



Saudia Dairy and Foodstuff Company
(SADAFCO)
Annual Report
Financial Year 2016-17

Message from the Chairman

On behalf of the Board of Directors of Saudia Dairy and Foodstuff Company (SADAFCO), I welcome you to the Annual General Meeting for the presentation of the Annual Report for the 12 months ending 31 March 2017.

This report includes the Financial Year-End Results, the Auditor's Report and highlights of the year's achievements.

The past year has been characterized by generally lower consumer spending and tough price competition in the milk category. The impact has been a 6.3% sales decline, offset by a decrease in input costs driven by lower commodity prices.

Net sales of SAR 1.858 billion were recorded, down 6.3% on 2015-16, yet SADAFCO delivered an increased net operating income of SAR 311 million, up 12.7% on last year.

Trading has been a challenge for all and indications are that this situation will remain for a while yet. Disposable income has diminished and consumers across the board are exercising restraint and discipline when spending.

While these conditions are best for market leaders with strong, respected and recognized brand names, it is by no means an easy time for anyone. The SADAFCO performance has highlighted the organization's agility to be able to weather the storm in difficult times.

The 12 months under review have been busy in terms of corporate governance, with important developments taking place in Saudi Arabian rules and regulations relating to publicly-listed companies. Most notably changes were announced to Company Law in May 2016. Two extra-ordinary general meetings, one in June last year and the other in February this year, took place to seek shareholder general assembly approval for the application of changes required by the new legislation.

SADAFCO remains on track with its International Financial Reporting Standards (IFRS) transition plan, anticipating no difficulties in issuing its first IFRS-compliant financial statements for Quarter 1 of 2017-18.

Performance-wise SADAFCO has remained up among the top performers on Tadawul with total market capitalization reaching SAR 4.3 billion as of 31 March 2017.

Based on bottom-line gains for 2016-17, the Board of Directors proposes a cash distribution of SAR 130 million or SAR 4.00 per share.

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

My appreciation goes to my fellow Board Members, SADAFCO's Shareholders, Executive Management and all employees for their combined, continued efforts to develop and grow the company during challenging times.

In conclusion, I thank SADAFCO's growing, loyal consumer base and customer network for their support during the past year.

Hamad Sabah Al-Ahmad
Chairman

Message from the Chief Executive Officer

The past financial year witnessed lower consumer spending patterns as a result of challenging economic conditions. In this environment, SADAFCO managed to boost its market leader positions in tomato paste and ice cream and its No 2 status in total plain milk in Saudi Arabia, illustrating the resilience and strength of the Saudia brand, trusted and favoured by Saudis for the past 40 years.

Net sales for the year stood at SAR 1.858 billion, a 6.3% decrease on last year's SAR 1.982 billion. Regardless of this, SADAFCO stayed true to the strategy of branded value sales, resisting the temptation of a top-line push. In tandem, the company benefitted from attractive global material cost prices and efficient inventory management. Both factors were strong contributors to the Net Profit growth of 15.7% (SAR 302 million this year versus SAR 261 million the previous year).

During the past two years, SADAFCO has enjoyed margins of exceptional levels. The challenging economic conditions have not yet settled, whether from an input cost or a market dynamics perspective, and it is expected that margins may return to more "normal", albeit comfortable, levels for our industry.

The continued consumer support for our brands is encouraging. Attention to expected standards of quality through world-class manufacturing, best merchandising practices, continued drive on the new initiatives, careful quality resource additions and investment in enhancement of the sales efficiencies, all contribute to the performance of our premium products ahead of the market.

During the year, continued yet controlled investment in assets focused on building capabilities and capacity at Jeddah Factory and Jeddah Ice Cream Factory. Previously-secured land for a central warehouse in Jeddah is being prepared to increase storage capabilities and ground has been broken in the construction of a new Tabuk Depot to aid our distribution efforts in the north.

We continue to look for opportunities in the market to launch new products and to reach our consumers more effectively. New product innovation has resulted in the launch of Soy Drink, Date Milk, Premium Ice Cream Cups, 2-litre Low Fat Milk, JUMP! and Chocolate Sandwich. New sales channels under development include Saudia Ice Cream Boutiques and Ice Cream vending machines.

The company persists with increasing Saudi representation, an effort rewarded with a Ministry of Labor Nitaqat Green Status. The representation of women in the company reached 116 during the year and at the close of the year accounted for 4.2% of the company's work force in Saudi Arabia.

SADAFCO recognizes the need for developing technical skills and it actively pursues ways to achieve this among local youth at all operational levels. This quest allowed the company to enter into a partnership with the Higher Institute for Water and Power Technologies (HIWPT) in Rabigh to identify, train and employ Saudi candidates on graduation. The first intake of students commenced their studies early in 2017.

During 2016-17 the SADAFCO Management Team has seen the appointment of Chief Financial Officer (CFO) Sriram Chandran and Director Marketing and Trade Marketing Shehzad Altaf. We welcome them aboard.

