

Message from the Chairman

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

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

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

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

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

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

Despite these challenges we continued to pursue our capital investment plans across the company. On-going investments into improved Manufacturing capacity and capability remain essential for company growth and concept diversification.

After the previous year's start-up of the Dammam Factory we experienced growth in output and continuous improvement in utilization levels. Added to this, Dammam Factory joined Jeddah Factory and Jeddah Ice Cream Factory by becoming an ISO22000:2005 accredited facility in June 2013.

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

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

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

My fellow Board members and I would like to thank the Custodian of The Two Holy Mosques, His Royal Highness the Crown Prince deputy Prime Minister and Minister of Defense and His Royal Highness the Second Deputy Prime Minister, Deputy Crown Prince Adviser and Envoy for The Custodian of the Two Holy Mosques and his government and the Government of Saudi Arabia for their continued efforts to support national industries.

Thanks are also due to SADAFCO shareholders, Board Members, executive management and employees for their combined, continued efforts to develop and grow the company.

Finally, I would like to convey my thanks to SADAFCO's growing consumer base and to all our customers for their support during the year.

Hamad Sabah Al-Ahmad

Chairman

Message from the CEO

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

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

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

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

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

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

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

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

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

In closing, I would like to thank SADAFCO's Board members for their continued support, our staff for their dedication and hard work to achieve the reported results and our suppliers and customers for their contributions to making our achievements possible.

And finally, thank you to the Saudia consumer.

Waltherus Matthijs
Chief Executive Officer

About SADAFCO

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

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

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

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

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

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

Introduction

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

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

Product Supply

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

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

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

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

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

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

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

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

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

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

Commercial

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

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

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

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

In the Gulf, SADAFCO Kuwait (which is 49% owned by SADAFCO) took over the distribution of SADAFCO's product range in Kuwait from Raad Stores in May 2013.

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

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

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

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

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

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

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

Organizational Development

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

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

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

Saudization by the year end was at 27%.

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

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

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

Special attention and health education has been paid to campaigns for screening Diabetes and Osteoporosis

and with special focus on preventative measures for reducing the spread of communicable diseases . Regular visits to SADAFCO depots ensured preventative measures were communicated and implemented company wide.

Corporate Social Responsibility

During 2013-14, SADAFCO participated in several social responsibility programs to contribute to the community.

Participation in various ad hoc donations to charity and educational institutions remained a core part of this activity.

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

#	Product	Contribution to Sales 2012-13	Contribution to Sales 2013-14	% change
1	Milk	68%	69%	+1%
2	Tomato Paste	9%	10%	+1%
3	Ice Cream	10%	10%	-
4	Powdered Milk	3%	3%	-
5	Cheese	4%	3%	-1%
7	Others	6%	5%	-1%
	Total	100%	100%	

SADAFCO subsidiaries, their main activities, country of Origin:

SADAFCO owns wholly- and partially-owned subsidiaries that help it achieve its objectives through efficient and wide-spread distribution. In addition to this, three companies registered to focus on Real Estate, Logistics and Investments remain dormant while strategic plans are finalized.

#	Company Name	Main Activity	Country of Origin & Head Quarters	Paid up Capital	Number of shares	Ownership
1	SADAFCO Foodstuff Company LLC *	Import, sale and distribution of dairy products and other goods	UAE	300,000 AED	300	100%
2	SADAFCO Jordan Foodstuff Company LLC	Import, export, marketing, and trading dairy goods, ice cream and goods of all kinds	Jordan	250,000 JD	250,000	100%
3	SADAFCO Qatar Co LLC	Sale and distribution of dairy products and goods	Qatar	1,500,000 QR	1500	75%
4	SADAFCO Bahrain ** Company SPC	Imports, exports, sales, and distribution of dairy goods, ice cream, and goods	Bahrain	50,000 BD	500	100%

5	National Buildings Real Estate -	Owning and acquiring lands and real-estate, developing and investing in real-estate projects	KSA	2,000,000 SAR	200,000	100%
6	United Gulfers Transport –	Transportation of goods, tasks, storage, and cooling	KSA	2,000,000 SAR	200,000	100%
7	National Sights Holding	Investment through Acquisition of controlling Stakes companies	KSA	2,000,000 SAR	200,000	100%
8	SADAFCO Kuwait Foodstuff Co.	Foodstuff and Dairy products distribution	Kuwait	50,000 KD	100	49%

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

** On 18th09/2013 all procedures were completed for the transfer of SADAFCO Bahrain from LLC to SPC (single person Company) the Capital was increased to BD 50000 from BD 20000 accompanying announcement was made on Tadawul at the time.

