf |
|---|---|---|
| Member Board of Directors | Chief Executive Officer | Chief Financial Officer |

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Consolidated statement of financial position
(All amounts in Saudi Riyals thousands unless otherwise stated)

| | Note | As at March 31, 2021 | 2020 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | 860,729 | 797,525 |
| Right-of-use assets | 13 | 63,155 | 72,164 |
| Intangible assets | 14 | 21,975 | 26,133 |
| Other non-current assets | | 5,537 | 5,646 |
| | | 951,396 | 901,468 |
| **Current assets** | | | |
| Inventories | 16 | 302,223 | 357,627 |
| Trade and other receivables | 17 | 227,194 | 215,968 |
| Deposits, prepayments and other assets | 18 | 35,332 | 53,567 |
| Cash and cash equivalents | 19 | 713,290 | 645,839 |
| | | 1,278,039 | 1,273,001 |
| **Total assets** | | 2,229,435 | 2,174,469 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Employee benefit obligations | 26 | 119,794 | 113,041 |
| Lease liabilities | 13 | 53,721 | 57,174 |
| Non-controlling interest put option and other liabilities | 15 | 26,881 | 29,330 |
| | | 200,396 | 199,545 |
| **Current liabilities** | | | |
| Trade and other payables | 23 | 168,971 | 221,172 |
| Accruals and other liabilities | 24 | 267,188 | 243,052 |
| Due to related parties | 25 | 2,332 | 2,281 |
| Current portion of lease liabilities | 13 | 10,119 | 12,151 |
| Dividends payable | | 3,388 | 3,475 |
| Zakat payable | 22 | 22,222 | 16,327 |
| | | 474,220 | 498,458 |
| **Total liabilities** | | 674,616 | 698,003 |
| **Equity** | | | |
| Issued share and paid up capital | 20 | 325,000 | 325,000 |
| Statutory reserve | 20 | 162,500 | 162,500 |
| Other reserve | 20 | 282,443 | 256,388 |
| Treasury shares | 20 | (51,559) | (51,559) |
| Foreign currency translation reserve | | (6,796) | (2,335) |
| Retained earnings | | 821,758 | 766,833 |
| Equity attributable to owners of SADAFCO | | 1,533,346 | 1,456,827 |
| Non-controlling interests | | 21,473 | 19,639 |
| Total equity | | 1,554,819 | 1,476,466 |
| **Total liabilities and equity** | | 2,229,435 | 2,174,469 |

The notes from 1 to 30 form part of these consolidated financial statements.

| Mussad Abdullah Al Nassar | Waltherus Cornelis Petrus Matthijs | Shehzad Altaf |
|---|---|---|
| Member Board of Directors | Chief Executive Officer | Chief Financial Officer |

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Consolidated statement of changes in equity
(All amounts in Saudi Riyals thousands unless otherwise stated)

| | Attributable to owners of SADAFCO | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Issued share and paid up capital | Statutory reserve | Other reserve | Treasury shares | Foreign currency translation reserve | Retained earnings | Total | Non-controlling interests | Total equity |
| Balance at March 31, 2019 | 325,000 | 162,500 | 229,762 | (51,559) | (525) | 673,267 | 1,338,445 | 19,414 | 1,357,859 |
| Profit / (loss) for the year | - | - | - | - | - | 266,260 | 266,260 | (1,148) | 265,112 |
| Other comprehensive (loss)/income | - | - | - | - | (1,810) | (2,068) | (3,878) | 1,373 | (2,505) |
| Total comprehensive (loss) / income for the year | - | - | - | - | (1,810) | 264,192 | 262,382 | 225 | 262,607 |
| Dividends declared | - | - | - | - | - | (144,000) | (144,000) | - | (144,000) |
| Transfer to other reserve (Note 20) | - | - | 26,626 | - | - | (26,626) | - | - | - |
| Balance at March 31, 2020 | 325,000 | 162,500 | 256,388 | (51,559) | (2,335) | 766,833 | 1,456,827 | 19,639 | 1,476,466 |
| Profit for the year | - | - | - | - | - | 260,553 | 260,553 | 340 | 260,893 |
| Other comprehensive loss | - | - | - | - | (4,461) | (3,574) | (8,035) | (2) | (8,037) |
| Total comprehensive (loss) / income for the year | - | - | - | - | (4,461) | 256,979 | 252,518 | 338 | 252,856 |
| Other changes in non-controlling interest | - | - | - | - | - | - | - | 1,496 | 1,496 |
| Dividends declared (Note 29) | | | | | | (175,999) | (175,999) | - | (175,999) |
| Transfer to other reserve (Note 20) | - | - | 26,055 | - | - | (26,055) | - | - | - |
| Balance at March 31, 2021 | 325,000 | 162,500 | 282,443 | (51,559) | (6,796) | 821,758 | 1,533,346 | 21,473 | 1,554,819 |

The notes from 1 to 30 form part of these consolidated financial statements.

Mussad Abdullah Al Nassar
Member Board of Directors

Waltherus Cornelis Petrus Matthijs
Chief Executive Officer

Shehzad Altaf
Chief Financial Officer

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Consolidated statement of cash flows
(All amounts in Saudi Riyals thousands unless otherwise stated)

| | Note | Year ended March 31, 2021 | 2020 |
|---|---|---|---|
| Cash flow from operating activities | | | |
| Profit before zakat | | 283,855 | 283,695 |
| Adjustments for: | | | |
| Depreciation and amortization | 12, 13, 14 | 104,395 | 99,805 |
| Gain on disposal of property, plant and equipment | | (1,099) | (677) |
| Impairment losses on financial assets | 17 | 2,107 | 14,220 |
| Finance costs on lease liabilities | 13 | 2,818 | 3,267 |
| Finance costs on non-controlling interest put option | 27 | 3,303 | 1,275 |
| Finance costs on contingent consideration payable | 27 | 516 | 122 |
| Loss on termination of a lease contract | 13 | 66 | - |
| Provision for slow moving and obsolete inventories | 16 | (401) | 1,870 |
| Provision for employee benefit obligations | 26 | 15,683 | 16,038 |
| Others | | 109 | (742) |
| | | 411,352 | 418,873 |
| Working capital | | | |
| Inventories | | 55,805 | (82,080) |
| Trade and other receivables | | (13,333) | (37,396) |
| Deposits, prepayments and other assets | | 18,235 | (15,514) |
| Trade and other payables | | (52,201) | 23,086 |
| Accruals and other liabilities | | 28,889 | 43,482 |
| Due to related parties | | 51 | 214 |
| Cash flow from operating activities | | 448,798 | 350,665 |
| | | | |
| Employee benefit obligations paid | 26 | (12,504) | (14,641) |
| Zakat paid | 22 | (21,679) | (18,445) |
| Net cash inflow from operating activities | | 414,615 | 317,579 |
| | | | |
| Cash flow from investing activities | | | |
| Purchase of property, plant and equipment | 12 | (152,429) | (92,628) |
| Sale proceeds from disposal of property, plant and equipment | | 1,742 | 1,873 |
| Acquisition of non-current assets | | - | (85) |
| Net cash outflow from investing activities | | (150,687) | (90,840) |
| | | | |
| Cash flow from financing activities | | | |
| Dividends paid to owners of SADAFCO | 29 | (176,086) | (143,602) |
| Payment for contingent consideration | 27 | (4,500) | - |
| Change in non-controlling interest | | 1,496 | - |
| Lease payments | 13 | (15,049) | (18,916) |
| Net cash outflow from financing activities | | (194,139) | (162,518) |
| | | | |
| Net change in cash and cash equivalents | | 69,789 | 64,221 |
| Effects of exchange rate fluctuations on cash and cash equivalents | | (2,338) | (437) |
| Cash and cash equivalents at the beginning of the year | | 645,839 | 582,055 |
| Cash and cash equivalents at the end of the year | 19 | 713,290 | 645,839 |

The notes from 1 to 30 form part of these consolidated financial statements.

| Mussad Abdullah Al Nassar | Waltherus Cornelis Petrus Matthijs | Shehzad Altaf |
|---|---|---|
| Member Board of Directors | Chief Executive Officer | Chief Financial Officer |

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended March 31, 2021
(All amounts in Saudi Riyals thousands unless otherwise stated)

## 1 General Information

Saudia Dairy & Foodstuff Company (the "Company" or "SADAFCO", together with its subsidiaries referred to as the "Group") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration number 4030009917 issued in Jeddah dated Rabi Al-Akhar 21, 1396H (April 21, 1976).

The Company and its subsidiaries are primarily engaged in the production and distribution of dairy products, beverages and various foodstuff in the Kingdom of Saudi Arabia, Poland and certain other Gulf and Arab countries. Information on the Group's structure is provided in Note 5 of these consolidated financial statements.

These consolidated financial statements were authorized for issue by the Board of Directors on May 10, 2021.

### Impact of COVID - 19

The novel Coronavirus (COVID-19) pandemic has spread across various geographies globally, disrupting business and economic activities. COVID-19 has brought about uncertainties in the global economic environment. The fiscal and monetary authorities, both domestic and international, have announced various support measures across the globe to counter possible adverse implications.

In response to the spread of COVID-19 in Gulf Cooperation Council ("GCC") and its resulting disruptions to the social and economic activities in those markets, the Group's management has proactively assessed its impacts on its operations and has taken a series of preventive measures to ensure the health and safety of its employees, customers, consumers and wider community as well as to ensure the continuity of supply of its products throughout its markets. Notwithstanding these challenges, the Group's operations remained largely unaffected as the food industry in general was exempt from the various bans and constraints imposed by various regulatory authorities including exemption from curfew hours and cargo shipping and flight operations restrictions. The underlying demand from retail and wholesale customers for the Group's products has been largely unaffected. Based on these factors, Management believes that the COVID-19 pandemic has had no material effect on Group's reported financial results for the year ended March 31, 2021 and no significant changes were required to the judgements and key estimates. The Group is continuously monitoring the evolving scenario and any change in the judgements and key estimates will be reflected as part of the operating results and cash flows of the future reporting periods. Also see Note 4 (v).