In closing, thank you to the Board of Directors for their on-going support, our staff for their dedication and hard work in achieving the reported results under challenging circumstances and our suppliers and customers for their valuable contributions to making our achievements possible.

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

Waltherus "Wout" Matthijs
Chief Executive Officer

History

The Saudia Dairy and Foodstuff Company (SADAFCO) story began on 21 April 1976 when a joint venture between three dairy companies in Jeddah, Madinah and Dammam was formed between Saudi, Kuwaiti and European businessmen and the company began production with Saudia Milk at the Jeddah Factory in 1977.

Ten years later 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 23 May 2005 led to the company's listing on the Saudi Arabian Stock Exchange, Tadawul.

In 2016 the company celebrated its 40th anniversary.

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 products. The portfolio includes dairy products, ice cream, tomato paste, snacks, drinks and other foodstuff items.

SADAFCO currently offers around 100 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 and JUMP!

The company operates three, ISO22000:2005, ISO14001 and OHSAS18001-accredited factories in Jeddah (two) and Dammam, three Regional Distribution Centres (RDCs) in Riyadh, Jeddah and Dammam and 21 depots across Saudi Arabia, Bahrain, Qatar, Kuwait and Jordan.

Products are also made available to select Middle Eastern and North African markets through the company's export function.

Introduction

SADAFCO ended 2016-17 with net sales of SAR 1.858 billion, reflecting a year-on-year decline of 6.3% while showing increased market shares in key product categories, indicating strong consumer loyalty to the company brands.

Supply Chain

Capital expenditure focus in Manufacturing has been on broadening production capabilities and increasing capacity. This investment continues, in spite of downturns in the economy, to ensure SADAFCO is best placed when market conditions change for the better.

At Jeddah Factory equipment is being relocated to allow for an additional preparation unit to be installed while on the packaging side another high-speed line is in place and work has commenced on providing automated palletizers for the high-speed section.

The development of new office space and a canteen for Jeddah Factory personnel has also been initiated.

At the Jeddah Ice Cream Factory, a new cup machine has been installed, increasing capacity for an already popular line and providing the capability to produce a single-serve pack for the Saudia Premium Flavour range. A new cone baking machine was also installed and was under commissioning by the end of the financial year.

All three SADAFCO factories remain ISO22000:2005 accredited and during the past 12 months they added ISO14001:2004 certifications for Environmental Management and OHSAS18001:2007 for Occupational Health and Safety Management.

Jeddah Factory also added a Halal Certification to its credentials to aid in sales to some export markets. The certification covers all products under production when certification took place. Remaining factories and products will be added later.

The company's three factories share the manufacturing load as follows:

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

Jeddah Ice Cream Factory produces all lines of Ice Cream.

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

Supply Chain continues its role in sourcing, purchasing, shipping and storing raw materials and packaging materials required for the local production of SADAFCO's products.

They also source Saudia products produced by third-party manufacturers including French Fries, Butter, Triangle Cheese, Ketchup, Instant Milk Powder and Sterilized Cream in tins.

During the year Supply Chain transported over 47 million cases of finished goods from factories to depots across the region on trucks travelling a collective 20 million kilometres.

On the projects front, progress was made with Supply Chain traceability and in March 2017 the organization entered the final phase by starting the roll-out to the 24 distribution depots.

A Demand Supply Chain Planning (DSCP) project initiated in November 2016 targets the improved efficiency in this area. The introduction process has four phases with the final one expected to be completed late in 2017-18.

In January last year the process of acquiring rights to the lease of land and buildings in Jeddah began. The land, close to our factories in the industrial area, is now secured and the project will support the company's strategy to boost its manufacturing and logistical capabilities with what will become known as the Jeddah Central Warehouse.

Tracking moveable assets continues to benefit from the introduction of GPS tracking for SADAFCO's fleet of tractor heads and trailers which tracks assets and allows for the monitoring of vehicle movements for route deviations and unnecessary down time.

In terms of the company's distribution points, work has commenced on the construction of the new SAR 17 million Tabuk Depot while Jordan Depot relocated to new leased premises in Amman and Dawadmy prepared to move to a new leased location early in the new year.

Commercial

SADAFCO has improved its share of market during the past 12 months in spite of a tough trading year, indicating the good health of its strong and resilient brands and the effectiveness of its Marketing, Trade Marketing and Sales & Distribution functions.

Independent retail audits indicated that the Saudia brand gained ground to strengthen its No 2 spot in the plain milk market to 30.7% while Saudia Tomato Paste improved its position as No 1 tomato paste in Saudi Arabia to 48.9%. In the ice cream category, Saudia remains the most popular choice for Saudi consumers, improving to 21.8% market share during the year.

The share gains are the highlight of the company efforts with a portfolio that includes Plain Milk, Flavoured Milk, Enhanced Nutrition Milk, Plain Laban, Laban and Fruit, Evaporated Milk, Instant Milk Powder, Sterilized and Thick Cream, Tomato Paste, Ketchup, Arabic Coffee, Snacks, Cheese, Drinks, Ice Cream, French Fries and Butter categories.