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

SADAFCO's & Subsidiaries Total Revenue by Geographic region:

#	Description	Sales SAR Millions 2013/14	Percentage	Sales SAR Million 2012/13	Percentage
1	SADAFCO -KSA	1,446	93%	1,400	90,4%
2	GCC	83	5%	99	6.4%
3	Other	24	2%	50	3.2%
	Total	1,553	100%	1,549	100%

Key Performance Indicators

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

Assets & Liabilities:

(Amounts in SAR million)	2013/14	2012/13	2011/2012	2010/2011	2009/2010
Current assets	640	680	773	806	669

Fixed assets	498	422	323	268	239
Non-current assets	0	0	0	0	56.7
Current liabilities	135	174	238	272	228.4
Non current liabilities	81	78	73	72	69.2
Total equity	922	850	785	731	667.1
Sales	1,553	1,549	1,336	1,134	1,023
Net Income	171.5	165	152	130	203

Income Statement

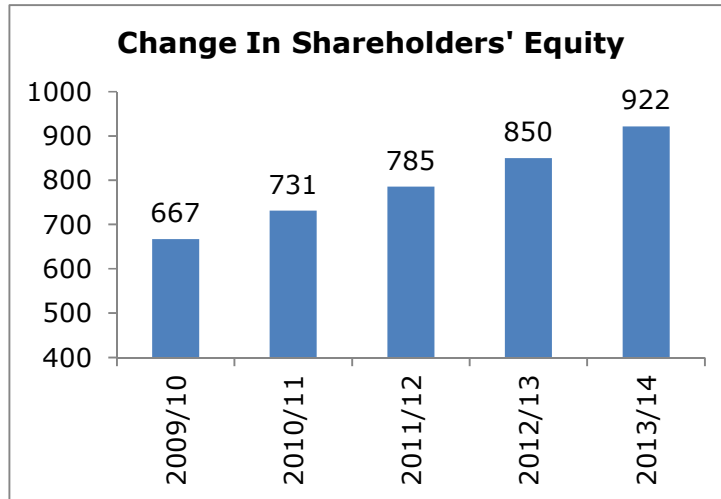
(Amounts in SAR million)	Mar-14	Mar-13
Net sales	1,553	1,549
Cost of sales	(1,060)	(1,074)
Gross profit	493	475
Other revenue	0.8	2
Selling & distribution	(240)	(236)
General & Admin.	(69)	(64)
Financials & bank charges	1	2
Zakat	(14)	(14)
Net Profit (Loss)	171.5	165

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

Statutory Payments for 2013-2014 (SAR Thousands)

#	Government Agency (in SAR Thousands)	Due	Paid	Balance
1	Customs	31,456	31,456	
2	Zakat	15,565	15,565	
3	GOSI	7,502	7,267	235
4	TADAWUL Contract	300	300	
5	Government Fees and visas	7,769	7,769	
6	Tax	2,830	2,830	
	Total	65,422	65,187	235

Change in shareholders' equity



Formation of the Board of Directors:

The SADAFCO Board of Directors is made up of seven Board Members. They were elected for the period starting 01/04/2012 to 31/03/2015. The BOD had a total of 4 attended meetings and there were 8 Board resolutions passed by circulation, the table below shows Board Members' classifications and attendance record :

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

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

Board Members' Directorships

	Name	Listed Companies' Directorships
1	HH Sheikh: Hamad Sabah Al-Ahmad	1) Chairman of KIPCO – Kuwait 2) Chairman of SADAFCO - Saudi Arabia