## 2 Basis of preparation

### 2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

### 2.2 Preparation of the consolidated financial statements

These consolidated financial statements have been prepared on a historical cost basis except for the following:

- Non-controlling interest put option which is recognised at the present value of redemption amount;
- The defined benefit obligation which is recognised at the present value of future obligations using the Projected Unit Credit Method; and
- Derivative financial instruments and certain non-current assets measured at fair value.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended March 31, 2021
(All amounts in Saudi Riyals thousands unless otherwise stated)

## 2 Basis of preparation (continued)

### 2.3 New standards and amendments applicable from April 1, 2020

The following standards and interpretations apply for the first time to financial reporting periods commencing on or after April 1, 2020:

| Title | Key requirements | Effective Date | Impact |
|---|---|---|---|
| Definition of Material – Amendments to IAS 1 and IAS 8 | The IASB has made amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information.<br>In particular, the amendments clarify:<br>- that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole; and<br>- the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need. | April 1, 2020 | The amendment did not have any impact on the amounts recognised in prior periods and is not expected to significantly affect the current or future periods. |
| Definition of a Business – Amendments to IFRS 3 | The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits.<br><br>The amendments will likely result in more acquisitions being accounted for as asset acquisitions. | April 1, 2020 | The amendment did not have any impact on the amounts recognised in prior periods and is not expected to significantly affect the current or future periods. |

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended March 31, 2021
(All amounts in Saudi Riyals thousands unless otherwise stated)

2 Basis of preparation (continued)

2.3 New standards and amendments applicable from April 1, 2020 (continued)

| Title | Key requirements | Effective Date | Impact |
|---|---|---|---|
| Interest Rate Benchmark Reform – Amendments to IFRS 7, IFRS 9 and IAS 39 | The amendments made to IFRS 7 Financial Instruments: Disclosures, IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement provide certain reliefs in relation to interest rate benchmark reforms.<br>The reliefs relate to hedge accounting and have the effect that the reforms should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR-based contracts, the reliefs will affect companies in all industries. | April 1, 2020 | The amendment did not have any impact on the amounts recognised in prior periods and is not expected to significantly affect the current or future periods. |
| Revised Conceptual Framework for Financial Reporting | The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:<br>- increasing the prominence of stewardship in the objective of financial reporting<br>- reinstating prudence as a component of neutrality defining a reporting entity, which may be a legal entity, or a portion of an entity<br>- revising the definitions of an asset and a liability<br>- removing the probability threshold for recognition and adding guidance on derecognition<br>- adding guidance on different measurement basis, and<br>- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.<br><br>No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from January 1, 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework. | April 1, 2020 | Management has considered the revised conceptual framework and has concluded that the accounting policies are appropriate and does not expect any change in its accounting policies due to such revision. |

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended March 31, 2021
(All amounts in Saudi Riyals thousands unless otherwise stated)

## 2 Basis of preparation (continued)

### 2.3 New standards and amendments applicable from April 1, 2020 (continued)

| Title | Key requirements | Effective Date | Impact |
|---|---|---|---|
| COVID-19-related Rent Concessions – Amendments to IFRS 16 | As a result of the COVID-19 pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. In May 2020, the IASB made an amendment to IFRS 16 Leases which provides lessees with an option to treat qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted. Entities applying the practical expedients must disclose this fact, whether the expedient has been applied to all qualifying rent concessions or, if not, information about the nature of the contracts to which it has been applied, as well as the amount recognised in profit or loss arising from the rent concessions. | June 1, 2020 | There were no rent concessions granted to the Group during the annual reporting period ended on March 31, 2021. |

### 2.4 Standards, interpretations and amendments issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for March 31, 2021 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

## 3 Significant accounting policies

The accounting policies set out below have been applied consistently in the preparation of these consolidated financial statements to all periods presented, unless otherwise indicated.

### 3.1 Principles of consolidation and equity accounting

*Subsidiaries*

Subsidiaries are all entities over which the Group has control. Control is achieved when the Group is exposed, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which the control is transferred to the Group. They are deconsolidated from the date the control ceases.

The acquisition method of accounting is used to account for business combination by the Group. The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group losses control of the subsidiary. Assets, liabilities income and expenses of a subsidiary acquired or disposed of during the period are included in the consolidated financial statements from the date the Group obtains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the Owners of SADAFCO and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended March 31, 2021
(All amounts in Saudi Riyals thousands unless otherwise stated)

## 3 Significant accounting policies (continued)

### 3.1 Principles of consolidation and equity accounting (continued)

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill) if any, liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in the consolidated statement of profit or loss.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of financial position respectively.

*Associates*

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment. When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the investee, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the investee.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

*Changes in ownership interests*

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the SADAFCO. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of SADAFCO. When the Group ceases to consolidate or equity account for an investment because of a loss of control or significant influence, any retained interest in the investee is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss. If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss, where appropriate.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended March 31, 2021
(All amounts in Saudi Riyals thousands unless otherwise stated)

## 3 Significant accounting policies (continued)

### 3.2 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset’s highest and best use or by selling it to another market participant that would utilize the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the consolidated financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above. Refer Note 27 for more details.

### 3.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Board of Directors (BOD) and CEO, (together chief operating decision maker, CODM). The CODM assesses the financial performance and position of the Group and makes strategic decisions.
An operating segment is group of assets and operations:

(i) engaged in revenue producing activities;
(ii) results of its operations are continuously analyzed by management in order to make decisions related to resource allocation and performance assessment; and
(iii) whose financial information is separately available.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended March 31, 2021
(All amounts in Saudi Riyals thousands unless otherwise stated)

## 3 Significant accounting policies (continued)

### 3.4 Foreign currencies translation

*Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Saudi Riyals, which is SADAFCO's functional and presentation currency.

*Transaction and balances*

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary assets measured at fair value is treated in line with the recognition of gain or loss on change in fair value in the item (i.e., the translation differences on items whose fair value gain or loss is recognised in consolidated statement of profit or loss or consolidated statement of comprehensive income are also recognised in consolidated statement of profit or loss or consolidated statement of comprehensive income, respectively).

*Group companies*

The results and financial position of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each consolidated balance sheet presented are translated at the closing rate at the date of end of reporting period;
- income and expenses for each consolidated statement of profit or loss and consolidated statement of comprehensive income are translated at average exchange rates; and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended March 31, 2021
(All amounts in Saudi Riyals thousands unless otherwise stated)

## 3 Significant accounting policies (continued)

### 3.5 Revenue recognition

The Group recognises revenue to depict the transfer of promised goods to customers. Revenue is measured based on the consideration specified in a contract with a customer net of returns, trade discounts, volume rebates and value added taxes.

Revenue is recognised when a customer obtains control of the goods or services (i.e. when it has the ability to direct the use of and obtain benefits from the goods). Customers obtain control when goods are delivered to and have been accepted by them as per the applicable delivery terms and, accordingly, revenue is recognised at that point-in-time. Invoices are usually payable within credit period agreed with the customer which may vary from one to another. For contracts that permit the customer to return an item, revenue is recognised to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Therefore, the amount of revenue recognised is adjusted for expected returns, which are estimated based on the historical data, incase such returns are material.

The goods are often sold with retrospective volume discounts based on aggregate sales over a 12-months period. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability (included in accrued and other liabilities) is recognised for expected volume discounts payable to customers in relation to sales made until the end of the reporting period.

The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to inventory and credit risks.

No element of financing component is deemed present as the sales are made either on cash or on credit terms consistent with market practice. A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

### 3.6 Selling, distribution, general and administrative expenses

Selling, distribution and general and administrative expenses include direct and indirect costs not specifically part of cost of revenue. Costs directly and indirectly related to marketing and distribution activities are classified as selling and distribution expenses. All other costs are classified under general and administrative expenses. Allocations between selling, distribution and general and administrative expenses and cost of revenue, when required, are made on a consistent basis.

### 3.7 Dividends distribution

Dividend distribution to SADAFCO's shareholders is recognised as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by SADAFCO's shareholders.

### 3.8 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended March 31, 2021
(All amounts in Saudi Riyals thousands unless otherwise stated)

## 3 Significant accounting policies (continued)

### 3.8 Business combinations (continued)

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the:

- consideration transferred,
- amount of any non-controlling interest in the acquired entity; and
- acquisition-date fair value of any previous equity interest in the acquired entity

Over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in consolidated statement of profit or loss as a bargain purchase. Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in consolidated statement of profit or loss. The Group recognises contingent consideration which results from business combinations at fair value at acquisition date. Management exercises judgement in the determination of the discount rate and the probability of performance targets being met.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

### 3.9 Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major overhaul is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in consolidated statement of profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met and the amounts are expected to be material.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the consolidated statement of profit or loss when incurred.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended March 31, 2021
(All amounts in Saudi Riyals thousands unless otherwise stated)

## 3 Significant accounting policies (continued)

### 3.9 Property, plant and equipment (continued)

Depreciation is charged to the consolidated statement of profit or loss on a straight-line basis over the estimated useful lives of property, plant and equipment as follows;

| | Percentage |
|---|---|
| • Buildings | 2.5-10 |
| • Machinery and equipment | 6.7-12.5 |
| • Vehicles and trailers | 15-25 |
| • Furniture, fixtures and office equipment | 10-25 |

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss when the asset is derecognised. The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial period end and adjusted prospectively, if appropriate.

### 3.10 Intangible assets

*Goodwill*

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

*Brands, customer and supplier relationships*

Separately acquired intangibles are recorded at historical cost. Brands, customer and supplier relationships acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortization and impairment losses.

Amortization is charged to the consolidated statement of profit or loss on a straight-line basis over the estimated useful lives as follows:

| | Number of years |
|---|---|
| • Brand and others | 4-5 |

### 3.11 Zakat and income tax on foreign entities

In accordance with the regulations of the General Authority of Zakat and Income Tax (“GAZT”), the Group is subject to zakat attributable to its Saudi shareholders. Provisions for zakat are charged to the consolidated statement of profit or loss. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined. For pending zakat assessment years, provisions are assessed at each reporting period depending on the status of zakat assessment.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended March 31, 2021
(All amounts in Saudi Riyals thousands unless otherwise stated)

## 3 Significant accounting policies (continued)

### 3.11 Zakat and income tax on foreign entities (continued)

Income tax on foreign entities including subsidiaries is provided in accordance with the relevant income tax regulations of their countries of incorporation. The income tax expense or credit for the period is the tax payable on the current periods taxable income based on the applicable income tax rate for each jurisdiction.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company and its subsidiaries and associates operate and generate taxable income. The income tax charge relating to subsidiaries is recorded in consolidated statement of profit or loss, if material. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

The Group withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

### 3.12 Leases

The Group has leases for various accommodation, lands, warehouses, vehicles and depot facilities. Rental contracts are typically made for fixed periods of 1 to 20 years, but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Payments made under operating leases (net of any incentives received from the lessor) were charged to the consolidated statement of profit or loss on a straight-line basis over the period of the lease.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the consolidated statement of profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on present value. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee’s incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended March 31, 2021
(All amounts in Saudi Riyals thousands unless otherwise stated)

## 3 Significant accounting policies (continued)

### 3.12 Leases (continued)

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the consolidated statement of profit or loss. Short-term leases are leases with a lease term of 12 months or less. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

Extension and termination options are included in a number of lands and depots leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable by both the parties.

At March 31, 2021 and 2020, the Group did not have any lease contract classified as right-of-use assets that are variable in nature. Some leases contain extension options exercisable by the Group before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable by both the parties. The Group assesses at lease commencement whether it is reasonably certain to exercise the option. The Group does not provide residual value guarantees in relation to any of its leases.

### 3.13 Financial instruments

*Non-Derivative Financial instruments*

(i) Financial assets (Non-derivative)

Classification

On initial recognition, a financial asset is classified in either of the following categories:

- subsequently measured at amortised cost;
- subsequently measured at fair value through other comprehensive income ("FVOCI") – debt instrument;
- subsequently measured at fair value through other comprehensive income ("FVOCI") – equity instrument; or
- subsequently measured at fair value through profit or loss ("FVPL").

The classification of financial assets is based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

<u>Debt instruments</u>

A 'debt instrument' is classified as subsequently measured at amortised cost if both the following conditions are met:

(a) The asset is held within a business model whose objective is to hold assets for collecting contractual cash flows; and

(b) Contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended March 31, 2021
(All amounts in Saudi Riyals thousands unless otherwise stated)

## 3 Significant accounting policies (continued)

### 3.13 Financial instruments (continued)

If the above two conditions are not met, the ‘debt instrument’ is classified as subsequently measured at fair value, either at FVPL or FVOCI, based on the business model.

(a) Measurement

Initial recognition

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

Subsequent measurement

*Debt instruments subsequently measured at amortised cost*

This category is the most relevant to the Group. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in profit or loss. The losses arising from impairment are recognised in profit or loss. This category generally applies to trade and other receivables, bank balances, security deposits, advances to employees.

*Debt instruments subsequently measured at fair value*

For this category, if applicable, such financial assets are subsequently measured at fair value at the end of each reporting period, with all changes recognised either in profit or loss for equity instruments classified as FVPL, or within other comprehensive income for equity instruments classified as FVOCI.

(b) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group’s consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or,
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended March 31, 2021
(All amounts in Saudi Riyals thousands unless otherwise stated)

## 3 Significant accounting policies (continued)

### 3.13 Financial instruments (continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

(c) Impairment

The Group applies the expected credit loss (ECL) model for measurement and recognition of impairment loss on the financial assets that are debt instruments, and are measured at amortised cost (e.g. deposits, trade receivables and bank balances). The Group follows 'simplified approach' for recognition of impairment loss allowance on trade receivables, if they do not contain a significant financing component.

The application of a simplified approach does not require the Group to track changes in credit risk. Rather, it recognises impairment loss allowance based on lifetime ECL at each reporting date, right from its initial recognition. Lifetime ECL is the expected credit loss resulting from all possible default events over the expected life of a financial instrument.

The Group uses a provision matrix in the calculation of the ECL on financial assets to estimate the lifetime expected credit losses, applying certain provision rates to respective contractual past due aging buckets. The provision matrix is developed considering probability of default and loss given default which were derived from historical data of the Group and are adjusted to reflect the expected future outcome.

ECL impairment loss allowance (or reversal) recognised during the period is recognised as income/ expense in profit or loss.

(ii) Financial liabilities (Non-derivative)

Financial liabilities are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired. Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest rate method.

Non-derivative financial liabilities of the Group comprise trade and other payables.

(iii) Offsetting

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended March 31, 2021
(All amounts in Saudi Riyals thousands unless otherwise stated)

## 3 Significant accounting policies (continued)

### 3.13 Financial instruments (continued)

*Derivative Financial instruments*

Derivatives are initially recognised at fair value on the date a derivative contract is entered into, and they are subsequently remeasured to their fair value at the end of each reporting period as assets where the fair value is positive and as liabilities where the fair value is negative. The Group has not designated any derivative as a hedging instrument. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the consolidated statement of profit or loss and are included in "Other operating income". Any related transaction costs are recognised in profit or loss as incurred. Gain / loss on matured derivative financial instruments is recognized in the consolidated statement of profit or loss and is included in "Other operating income".

### 3.14 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

### 3.15 Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and on hand and other short term highly liquid investments, with original maturities of three months or less from the purchase date and / or readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank borrowing (if any) as they are considered an integral part of the Group's cash management.

### 3.16 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment.

### 3.17 Inventories

Inventories are valued at the lower of 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. Costs are assigned to individual items of inventory on the basis of first-in-first out. Costs of purchased inventory are determined after deducting rebates and discounts.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

### 3.18 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial period which are unpaid. The amounts are unsecured and are usually paid in accordance with agreed terms. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest rate method.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended March 31, 2021
(All amounts in Saudi Riyals thousands unless otherwise stated)

## 3 Significant accounting policies (continued)

### 3.19 Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

### 3.20 Non-controlling interest put options

Written put options in respect of which the Group does not have an unconditional right to avoid the delivery of cash, are recognised as financial liabilities. Under this method, the non-controlling interest is not derecognised when the financial liability in respect of the put option is recognised, as the non-controlling interest still has present access to the economic benefits associated with the underlying ownership interest. Non-controlling interest put options are initially recognised at the present value of redemption amount and reduction to controlling interest equity. All subsequent changes in liability is recognised in the consolidated statement of profit or loss. The Group uses its judgment to select a variety of methods, and assumptions made are based on market and Group specific conditions existing at each reporting period.

### 3.21 Employee benefit obligations

The Group is operating an unfunded post-employment defined benefit plan. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. Actuarial gains and losses are recognised in full in the period in which they occur in the consolidated statement of comprehensive income. Such actuarial gains and losses are also immediately recognised in retained earnings and are not reclassified to the consolidated statement of profit or loss in subsequent periods.

Past service costs are recognised in the consolidated statement of profit or loss on the earlier of:

- The date of the plan amendment or curtailment; and
- The date on which the Group recognises related restructuring costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under 'cost of revenue', 'general and administration expenses' and 'selling and distribution expenses' in the consolidated statement of profit or loss (by function):

- Service costs comprises current service costs, past-service costs, gains and losses on curtailments and non-routine settlements.
- The defined benefit asset or liability comprises the present value of the defined benefit obligation, past service costs and less the fair value of plan assets out of which the obligations are to be settled. However, currently the plan is unfunded and has no assets.

### 3.22 Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

### 3.23 Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost. Treasury shares are presented as a deduction from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the SADAFCO's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised as share premium or discount which is presented in equity.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended March 31, 2021
(All amounts in Saudi Riyals thousands unless otherwise stated)

## 3 Significant accounting policies (continued)

### 3.24 Other reserve

In accordance with Company's by-laws, the shareholders decided to create a voluntary reserve by the transfer of 10% of the annual net income attributable to equity shareholders of SADAFCO 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.

### 3.25 Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Group.
- by the weighted average number of ordinary shares outstanding during the financial year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

## 4 Critical accounting estimates and judgments

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, costs, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future period.

These estimates and assumptions are based upon experience and various other factors that are believed to be reasonable under the circumstances and are used to judge the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised or in the revision period and future periods if the changed estimates affect both current and future periods.

The key assumption concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the financial year include:

### (i) Goodwill - Annual impairment testing of goodwill

The Group's management tests whether goodwill has suffered any impairment at least on an annual basis. This requires an estimation of recoverable amounts of the cash-generating units to which the goodwill is allocated. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model, EBITDA margins and the terminal growth rate used for extrapolation purposes. The key assumptions applied in the determination of the value-in-use are disclosed and further explained in Note 14 to the consolidated financial statements.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended March 31, 2021
(All amounts in Saudi Riyals thousands unless otherwise stated)

## 4 Critical accounting estimates and judgments (continued)

### (ii) Non-controlling interest put options

The fair value of non-controlling interest put options are recognised at the present value of redemption amount based on discount future cash flow analysis. The Group uses its judgment to select a variety of methods, and assumptions made are based on market and Group specific conditions existing at each reporting period. Further details are explained in Note 15 to the consolidated financial statements.

### (iii) Measurement of post-employment defined benefits

The cost of post-employment defined benefits is the present value of the related obligation, as determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, withdrawal before normal retirement age and mortality rates. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The parameter most subject to change is the discount rate. With respect to determining the appropriate discount rate, yield and duration of high quality bonds obligation, as designated by an internationally acknowledged rating agency are considered, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. Further details are explained in Note 26 to the consolidated financial statements.

### (iv) Right-of-use assets and lease liabilities

The Group has applied judgment to determine the lease term for some lease contracts in which it is a lessee that include renewable options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised. Refer Note 13 for further details.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of lands, warehouses and depot facilities, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend (or not terminate).
- If any lands are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate).
- Otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Most extension options on depot facilities and vehicles leases have not been included in the lease liability, because the Group could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended March 31, 2021
(All amounts in Saudi Riyals thousands unless otherwise stated)

## 4 Critical accounting estimates and judgments (continued)

### (v) Expected Credit Loss (ECL) measurement on financial assets

Measurement of ECL is a significant estimate that involves the determination of the methodology, models and data inputs. The Group used supportable forward-looking information for measurement of ECL. The most significant forward-looking information used in determination of ECL is disclosed in Note 28.