		3) Chairman of Gulf Egypt Hotels & Tourism Company - Egypt
2	Mr. Faick Hussain Al-Saleh	1) Vice Chairman SADAFCO – Saudi Arabia 2) Board Member UGB - Bahrain
3	Mr. Faisal Hamad Mubarak Al-Ayyar	1) Vice Chairman of KIPCO – Kuwait 2) Vice Chairman Gulf Insurance Company – Kuwait 3) Vice Chairman Kuwaiti Jordanian Bank 4) Board Member SADAFCO - Saudi Arabia 5) Vice Chairman of United Gulf Bank - Bahrain
4	Mr. Abdullah Yaqoob Bishara	1) Chairman of North Africa Holding Company 2) Board Member of SADAFCO - Saudi Arabia 3) Board Member of KIPCO - Kuwait
5	Mr. Tariq M. Abdulsalam	1) Chairman United Real Estate Company – Kuwait 2) Vice Chairman Kuwait Clearing Company – Kuwait 3) Board Member Kuwaiti Jordanian Bank – Jordan 4) Board Member SADAFCO – Saudi Arabia 5) Board Member Royal Capital Company – Abu Dhabi
6	Mr. Sulaiman Saud Al-Jar Allah	1) Board Member SADAFCO - Saudi Arabia
7	Mr. Mussad Abdullah Al-Nassar	1) Board Member SADAFCO - Saudi Arabia

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

Board Committees

Audit Committee:

The Audit Committee consists of three members, all non-executive members of the SADAFCO Board of Directors and amongst them is a specialist in financial matters. The Audit Committee held 3 attendance meetings and passed eight resolutions during the course of the Financial Year 2013-14. The committee's functions and responsibilities include:

- 1) Overseeing the Internal Audit (IA) function within the company in order to ascertain the adequacy in the implementation of IA guidelines, actions and tasks set by the Board of Directors and establish the adequacy of internal control system.
- 2) To produce a written report with its views and recommendations regarding the IA function and to review the IA report and oversee the implementation of its recommendations.
- 3) Recommend to the BOD the appointment of auditors, their dismissal and agreement of their fees and to ensure their independence. Review of the audit plan with the auditors and to study feedback remarks on the financial statements.

- 4) Review and give feedback on the financial statements before the initial and annual presentation to the Board of Directors.
- 5) Review accounting policies used and make recommendations to the Board of Directors.

Table below shows the Audit Committee meetings and Members' Attendance Record:

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

*AM=Attended Board Meeting *C= By Circulation

Nomination and Remuneration Committee:

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

- 1) Nomination of BOD members to the BOD. This is done in accordance with the policies and procedures, taking into account not to nominate any person previously convicted of a crime involving moral turpitude and dishonesty.
- 2) Annual review of skills and competencies required for Board membership and the preparation of job descriptions, including defining the time to be allocated as a Board member.
- 3) Review the structure of the Board and make recommendations regarding changes that can be made.
- 4) Identify weaknesses and strengths in the Board and propose recommendations that are in the interests of the company.
- 5) Ensure, on an annual basis, the independence of the independent members and the absence of any conflict of interest if the member holds membership of the Board of Directors of another company.
- 6) Develop clear policies for the compensation and benefits of members of the Board of Directors and senior executives and take into account when developing policies to use criteria linked to performance.

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

Name	Capacity	2014	2013	Total
		17/02 *AM	16/05 * C	
Mr. Faisal Hamad Al-Ayyar	Chairman	✓	✓	2

Mr. Tariq AbdulSalam	Member	✓	✓	2
Mr. Suleiman Saud Al-Jarallah	Member	✓	✓	2

*AM= Attended Board Meeting *C= By Circulation

Board Members and Executive Management Remuneration:

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

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

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

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

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

** Mr Ioannis Theotokas joined as Director commercial operations as of 27/03/2014

The CMA was informed of all above changes to executive team

Main Shareholders' List As At 31st March 2014

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

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

The above-mentioned information is based on Tadawul records.

Annual Review of the Effectiveness of the Internal Control Procedure

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

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

Related Party Transactions

The company entered into transactions with related parties using the same criteria applied with other parties and under the best terms of trade. Related parties are defined as SADAFCO Board Members, major shareholders and senior executives or any of their first degree relatives, in line with the regulations and guidelines of the Capital Markets Authority and the Ministry of Commerce and Industry in this regard, which require disclosure of such transactions.