The existence of COVID-19 was confirmed in early 2020 and spread globally, causing disruptions to businesses and economic activity. In the determination of ECL for the year ended March 31, 2021, the Group has considered the potential impact (based on the best available information) of the uncertainties caused by the COVID-19 pandemic and found that the payment cycle for few customers was affected during the year and the impact was considered in the determination of ECL. However, on overall basis, the customers were not significantly affected by COVID-19. Further, management considered the impact of forward-looking information used in determination of ECL and the impact of that on ECL for the year ended March 31, 2021 was immaterial. As mentioned in Note 1, the Group's management continues to monitor the situation closely.

## 5 Group information

The consolidated financial statements of the Group include:

| Name | Relationship | Principal activities | Country of incorporation | % equity interest | |
|---|---|---|---|---|---|
| | | | | March 31, 2021 | March 31, 2020 |
| SADAFCO Bahrain Company LLC | Subsidiary | Foodstuff and dairy products | Bahrain | 100% | 100% |
| SADAFCO Jordan Foodstuff Company LLC | Subsidiary | Foodstuff and dairy products | Jordan | 100% | 100% |
| SADAFCO Qatar W.L.L. | Subsidiary | Foodstuff and dairy products | Qatar | 75% | 75% |
| SADAFCO Kuwait Foodstuff Co. W.L.L (*) | Subsidiary | Foodstuff and dairy products | Kuwait | 49% | 49% |
| SADAFCO Poland Sp. z o.o. ("SADAFCO Poland") | Subsidiary | Holding company | Poland | 100% | 100% |
| Mlekoma Sp. z o.o. | Subsidiary | Dairy products | Poland | 76% | 76% |
| Foodexo Sp. z o.o. | Subsidiary | Dairy products | Poland | 76% | 76% |
| Mlekoma Dairy Sp. z o.o. | Associate | Dairy products | Poland | 37% | 37% |

(*) Remaining equity interest is beneficially held through parties nominated by the Company.

The Group's parent entity is Al Qurain Petrochemicals Industries Company ("QPIC"), which is an associate of Kuwait Projects Company Holding ("KIPCO"). QPIC holds shareholding equal to 40.11% of the share capital (2020: 40.11% of the share capital). Both, QPIC and KIPCO are listed on Kuwait Stock Exchange.

## 6 Segment information

### 6.1 Operating segment

Following the management approach in regard to IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Board of Directors and CEO (Chief Operating Decision Maker), who are responsible for allocating the reportable segments and assessing their performance. The drinks segment represents milk and juice products, while non–drinks represent ice creams, tomato paste, cheese and snacks.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended March 31, 2021
(All amounts in Saudi Riyals thousands unless otherwise stated)

## 6 Segment information (continued)

### 6.1 Operating segment (continued)

| | March 31, 2021 | | | |
|---|---|---|---|---|
| | Drinks | Non-drinks | Unallocated | Total |
| *Segment profit or loss* | | | | |
| Segment revenue – net | 1,310,963 | 912,198 | - | 2,223,161 |
| Inter-segment revenue – net | (33,798) | (83,965) | - | (117,763) |
| Revenue from external customers | 1,277,165 | 828,233 | - | 2,105,398 |
| Profit before zakat | 175,294 | 108,561 | - | 283,855 |
| Depreciation and amortization | 72,035 | 32,360 | - | 104,395 |
| Finance income | - | 3,050 | 3,109 | 6,159 |
| Finance cost | 3,367 | 4,400 | - | 7,767 |
| *Segment assets* | | | | |
| Property, plant and equipment | 596,397 | 264,332 | - | 860,729 |
| Right-of-use asset | 51,866 | 11,289 | - | 63,155 |
| Intangible assets | - | 21,975 | - | 21,975 |
| Other non-current assets | - | 5,294 | 243 | 5,537 |
| Current assets | - | 63,053 | 1,214,986 | 1,278,039 |
| Total assets | 648,263 | 365,943 | 1,215,229 | 2,229,435 |
| *Segment liabilities* | | | | |
| Current liabilities | 7,577 | 37,798 | 428,845 | 474,220 |
| Non-controlling interest put option and other liabilities | - | 26,881 | - | 26,881 |
| Lease liabilities | 44,504 | 9,217 | - | 53,721 |
| Employee benefit obligations | - | 261 | 119,533 | 119,794 |
| Total liabilities | 52,081 | 74,157 | 548,378 | 674,616 |

| | March 31, 2020 | | | |
|---|---|---|---|---|
| | Drinks | Non-drinks | Unallocated | Total |
| *Segment profit or loss* | | | | |
| Segment revenue – net | 1,277,920 | 890,306 | - | 2,168,226 |
| Inter-segment revenue –net | (29,809) | (82,326) | - | (112,135) |
| Revenue from external customers | 1,248,111 | 807,980 | - | 2,056,091 |
| Profit before zakat | 192,052 | 91,643 | - | 283,695 |
| Depreciation and amortization | 72,546 | 27,259 | - | 99,805 |
| Finance income | - | 187 | 11,223 | 11,410 |
| Finance costs | 2,685 | 1,132 | - | 3,817 |
| *Segment assets* | | | | |
| Property, plant and equipment | 582,119 | 215,406 | - | 797,525 |
| Right-of-use asset | 58,831 | 13,333 | - | 72,164 |
| Intangible assets | - | 26,133 | - | 26,133 |
| Other non-current assets | - | 5,403 | 243 | 5,646 |
| Current assets | - | 55,036 | 1,217,965 | 1,273,001 |
| Total assets | 640,950 | 315,311 | 1,218,208 | 2,174,469 |
| *Segment liabilities* | | | | |
| Current liabilities | 9,260 | 34,885 | 454,313 | 498,458 |
| Non-controlling interest put option and other liabilities | - | 29,330 | - | 29,330 |
| Lease liabilities | 47,018 | 10,156 | - | 57,174 |
| Employee benefits obligations | - | 230 | 112,811 | 113,041 |
| Total liabilities | 56,278 | 74,601 | 567,124 | 698,003 |

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended March 31, 2021
(All amounts in Saudi Riyals thousands unless otherwise stated)

## 6 Segment information (continued)

### 6.1 Operating segment (continued)

The management has categorised its geographical operations as follows:

| | 2021 | 2020 |
|---|---|---|
| Geographic information | | |
| Revenue from external customers | | |
| Kingdom of Saudi Arabia | 1,810,894 | 1,751,881 |
| Poland | 159,404 | 197,541 |
| Gulf Cooperation Council (GCC) countries | 63,607 | 58,874 |
| Others | 71,493 | 47,795 |
| | 2,105,398 | 2,056,091 |
| Non-current operating assets | | |
| Kingdom of Saudi Arabia | 864,576 | 802,212 |
| Poland | 66,318 | 75,171 |
| Gulf Cooperation Council (GCC) countries | 17,644 | 18,848 |
| Others | 2,858 | 5,237 |
| | 951,396 | 901,468 |

### 6.2 Reconciliation of profit

| | 2021 | 2020 |
|---|---|---|
| Profit before zakat | 283,855 | 283,695 |
| Zakat | (22,962) | (18,583) |
| Profit after zakat | 260,893 | 265,112 |

## 7 Capital management

At March 31, 2021 and March 31, 2020, the Group has no outstanding borrowing arrangements and, therefore, the gearing ratio is not presented.

For the purpose of the Group's capital management, capital includes issued share and paid up capital, statutory reserve, other reserve and foreign currency translation reserve. The primary objective of the Group's capital management is to maximize the shareholder value.

The Group manages its capital structure and makes adjustment in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders, return capital to shareholders or issue new shares.

## 8 Cost of revenue

| | Note | 2021 | 2020 |
|---|---|---|---|
| Material cost | | 1,085,281 | 1,071,950 |
| Employee costs | | 156,985 | 151,703 |
| Depreciation | 12 & 13 | 57,099 | 56,721 |
| Transportation cost | | 43,243 | 40,471 |
| Other overheads | | 68,964 | 46,067 |
| | | 1,411,572 | 1,366,912 |

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended March 31, 2021
(All amounts in Saudi Riyals thousands unless otherwise stated)

## 9 Selling and distribution expenses

| | Note | 2021 | 2020 |
|---|---|---|---|
| Employee costs | | 177,874 | 171,761 |
| Advertising and sales promotion | | 45,185 | 46,463 |
| Depreciation | 12 & 13 | 38,267 | 37,160 |
| Repairs and maintenance costs | | 8,520 | 9,472 |
| Insurance | | 3,738 | 3,287 |
| Communication | | 2,218 | 2,367 |
| Others | | 30,859 | 30,136 |
| | | 306,661 | 300,646 |

## 10 General and administrative expenses

| | Note | 2021 | 2020 |
|---|---|---|---|
| Employee costs | | 68,470 | 66,867 |
| Depreciation and amortisation | 12, 13 & 14 | 9,029 | 5,924 |
| Repairs and maintenance costs | | 2,819 | 3,151 |
| Directors' remuneration | | 2,800 | 2,800 |
| Communication | | 2,070 | 1,922 |
| Bank charges | | 1,110 | 963 |
| Others | | 22,228 | 19,140 |
| | | 108,526 | 100,767 |

## 11 Earnings per share

The basic and diluted earnings per share is computed for the year ended March 31 as follows:

| | 2021 | 2020 |
|---|---|---|
| Profit attributable to owners of SADAFCO | 260,553 | 266,260 |
| Weighted average number of ordinary shares outstanding (in thousands) | 32,000 | 32,000 |
| Basic and diluted earnings per share | 8.14 | 8.32 |

### Treasury shares

As of March 31, 2021 and March 31, 2020, the Company held 500,250 treasury shares.

| | 2021 | 2020 |
|---|---|---|
| Treasury shares | 51,559 | 51,559 |

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended March 31, 2021
(All amounts in Saudi Riyals thousands unless otherwise stated)

## 12 Property, plant and equipment

| | Land and buildings | Machinery and equipment | Vehicles and trailers | Furniture, fixtures and office equipment | Capital work-in-progress | Total |
|---|---|---|---|---|---|---|
| Cost | | | | | | |
| April 1, 2019 | 416,906 | 955,807 | 232,197 | 96,867 | 188,823 | 1,890,600 |
| Additions | 1,799 | 2,393 | 17,277 | 1,333 | 69,826 | 92,628 |
| Disposals | (29) | (6,025) | (8,846) | (188) | - | (15,088) |
| Transfers | 105,877 | 78,511 | 2,032 | 3,240 | (189,660) | - |
| March 31, 2020 | 524,553 | 1,030,686 | 242,660 | 101,252 | 68,989 | 1,968,140 |
| Accumulated depreciation | | | | | | |
| April 1, 2019 | 224,978 | 624,886 | 175,943 | 77,772 | - | 1,103,579 |
| Charge for the year | 17,066 | 42,028 | 16,990 | 4,844 | - | 80,928 |
| Disposals | - | (5,815) | (8,014) | (63) | - | (13,892) |
| March 31, 2020 | 242,044 | 661,099 | 184,919 | 82,553 | - | 1,170,615 |
| Net book value at March 31, 2020 | 282,509 | 369,587 | 57,741 | 18,699 | 68,989 | 797,525 |
| Cost | | | | | | |
| April 1, 2020 | 524,553 | 1,030,686 | 242,660 | 101,252 | 68,989 | 1,968,140 |
| Additions | 576 | 3,296 | 872 | 625 | 147,060 | 152,429 |
| Disposals | (325) | (3,701) | (12,760) | (447) | (261) | (17,494) |
| Transfers | 7,287 | 50,764 | 18,466 | 1,114 | (77,631) | - |
| Currency translation | (2,072) | (2,164) | (97) | (278) | (155) | (4,766) |
| March 31, 2021 | 530,019 | 1,078,881 | 249,141 | 102,266 | 138,002 | 2,098,309 |
| Accumulated depreciation | | | | | | |
| April 1, 2020 | 242,044 | 661,099 | 184,919 | 82,553 | - | 1,170,615 |
| Charge for the year | 17,834 | 44,856 | 17,502 | 5,815 | - | 86,007 |
| Disposals | (58) | (3,677) | (12,669) | (447) | - | (16,851) |
| Currency translation | (341) | (1,582) | (79) | (189) | - | (2,191) |
| March 31, 2021 | 259,479 | 700,696 | 189,673 | 87,732 | - | 1,237,580 |
| Net book value at March 31, 2021 | 270,540 | 378,185 | 59,468 | 14,534 | 138,002 | 860,729 |

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

| | Note | 2021 | 2020 |
|---|---|---|---|
| Cost of revenue | 8 | 54,303 | 52,884 |
| Selling and distribution expenses | 9 | 26,149 | 25,651 |
| General and administrative expenses | 10 | 5,555 | 2,393 |
| | | 86,007 | 80,928 |

(b) The ownership interest of the Group in a freehold land held in Madinah amounting to Saudi Riyals 1.54 million (March 31, 2020: Saudi Riyals 1.54 million) is through a shareholder of the Group. The Group holds legal documents confirming its beneficial interest.

(c) The additions during the year amounting to Saudi Riyals 152.4 million (2020: Saudi Riyals 92.6 million) mainly represent additions to capital work-in-progress for new ice cream factory and other expansion projects.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended March 31, 2021
(All amounts in Saudi Riyals thousands unless otherwise stated)

## 13 Leases

(i) The Group's leasing activities and how these are accounted for:

The Group leases various stores, offices and vehicles. Rental contracts are typically made for fixed periods of 2 to 16 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and corresponding liability at the date of which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to consolidated statement of profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The Group's weighted average incremental borrowing rate applied to the lease liabilities ranges from 2.67% to 4.29%. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

At March 31, 2021 and 2020, the Group did not have any lease contracts classified as right-of-use asset that are variable in nature. As at March 31, 2021 and 2020, certain leases contain extension options exercisable solely by the Group before the end of the non-cancellable contract period. The Group does not provide residual value guarantees in relation to any of its leases.

(ii) Amounts recognized in the consolidated statement of financial position:

Right-of-use assets

| | Land | Buildings | Vehicles | Total |
|---|---|---|---|---|
| At April 1, 2019 | 38,537 | 13,974 | 15,839 | 68,350 |
| Remeasurement | 3,717 | 7,318 | 7,564 | 18,599 |
| Additions | 788 | - | 639 | 1,427 |
| Depreciation | (2,120) | (5,833) | (8,259) | (16,212) |
| At March 31, 2020 | 40,922 | 15,459 | 15,783 | 72,164 |
| | | | | |
| Additions | 5,179 | 308 | 3,514 | 9,001 |
| Depreciation | (2,180) | (4,788) | (8,721) | (15,689) |
| Termination | (2,321) | - | - | (2,321) |
| At March 31, 2021 | 41,600 | 10,979 | 10,576 | 63,155 |

Lease liabilities

| | 2021 | 2020 |
|---|---|---|
| Opening balance | 69,325 | 64,948 |
| Remeasurement | - | 18,599 |
| Addition | 9,001 | 1,427 |
| Payments made | (15,049) | (18,916) |
| Interest charged | 2,818 | 3,267 |
| Termination | (2,255) | - |
| Closing balance | 63,840 | 69,325 |

Contractual undiscounted cashflows pertaining to lease liabilities as of March 31, 2021 and 2020 are disclosed in Note 28.

| | 2021 | 2020 |
|---|---|---|
| Lease liabilities | | |
| Current | 10,119 | 12,151 |
| Non-current | 53,721 | 57,174 |
| | 63,840 | 69,325 |

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended March 31, 2021
(All amounts in Saudi Riyals thousands unless otherwise stated)

## 13 Leases (continued)

(iii) Amounts recognised in the consolidated statement of profit or loss:

| | 2021 | 2020 |
|---|---|---|
| Depreciation charge on right-of-use assets | 15,689 | 16,212 |
| Interest expense (included in finance costs) | 2,837 | 3,267 |
| Expense relating to short-term leases (included in cost of sales – Note 8, selling and distribution expenses – Note 9 and general and administrative – Note 10) | 7,133 | 7,812 |

Depreciation on right-of-use assets for the year has been allocated as follows:

| | Note | 2021 | 2020 |
|---|---|---|---|
| Cost of revenue | 8 | 2,796 | 3,837 |
| Selling and distribution expenses | 9 | 12,118 | 11,509 |
| General and administrative expenses | 10 | 775 | 866 |
| | | 15,689 | 16,212 |

(iv) During the year ended March 31, 2021, the Group has terminated a lease contract and the related lease liability and right-of-use asset were written off resulting in a loss of Saudi Riyals 0.06 million.

(v) There are no short-term lease commitments as of March 31, 2021 and 2020 as all amounts were paid in advance.

## 14 Intangible assets

| | Goodwill | Brand | Others | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| March 31, 2020 | 18,720 | 8,656 | 3,421 | 30,797 |
| Currency translation difference | (1,166) | (539) | (213) | (1,918) |
| March 31, 2021 | 17,554 | 8,117 | 3,208 | 28,879 |
| **Accumulated amortization** | | | | |
| March 31, 2020 | - | 3,367 | 1,297 | 4,664 |
| Charge for the year | - | 1,925 | 774 | 2,699 |
| Currency translation difference | - | (330) | (129) | (459) |
| March 31, 2021 | - | 4,962 | 1,942 | 6,904 |
| **Net book values** | | | | |
| March 31, 2021 | 17,554 | 3,155 | 1,266 | 21,975 |
| March 31, 2020 | 18,720 | 5,289 | 2,124 | 26,133 |

Amortization for the year has been allocated to ‘General and administrative expenses’.

SADAFCO through its wholly-owned subsidiary, SADAFCO Poland, acquired a total stake of 76% in Mlekoma group on July 2, 2018 through a series of agreements, collectively referred to as Share Purchase Agreement (“SPA”).

### *(a) Brand and others*

The Brand and others were recognised as a part of a business combination on July 2, 2018 (the “acquisition date”). They are recognised at their fair value at the date of acquisition and are subsequently amortised on a straight-line basis on the estimated lives of the respective intangibles.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended March 31, 2021
(All amounts in Saudi Riyals thousands unless otherwise stated)

14 Intangible assets (continued)

*(b) Goodwill*

Goodwill is attributable to sourcing of high-quality raw material, experienced workforce and profitability of the acquired business that cannot be assigned to any other determinable and separate intangible asset.

The Group tests whether goodwill has suffered any impairment on an annual basis. For the impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. For the year ended March 31, 2021, the recoverable amount of Mlekoma group which was considered as single cash generating unit was determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. These growth rates are consistent with forecasts included in industry reports specific to the industry in which the CGU operates.

Goodwill is allocated to the Mlekoma group's operations as a whole and falls under "Non-drinks" in the operating segment.

The calculation in value in use is most sensitive to the assumptions on EBITDA margins, discount rate and terminal growth rate. Key assumptions underlying the projections are:

| Key assumptions | 2021 | 2020 |
|---|---|---|
| EBITDA margins | 4.8% | 4.2% |
| Discount rate | 8.4% | 9.5% |
| Terminal value growth rate | 2.5% | 3.0% |

Sensitivity to the changes in assumptions

With regard to the assessment of the value in use, management believes that no reasonably possible change in any of the key assumptions above would cause the carrying value of the CGU including goodwill to materially exceed its recoverable amount. The implications of changes to the key assumptions are discussed below.

(i) EBITDA margins

It is used to measure a company's overall financial performance and profitability. If all other assumptions kept the same, a reduction of this rate by 49% (2020: 40%) across all expected cashflow would give a value in use equal to the current carrying amount.

(ii) Discount rate

The discount rate was an estimate of the weighted average cost of capital as of March 31, 2021 based on market rates adjusted to reflect management's estimate of the specific risks relating to segment and operations in Poland. If all other assumptions kept the same, an increase of this rate by 11% (2020: 6%) would give a value in use equal to the current carrying amount.

(iii) Terminal value growth rate

It is the weighted average growth rate used to extrapolate cash flows beyond the budget period. If all other assumptions kept the same, a reduction of this growth rate by 48% (2020: 24%) would give a value in use equal to the current carrying amount.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended March 31, 2021
(All amounts in Saudi Riyals thousands unless otherwise stated)

## 15 Non-controlling interest put option and other liabilities

### *15.1 Non-controlling interest put option*

The Group recognises non-controlling interests in Mlekoma group at its proportionate share of the acquired net identifiable assets.