Below is a summary of these related party transactions that the Board recommends for approval and renewal for another year by the AGM (on a case by case basis):

#	Company Name, amounts in thousands in Riyals	Country	Nature of Transaction	Value in SR	Closing Balance
1	Buruj Coop Insurance Company	KSA	Services	6,101	636
2	United Gulf Bank	Bahrain	Murabaha Deposit	75,000	0

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

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

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

Dividend Distribution Policy:

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

- 10% of annual net profits are to be set aside for a statutory reserve. The general assembly may choose to stop this reserve once it is equal to half of the company's capital.
- The general assembly may suggest to the BOD another reserve where a further 10% of net profits may accumulate.
- There may be a distribution to the shareholders thereafter where a first payment /dividend equal to 5% of the paid up capital is payable.
- After the above distributions are made there may be an allocation of 10% of net profits to reward the BOD members, provided that the maximum allowed BOD compensation is in compliance with CMA rules and Ministry of the Commerce regulations.
- All remaining profits may then be distributed to shareholders as an extra dividend.

Major Decisions and Future Plans:

SADAFCO continues to look for growth opportunities both within KSA and neighboring GCC countries and is looking to expand its sales routes for further geographic and regional expansion. Progress is being made at the Riyadh Regional Distribution Centre (RRDC) to facilitate product availability in the central region and increase distribution and sales to the area and its neighboring regions. The company continues to develop and add new products to its current portfolio.

Risk Management:

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

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

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

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

Market risk

Commission arises from the possibility that changes in commission rates will affect future profitability or the fair values of financial instruments. The Group is subject to commission rate risk on its bank deposits and Murabaha term deposit.

The management limits the Group's interest rate risk by monitoring changes in interest rates in the currencies in which its interest bearing assets are denominated and uses interest rate swaps to strategically hedge its risk.

Currency risk

Currency risk is the risk that value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is subject to fluctuations in foreign exchange rates in the normal course of its business. The Group did not undertake significant transactions in currencies other than Saudi Arabian Riyals and US Dollars during the year. The Group seeks to limit its currency risk by monitoring

outstanding exposure. As the Saudi Riyal is pegged to the US Dollars, balances are not considered to represent significant currency risk.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and by monitoring outstanding receivables. Further the Company has exposure to credit risk with respect to term and other deposits with banks. The Company manages this risk by depositing and investing in banks with sound credit ratings. At the balance sheet date, no significant concentrations of credit risk were identified by management. The Group sells its products to large number of customers.

Liquidity risk

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

The Company's financial liabilities primarily consist of accounts payable, payable to affiliates, accruals and other liabilities and unpaid dividend. All these financial liabilities are expected to be settled within 12 months from the date of the balance sheet and the Group expects to have adequate liquid funds to do so.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to operate effectively, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Company cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, such as the use of internal audit.

Fines imposed on SADAFCO BY CMA

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

Declarations:

SADAFCO declares and confirms the followings:

1. Its accounts have been prepared according to the correct procedures for the Kingdom of Saudi Arabia.

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

Corporate Governance Compliance:

#	Article	Number of articles	Fully Applied	Partially Applied	Not Applied	Not Applicable	Comments
1	Three: General Rights of Shareholders	1	-	1	-	-	By laws do not grant the right of shareholders to company assets upon liquidation , SADAFCO complies with company law
2	Four: Facilitation of shareholders Exercise of rights and access to information	2	2				
3	Five: Shareholders right related to the General Assembly	10	10	-		-	

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

The Board of Directors of SADAFCO extends its thanks and appreciation to the Custodian of the Two Holy Mosques, the Crown Prince and the Second Deputy Premier for their continuous support and backing of national industries. Thanks are also extended to the Government of the Custodian of the Two Holy Mosques for their continued support of the companies in the Saudi private sector. The Board of

Directors takes this opportunity to thank the shareholders for their trust and support of SADAFCO and customers and consumers for their trust and loyalty. Thanks are also due to the company's management and all its employees for their dedicated efforts and distinguished performance through the fiscal year 2013-2014 which contributed to the achievement of the results of this year. The Board looks forward to more achievements and excellence throughout the next year.

Best Regards

SADAFCO Board of Directors