In accordance with terms of the SPA, it is a binding irrevocable option to acquire from the non-controlling interest equity holders their remaining shareholding at the expiry date of the option i.e. fifth year of the completion date.

The put option available to the non-controlling interest equity holders is exercisable within period of 15 business days from the expiry date of the option. The redemption value is recognised higher of purchase price as per SPA or determined by applying earnings multiplier to audited EBITDA of financial year 2022 of Mlekoma group as reduced by net debt in accordance with the SPA. The Group has estimated a gross cash outflow of range of Saudi Riyals 25.7 million to Saudi Riyals 33.5 million at the time of exercise of option. A discount rate of 3.1% and 10.3%, respectively has been used for redemptions values based on the two options. This is a level 3 fair valuation as per IFRS 13. Refer Note 27 for fair valuation details.

### *15.2 Contingent consideration*

Contingent consideration payable is estimated based on the terms of SPA, the management's knowledge of the business and how the current economic environment is likely to impact the business of Mlekoma Group. As of March 31, 2021, the non-current portion of contingent consideration payable amounts to Saudi Riyals Nil (2020: Saudi Riyals 3.9 million) and the current portion of contingent consideration payable amounts to Saudi Riyals 2.9 million (2020: Saudi Riyals 3.1 million), which is included in other accrual under 'Accruals and other liabilities' (Note 24).

## 16 Inventories

| | 2021 | 2020 |
|---|---|---|
| Raw materials | 152,092 | 191,564 |
| Packing materials | 18,032 | 27,045 |
| Finished goods | 95,293 | 95,608 |
| Spare parts, supplies and other items | 19,599 | 18,637 |
| Goods-in-transit | 28,854 | 36,821 |
| | 313,870 | 369,675 |
| Less: Provision for slow moving and obsolete inventories (see below) | (11,647) | (12,048) |
| | 302,223 | 357,627 |

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

| | 2021 | 2020 |
|---|---|---|
| April 1 | 12,048 | 10,178 |
| (Reversal) of / charge for the year | (401) | 1,870 |
| March 31 | 11,647 | 12,048 |

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended March 31, 2021
(All amounts in Saudi Riyals thousands unless otherwise stated)

## 17 Trade and other receivables

| | 2021 | 2020 |
|---|---|---|
| Trade receivables | 248,257 | 238,829 |
| Less: Allowance for impairment of trade receivables (see below) | (37,988) | (35,881) |
| Net trade receivables | 210,269 | 202,948 |
| Advances and other receivables | 16,925 | 13,020 |
| | 227,194 | 215,968 |

As at March 31, 2021, trade receivables with an initial carrying value of Saudi Riyals 38 million (2020: Saudi Riyals 35.9 million) were impaired and fully provided for. See below for the movements in the allowance for impairment of trade receivables.

| | 2021 | 2020 |
|---|---|---|
| April 1 | 35,881 | 21,661 |
| Charge for the year | 2,107 | 14,220 |
| March 31 | 37,988 | 35,881 |

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. Refer Note 27 on credit risk of trade receivables, which explains how the Group manages and measures credit quality of trade receivables.

## 18 Deposits, prepayments and other assets

| | 2021 | 2020 |
|---|---|---|
| Prepayments | 8,496 | 7,001 |
| Advances to suppliers | 21,805 | 42,840 |
| Security and other deposits | 5,031 | 3,726 |
| | 35,332 | 53,567 |

## 19 Cash and cash equivalents

| | 2021 | 2020 |
|---|---|---|
| Cash in hand | 22,852 | 21,647 |
| Balances with banks - current account | 45,246 | 61,687 |
| Murabaha short-term bank deposits | 645,192 | 562,505 |
| | 713,290 | 645,839 |

The rates on Murabaha short-term bank deposits ranges from 0.02% to 1.80% per annum for the year ended March 31, 2021 (March 31, 2020: 0.1% to 2.9% per annum). The cash is held in current accounts and Murabaha short-term bank deposits with banks having sound credit ratings. The fair value of cash and cash equivalent approximates the carrying value at each reporting period.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended March 31, 2021
(All amounts in Saudi Riyals thousands unless otherwise stated)

## 20 Capital and reserves

### 20.1 Issued and paid-up capital

| | 2021 | 2020 |
|---|---|---|
| Ordinary share of Saudi Riyals 10 each (*) | 32,500 | 32,500 |
| Issued share and paid-up capital March 31 | 325,000 | 325,000 |

(*) It includes treasury shares acquired during the year ended March 31, 2019.

### 20.2 Statutory reserve

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia, companies are required to transfer 10% of the net profit for the year to a statutory reserve until such reserve equals 30% of its share capital. However, according to the Company's By-laws, the Company was required to transfer at least ten percent of net profit for the year to a statutory reserve until such reserve equals 50% of paid-up capital which was consistent with previous Regulations for Companies. Such level was achieved in previous years and accordingly no further transfers are made to statutory reserve during the year ended March 31, 2021 and 2020. This reserve is not available for distribution to the shareholders of the Group.

### 20.3 Other reserve

In the prior years, the shareholders decided to create a voluntary reserve by transfer of ten percent of the profit attributable to equity shareholders of SADAFCO to the reserve. The utilization of this reserve is at the discretion of the shareholders. In the current year an amount of Saudi Riyals 26.1 million was transferred to voluntary reserve (2020: Saudi Riyals 26.6 million).

## 21 Non-controlling interests

Summarized aggregate financial information of SADAFCO Poland Sp. z o.o. that has material non-controlling interests ("NCI") is set out below. The summarized financial information below represents amounts before intragroup eliminations.

| Summarized statement of financial position of SADAFCO Poland Sp. z o.o. | 2021 | 2020 |
|---|---|---|
| Current assets | 58,049 | 57,768 |
| Current liabilities | 28,609 | 28,861 |
| Net current assets | 29,440 | 28,907 |
| | | |
| Non-current assets | 66,318 | 75,172 |
| Non-current liabilities | 29,283 | 33,919 |
| Net non-current assets | 37,035 | 41,253 |
| | | |
| Net assets | 66,475 | 70,160 |
| | | |
| Equity attributable to the owners of the Group | 45,369 | 49,740 |
| Non-controlling interests | 21,106 | 20,420 |
| | 66,475 | 70,160 |

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended March 31, 2021
(All amounts in Saudi Riyals thousands unless otherwise stated)

## 21 Non-controlling interests (continued)

| Summarized statement of comprehensive income of SADAFCO Poland Sp. z o.o. | 2021 | 2020 |
|---|---|---|
| For the year ended March 31 | | |
| Revenue | 214,891 | 253,066 |
| Expenses | (214,648) | (254,658) |
| Profit / (loss) for the year | 243 | (1,592) |
| | | |
| Profit / (loss) for the year attributable to: | | |
| Owners of SADAFCO | (444) | (2,277) |
| Non-controlling interests | 687 | 685 |
| | 243 | (1,592) |
| | | |
| Total comprehensive income / (loss) attributable to: | | |
| Owners of SADAFCO | (444) | (2,277) |
| Non-controlling interests | 687 | 685 |
| | 243 | (1,592) |
| Summarized cash flows | | |
| For the year ended March 31 | | |
| Cash flows from operating activities | 11,141 | 2,590 |
| Cash flows from investing activities | (1,576) | (587) |
| Cash flows from financing activities | 172 | (1,020) |
| Net increase in cash and cash equivalents | 9,737 | 983 |

## 22 Zakat

### 22.1 Charge for the year

The zakat charge for the year is based on the separate financial statements of SADAFCO.

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

| | 2021 | 2020 |
|---|---|---|
| Charge for the year | 22,962 | 18,583 |

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

| | 2021 | 2020 |
|---|---|---|
| Capital | 325,000 | 325,000 |
| Adjusted reserves, provisions and others at the beginning of the year | 1,315,754 | 1,159,486 |
| Deduction for long-term assets | (1,063,744) | (1,013,689) |
| Deduction for spare parts | (19,084) | (18,637) |
| Zakat base | 557,926 | 452,160 |
| | | |
| Adjusted net income | 302,190 | 291,160 |

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended March 31, 2021
(All amounts in Saudi Riyals thousands unless otherwise stated)

## 22 Zakat (continued)

### 22.2 Movements in provision during the year

| | 2021 | 2020 |
|---|---|---|
| April 1 | 16,327 | 16,189 |
| Charge for the year | 22,962 | 18,583 |
| Transfer from accruals and other liabilities | 4,612 | - |
| Payment during the year | (21,679) | (18,445) |
| March 31 | 22,222 | 16,327 |

### 22.3 Status of assessments

Zakat assessments for the years up to and including year ended March 31, 2019 have been finalized with the General Authority of Zakat and Tax (GAZT).

The Company has filed the zakat return for the year ended March 31, 2020 and received the zakat certificate valid until July 31, 2021. Assessment for the year ended March 31, 2020 has not yet been raised by the GAZT.

### 22.4 Income tax and deferred tax on foreign entities

Income tax and deferred tax assets and liabilities relating to foreign entities are not material to the Group's consolidated financial statements.

## 23 Trade and other payables

| | 2021 | 2020 |
|---|---|---|
| Trade payables | 156,839 | 207,376 |
| Other payables | 12,132 | 13,796 |
| | 168,971 | 221,172 |

The trade and other payables are usually settled within 12 months from the reporting date. Hence the carrying amount of these balances is considered to be the same as their fair values.

## 24 Accruals and other liabilities

| | 2021 | 2020 |
|---|---|---|
| Employee related accruals | 89,198 | 85,748 |
| Marketing related accruals | 43,183 | 35,528 |
| Rent and utility accruals | 35,527 | 33,734 |
| Value added tax payable | 14,931 | 3,115 |
| Plant and facility maintenance | 10,141 | 10,244 |
| Other accruals | 74,208 | 74,683 |
| | 267,188 | 243,052 |

Accruals and other liabilities are usually settled within 12 months from the reporting date. Hence the carrying amount of these balances is considered to be the same as their fair values.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended March 31, 2021
(All amounts in Saudi Riyals thousands unless otherwise stated)

## 25 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) Affiliates of the Group include entities which are subsidiaries including subsidiaries and associates of QPIC and KIPCO Groups.

(c) Significant related party transactions and balances for the year ended March 31 and balances arising there from are described as under:

| Transaction with | Nature of transaction | Transactions with related parties 2021 | Transactions with related parties 2020 | Due to related parties 2021 | Due to related parties 2020 |
|---|---|---|---|---|---|
| Buruj Co-operative Insurance Company (affiliate) (*) | Insurance premium | 11,652 | 11,199 | 2,308 | 2,281 |
| PKC Advisory (affiliate) | Consultancy services | 1,016 | 861 | 24 | - |
| | | | | 2,332 | 2,281 |

(*) These transactions represent the insurance expense net of any claims received from Buruj Co-operative insurance Company.

### Terms and conditions of transactions with related parties

The transactions with related parties are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured and interest free.

There have been no guarantees provided or received for any related party receivables or payables. The Group assess impairment of receivables relating to amounts owed by related parties (2020: Saudi Riyals Nil), if any. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

### Compensation of key management personnel of the Group

| | 2021 | 2020 |
|---|---|---|
| Short-term and long-term employee benefits | 14,127 | 15,596 |
| Termination benefits | 567 | 549 |
| Total compensation paid to key management personnel | 14,694 | 16,145 |

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended March 31, 2021
(All amounts in Saudi Riyals thousands unless otherwise stated)

## 26 Employee benefit obligations

The Group has a post-employment defined benefit plan. The benefits are required by Saudi Labor and Workman Law. The benefit is based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of Saudi Arabia.

The following table summarizes the components of the net benefit expense recognised in the consolidated statement of profit or loss and consolidated statement of comprehensive income and amounts recognised in the consolidated statement of financial position:

| | 2021 | 2020 |
|---|---|---|
| Discount rate | 3.1% | 2.7% |
| Expected rate of salary increase | 3.1% | 2.7% |
| Death in service | Age wise | Age wise |
| Withdrawal before normal retirement period | Age wise | Age wise |
| Net benefit expense recognised in consolidated statement of profit or loss | | |
| Current service cost | 12,873 | 12,044 |
| Interest cost on benefit obligations | 2,810 | 3,994 |
| Net benefit expense | 15,683 | 16,038 |

Net benefit expense recognised in the consolidated statement of comprehensive income

| | 2021 | 2020 |
|---|---|---|
| Remeasurement loss arising from experience | 3,574 | 2,068 |

Reconciliation of net liability recognised in the consolidated statement of financial position

| | 2021 | 2020 |
|---|---|---|
| Net liability as at beginning of the year | 113,041 | 109,576 |
| Interest cost on benefit obligations | 2,810 | 3,994 |
| Current service cost | 12,873 | 12,044 |
| Remeasurement loss | 3,574 | 2,068 |
| Benefits paid | (12,504) | (14,641) |
| Net liability at end of the year | 119,794 | 113,041 |

The weighted average duration of the defined benefit obligation as at March 31, 2021 is 10.45 years (March 31, 2020: 9.78 years).

The scheme is an unfunded scheme with no assets backing the liabilities under the plan. This exposes the employees to the loss of benefits or delay in payments in case of employer's business not being able to meet its obligations or any unforeseen cash flow demands.

The liabilities are based on certain assumptions which pose a risk that in case the assumptions do not materialise as assumed, the liabilities may vary. For this purpose, sensitivity of results to certain key assumptions is indicated below:

*Discount rate:*

| | 2021 | 2020 |
|---|---|---|
| 0.25% increase in discount rate | (2,578) | (2,059) |
| 0.25% decrease in discount rate | 2,688 | 2,140 |

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended March 31, 2021
(All amounts in Saudi Riyals thousands unless otherwise stated)

## 26 Employee benefit obligations (continued)

*Salary escalation rate:*

| | 2021 | 2020 |
|---|---|---|
| 0.25% increase in salary escalation rate | 2,681 | 2,374 |
| 0.25% decrease in salary escalation rate | (2,584) | (2,294) |

The sensitivity analysis above has been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analysis is based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

The expected maturity analysis of undiscounted employee benefits obligations is as follows:

| | 2021 | 2020 |
|---|---|---|
| 1 - 5 years | 48,067 | 47,198 |
| 6 - 10 years | 43,954 | 43,727 |
| 11 years and above | 67,993 | 52,355 |

## 27 Financial Instruments

### 27.1 Financial assets

| | Note | 2021 | 2020 |
|---|---|---|---|
| Non-Derivative Financial Assets | | | |
| Financial assets at amortised cost | | | |
| Trade and other receivables | 17 | 227,194 | 215,968 |
| Cash and cash equivalents | 19 | 713,290 | 645,839 |
| Security and other deposits | 18 | 5,031 | 3,726 |
| Total financial assets | | 945,515 | 865,533 |

Trade and other receivables

Trade and other receivables are non-derivative financial assets carried at amortised cost. The carrying value may be affected by changes in the credit risk of the counterparties.

### 27.2 Financial liabilities

| | 2021 | 2020 |
|---|---|---|
| Non-Derivative Financial Liabilities | | |
| Financial liabilities at amortized cost | | |
| Trade and other payables | 168,971 | 221,172 |
| Accruals and other liabilities | 249,379 | 236,851 |
| Lease liabilities | 63,840 | 69,325 |
| Dividend payable | 3,388 | 3,475 |
| Due to related parties | 2,332 | 2,281 |
| Total financial liabilities | 487,910 | 533,104 |

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended March 31, 2021
(All amounts in Saudi Riyals thousands unless otherwise stated)

## 27 Financial Instruments (continued)

### 27.2 Financial liabilities (continued)

| Financial liabilities at fair value through profit or loss | 2021 | 2020 |
|---|---|---|
| Non-controlling interest put option | 26,881 | 25,363 |
| Contingent consideration payable | 2,878 | 7,053 |
| | 29,759 | 32,416 |
| | | |
| Total financial liabilities | 517,669 | 565,520 |
| | | |
| Derivative Financial Liabilities | | |
| Financial liabilities at fair value through profit or loss | | |
| Foreign currency forwards | 650 | - |
| | 650 | - |

The carrying amount of financial assets and liabilities approximates their fair value. Financial assets are not considered to pose a significant credit risk.

### 27.3 Financial instruments carried at fair value

*a) Valuation techniques used to determine fair values*

Specific valuation techniques used to value financial instruments include:

- For contingent consideration payable expected future sales and net margins targets
- For non-controlling interest put option present value of future earnings
- Forward currency contracts present value of future earnings

b) *Fair value measurements using significant unobservable inputs (level 3)*

| | Contingent consideration payable | Non-controlling interest put option | Total |
|---|---|---|---|
| April 1, 2020 | 7,053 | 25,363 | 32,416 |
| Unwinding of discount | 516 | 3,303 | 3,819 |
| Currency translation difference | (191) | (1,785) | (1,976) |
| Payments | (4,500) | - | (4,500) |
| March 31, 2021 | 2,878 | 26,881 | 29,759 |
| | | | |
| Less: current portion | (2,878) | - | (2,878) |
| | - | 26,881 | 26,881 |

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended March 31, 2021
(All amounts in Saudi Riyals thousands unless otherwise stated)

## 27 Financial Instruments (continued)

### c) *Valuation process*

A number of the Group's accounting policies and disclosures require the measurement of fair values. The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team from affiliated group of QPIC that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the chief financial officer (CFO). The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that these valuations meet the requirements of the applicable standards, including the level in the fair value hierarchy in which the valuations should be classified. There were no changes in the valuation techniques during the year. At each financial year-end the finance department:

- verifies all major inputs to the independent valuation report;
- assesses valuation movements when compared to the prior year valuation report; and
- holds discussions with the independent valuer.

Changes in Level 2 and 3 fair values are analysed at each reporting date during the quarterly valuation discussions between the CFO and the valuation team. As part of this discussion, the team presents a report that explains the reasons for the fair value movements, if any.

The main level 3 inputs used by the Group are derived and evaluated as follows:

- Contingent consideration – expected cash flows are estimated based on achievement of target sales and net margins as per the terms of the SPA and the entity's knowledge of the business and how the current economic environment is likely to impact it.
- Non-controlling interest put option – expected earnings multiplier to projected EBITDA of financial year 2022 of Mlekoma group as reduced by net debt in accordance with the SPA.
- Forward currency contracts - The valuation techniques include the use of forward pricing standard models using present value calculations and mid-market valuations. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves, credit spreads, foreign exchange rates, and forward and spot prices.

### d) *Derivative financial instruments*

During the year, the Group's Polish subsidiaries entered into multiple foreign currency forward contracts to cover the volatility in foreign currency transactions. At March 31, 2021, the Group had 38 foreign currency forward contracts in place with a total notional amount of Saudi Riyals 35.5 million and net negative carrying amount of Saudi Riyals 0.65 million. Net realized gain on matured foreign currency forwards recognized during the year ended in the consolidated statement of profit or loss amounted to Saudi Riyals 0.23 million. All these contracts have been classified as 'held for trading' for accounting purposes under current liabilities and designated as level 2 in the consolidated financial statement. The Group relies on the counterparty for the valuation of these derivatives.

The analysis of derivative financial instruments and the related fair values together with the notional amounts classified by the term to maturity as of March 31, 2021 is as follows:

| | | | | Notional amounts by term to maturity | | | |
|---|---|---|---|---|---|---|---|
| | Positive fair value | Negative fair value | Notional amount | Within 3 months | 3 to 12 months | 1 – 5 years | Over 5 years |
| Foreign currency forwards | 689 | 1,339 | 35,459 | 25,684 | 9,775 | - | - |
| | 689 | 1,339 | 35,459 | 25,684 | 9,775 | - | - |

The maturities of the foreign currency forwards are less than 6 months as at March 31, 2021.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended March 31, 2021
(All amounts in Saudi Riyals thousands unless otherwise stated)

## 28 Financial instruments risk management objective and policies

The Group’s principal financial liabilities comprise trade and other payables, accruals and other liabilities, due to related parties and lease liabilities. The Group’s principal financial assets include trade and other receivables and cash and cash equivalents. The carrying amounts of the Group’s financial instruments are reasonable approximations of fair values.

The Group is exposed to market risk, credit risk and liquidity risk. The Group’s senior management oversees the management of these risks. The Group’s senior management is supported by a financial risk committee that advises on financial risks and the appropriate financial risk governance framework for the Group. The financial risk committee provides assurance to the Group’s senior management that the Group’s financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group’s policies and risk objectives. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarized below:

### Market risk

Market risk is the risk that changes in market prices - such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing the returns. Market risk is the risk that the fair value or the future cash flows of a financial instrument may fluctuate as a result of changes in market profit rates or the market prices of securities due to change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk such as equity price risk.

The sensitivity analyses in the following sections relate to the position as at March 31, 2021.

#### i) Interest rate risk

Interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's financial position and cash flows. The Group manages the interest rate risk by regularly monitoring the interest rate profiles of its interest-bearing financial instruments. At March 31, 2021 and 2020, the Group does not have any borrowings and accordingly no interest rate risk sensitivity is presented. Interest bearing financial assets comprises of short term murabaha deposits which are at fixed interest rates; therefore, have no exposure to cash flow interest rate risk and fair value interest rate risk.

#### ii) Currency risk

Currency risk is the risk that value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in currency that is not the Group's functional currency. During the year, the Group's transactions were in Saudi Riyals, Bahraini Dinars, Polish Złoty, Kuwaiti Dinars, Jordanian Dinars, Euros and United States Dollars.

The Group’s exposure to currency risk arising from currencies that are not pegged to Saudi Riyals is not material to these consolidated financial statements. The Group is not significantly exposed to fluctuations in foreign exchange rates during its ordinary course of business as significant transactions of the Group, during the year were either in Saudi Riyals or US Dollars.

#### iii) Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from special commission rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instruments or it's issuer, or factors affecting all similar financial instruments traded in the market. The Group does not have any financial instruments which are subject to other price risk.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended March 31, 2021
(All amounts in Saudi Riyals thousands unless otherwise stated)

## 28 Financial instruments risk management objective and policies (continued)

### Credit risk

Credit risk is the risk that counterparty to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group manages credit risk by assessing the credit worthiness of counter parties before entering into transactions as well as monitoring any outstanding exposures on a periodic basis to ensure timely settlement. Credit risk arises from cash and cash equivalents, credit exposures to customers, including outstanding receivables and securities and other deposits arising due to its operating activities.

The Group's gross maximum exposure to credit risk at the reporting date is as follows:

| | 2021 | 2020 |
|---|---|---|
| Financial assets | | |
| Trade receivables – net | 210,269 | 202,948 |
| Cash and cash equivalents | 713,290 | 645,839 |
| Security and other deposits | 5,031 | 3,726 |
| | 928,590 | 852,513 |

### *(a) Trade receivables*

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of the customer is assessed based on a set of qualitative and quantitative factors and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored and provided that are considered doubtful of recovery.

At March 31, 2021, the Group had 5 customers that accounted for approximately 48% (March 31, 2020: 44%) of total outstanding trade receivable. Trade receivables outstanding balance comprises 88% (2020: 82%) in KSA, 5% (2020: 7%) in GCC (other than KSA) and 7% (2020: 11%) in other countries. Due to short term nature of the trade receivable, their carrying amount is considered to be the same as their fair value.

The requirement for an impairment is analyzed at each reporting date on an individual basis for major customers. Additionally, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. A significant increase in credit risk is presumed if a debtor is more than 90 days past due in making a contractual payment. A default on a trade receivable is when the counterparty fails to make contractual payments within 90 days when they fall due. The Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in the consolidated statement of profit or loss. The Group writes off financial assets, in a whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery.

The Group establishes that there is no reasonable expectation of the recovery once they are not subject to enforcement activity.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets. The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables as low, as its customer base is diversified.

The Group is exposure to credit risk at the reporting date is as follows:

| | 2021 | 2020 |
|---|---|---|
| Trade receivables – third parties - net | 210,269 | 202,948 |
| Cash at banks | 690,438 | 624,192 |
| Security and other deposits | 5,031 | 3,726 |
| | 905,738 | 830,866 |

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended March 31, 2021
(All amounts in Saudi Riyals thousands unless otherwise stated)

## 28 Financial instruments risk management objective and policies (continued)

### Credit risk (continued)

Cash at banks are placed with banks with sound credit ratings. Security and other deposits are considered to have low credit risk; therefore, 12 months expected loss model was used for impairment assessment. Based on management impairment assessment, there is no provision required in respect of these balances for years presented.

For trade receivable, the Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. Further, the expected credit losses also incorporate forward looking information.

The provision matrix takes into account historical credit loss experience (24 quarter-periods) and is adjusted for average historical recovery rates. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the inflation rate, GDP and the unemployment rate of the countries in which it sells its goods to be the most relevant factors and, accordingly, adjusts the historical loss rates based on expected changes in these factors.

Impairment loss on financial assets recognised in the consolidated statement of profit or loss were as follows:

| | Note | 2021 | 2020 |
|---|---|---|---|
| Impairment loss on trade receivables | 17 | 2,107 | 14,220 |

The following table provides information about the exposure to credit risk and ECLs for trade receivables from external customers:

| March 31, 2021 | Weighted average loss rate | Gross carrying amount | Loss allowance |
|---|---|---|---|
| Current (not past due) | 0.16% - 1.13% | 203,331 | 577 |
| 1–90 days past due | 0.15% - 1.13% | 6,803 | 14 |
| 90–180 days past due | 2.09% - 12.85% | 460 | 23 |
| 180+ days past due | 51.12% - 100.00% | 7,404 | 7,115 |
| Specific provision | 100.00% | 30,259 | 30,259 |
| | 15.22% | 248,257 | 37,988 |

| March 31, 2020 | Weighted average loss rate | Gross carrying amount | Loss allowance |
|---|---|---|---|
| Current (not past due) | 0.14% - 1.38% | 190,714 | 573 |
| 1–90 days past due | 0.13% - 1.36% | 11,497 | 15 |
| 90–180 days past due | 1.59% - 14.58% | 1,245 | 17 |
| 180+ days past due | 46.87% - 100.00% | 15,000 | 14,903 |
| Specific provision | 100.00% | 20,373 | 20,373 |
| | 15.02% | 238,829 | 35,881 |

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended March 31, 2021
(All amounts in Saudi Riyals thousands unless otherwise stated)

## 28 Financial instruments risk management objective and policies (continued)

### Credit risk (continued)

*(b) Cash and cash equivalents*

Credit risk from balances with banks and financial institutions is managed in accordance with the Group's policy. Counterparty credit limits are reviewed by the Group's Board of Directors on an annual basis and may be updated throughout the period subject to approval of the Group's Finance Committee. The limits are set to minimize the concentration of risks and therefore mitigate financial loss through potential counterparty's failure to make payments. The Group deals with reputable banks with investment grade credit ratings and the credit quality of the cash and cash equivalents can be assessed by reference to external credit ratings.

Credit risk on bank balances is limited as cash balances are held with banks with sound credit ratings.

### Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available through committed credit facilities to meet any future commitments. This includes consideration of future cashflow forecasts, prepared using assumptions about the nature, timing and amount of future transactions, planned course of actions and other committed cash flows that can be considered reasonable and achievable in the circumstances of the Group. The Group monitors its liquidity risk by regular working capital excess/shortage assessment and ensuring that it has adequate liquidity to fund its day to day operations. Where necessary, the Group may enter into borrowing facility with banks in order to ensure continued funding of operations.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

| March 31, 2021 | On demand | Less than 3 months | 3 to 12 months | 1 to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| Trade and other payables | - | 168,971 | - | - | - | 168,971 |
| Accruals and other liabilities | - | 249,379 | - | - | - | 249,379 |
| Dividend payable | 3,388 | - | - | - | - | 3,388 |
| Due to related parties | 2,332 | - | - | - | - | 2,332 |
| Non-controlling interest put option and other liabilities | - | 2,878 | - | 38,249 | - | 41,127 |
| Lease liabilities | - | 1,505 | 10,469 | 22,705 | 51,415 | 86,094 |
| | 5,720 | 422,733 | 10,469 | 60,954 | 51,415 | 551,291 |

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended March 31, 2021
(All amounts in Saudi Riyals thousands unless otherwise stated)

## 28 Financial instruments risk management objective and policies (continued)

Liquidity risk (continued)

| March 31, 2020 | On demand | Less than 3 months | 3 to 12 months | 1 to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| Trade and other payables | - | 221,172 | - | - | - | 221,172 |
| Accruals and other liabilities | - | 236,851 | - | - | - | 236,851 |
| Dividend payable | 3,475 | - | - | - | - | 3,475 |
| Due to related parties | 2,281 | - | - | - | - | 2,281 |
| Non-controlling interest put option and other liabilities | - | - | 3,086 | 40,790 | - | 43,876 |
| Lease liabilities | - | 2,025 | 12,695 | 28,862 | 53,662 | 97,244 |
| | 5,756 | 460,048 | 15,781 | 69,652 | 53,662 | 604,899 |

## 29 Dividends

In the Extraordinary General Assembly Meeting of the Company held on June 16, 2020, the shareholders approved payment of final dividend of Saudi Riyals 2.5 per share amounting to Saudi Riyals 80 million.

On January 4, 2021, the Board of Directors approved payment of interim dividend of Saudi Riyals 3 per share amounting to Saudi Riyals 96 million). Total dividend distributed for the year amounted to Saudi Riyal 176 million (SAR 5.5 per share).

## 30 Contingencies, commitments and other information

### 30.1 Contingencies

- As at March 31, 2021, the Group has a contingent liability of Saudi Riyals 4.9 million (2020: Saudi Riyals 3.28 million) in respect of guarantees issued by banks for various business needs.

### 30.2 Commitments and other information

- At March 31, 2021, the Group has outstanding commitments for future capital expenditures amounting to Saudi Riyals 109.9 million (2020: Saudi Riyals 72.2 million).

- At March 31, 2021, the Group has outstanding letters of credit issued on its behalf in the normal course of business amounting to Saudi Riyals 1.8 million (2020: Saudi Riyals Nil).

- During the year, the Group had signed a non-binding agreement with an external party with the intention to acquire a controlling stake in an entity which did not materialise.

P.O. Box 5043, Jeddah 21422, Kingdom of Saudi Arabia
Tel : +966 12 629 3366  Fax : +966 12 629 3380  E-mail : sadafco@sadafco.com  www.sadafco.com