A constant pursuit for SADAFCO is the search for gaps in the market to fill with new product innovations. During the year several new launches occurred with Saudia Soy Drink (1-litre) and Saudia Date Milk (1-litre and 200ml) leading the way early in the year. Range extensions in the summer saw the arrival of Saudia Low Fat Milk in 2-litre packs and Saudia Laban 2-litre, 1-litre and 200ml.

Towards the end of the year, Saudia JUMP! made an appearance in fun 900ml and 200ml plastic bottles to appeal to teenagers looking for delicious and healthy alternatives to carbonated soft drinks and energy drinks. Mango/Apple and Strawberry/Cherry are the two dual-fruit flavours launched, both options enriched with vitamins.

Ice Cream also offered new launches in time for the build-up to this year's all-important summer sales. A new cup format allowed for premium flavours Macadamia, Black & White, Blackberry and Sesame to make an appearance in 125ml cups while Saudia Chocolate Sandwich followed soon after to broaden consumers' Ice Cream Sandwich experience.

Marketing activities contributed positively to build awareness, increase sales and elevate market shares. Campaigns on television and other media remained a part of this effort and during the year a nostalgic look at the 40th anniversary of Saudia Milk formed the basis of the television campaign.

Social media plays an ever-increasing role in spreading the message of SADAFCO and the Saudia brand with successful initiatives introduced to Facebook, Instagram, Twitter and Snapchat to support the building of awareness and to encourage trial.

Strong activation platforms remain the Saudia Champions and My Saudia Kitchen initiatives with the first using fun activities to educate young consumers about the importance of milk consumption for healthy development and the second introducing the company's products to homemakers at shopping malls in a contemporary and meaningful way.

During February 2017 SADAFCO participated in the Janadriyadh-31 cultural festival in Riyadh with the Saudia Pavilion providing an opportunity for consumers to learn about SADAFCO and its brands while also getting the chance to sample some of the most recent product launches.

As the consumer demand speeds up product rotation, the Sales & Distribution team continue to focus on routes to market to make sure quality of execution maximises the availability and replenishment of our products in the market.

The latest development has been the introduction of a new Sales Force Automation (SFA) system that allows the optimization of daily sales route planning and strict enforcement of journey plan adherence.

The SFA system roll-out was completed in Saudi Arabia in March 2017 and it further aids the sustained efforts to optimize truck loading and maximise store replenishment efficiency. These processes contribute to the successful secondary distribution management of SADAFCO's large product portfolio.

This attention is aimed at harnessing the strength SADAFCO has in its reach of 33,000 customers through a network of close on 500 sales routes.

These routes are serviced by temperature-controlled vehicles allowing the company to distribute its portfolio from distribution warehouses to customers while assuring quality in sometimes harsh climatic conditions.

The SADAFCO Frozen business has benefited from new appointments to take on the task of re-energizing the company's efforts in this area and to further strengthen the Saudia market leadership in this category.

Besides the new Ice Cream launches, developments have seen a transformation of the company's ice cream boutique concept with the introduction of Saudia Shake Factor Ice Cream Boutiques that offer a combination of Saudia Ice Creams and Concept Shakes. During the Financial Year, new Saudia Shake Factor outlets have opened in Jeddah (Al Yasmin Mall, Al Salaam Mall and Mall of Arabia) and Makkah (Makkah Mall).

The introduction of vending machines has offered another sales channel for Saudia Ice Creams and it has offered in-roads into high-traffic areas with the placement of 24-hour sales points.

SADAFCO has taken care not to neglect Sales & Distribution recruitment when vacancies open up or when under-performers need to be replaced. Furthermore, training and development places an important role to keep selling knowledge and skills honed to meet the ever-changing, daily challenges of the sales team. This year training included Basic Selling Skills, Introduction to Supervision and Advanced Selling Skills.

Organizational Development

SADAFCO ended the year with a total of 2,488 full-time employees.

In Saudi Arabia, the company maintains its Green Status on the Ministry of Labor (MOL) Nitaqat System that measures levels of Saudization. Women account for 4.2% of SADAFCO's workforce in Saudi Arabia and 21 special needs individuals are employed in Saudi Arabia.

While the company continues to push for increased representation of GCC nationals within the workforce, it also remains focussed on employing more women to contribute to the functioning of the company, whether it is in offices, on production lines or in laboratories.

SADAFCO actively seeks out opportunities to develop the skills and knowledge base of Saudi nationals, whether with current employees or future employees.

Independent Development Plans are developed for promising individuals for career planning.

A recent co-operation with the Higher Institute for Water and Power Technologies (HIWPT) in Rabigh is an example of preparing new employees for positions in the company. Candidates were selected for technical and vocational training at HIWPT, after which they will be appointed to positions in SADAFCO.

Training and Development programs have been implemented not only for GCC nationals but also members of the expatriate work force. In the past year training has been related to factory Environmental and Occupational Health and Safety accreditations on the Manufacturing side while the commercial side of the business benefitted from Basic Selling Skills, Introduction to Supervision and Advanced Selling Skills training.

SADAFCO supports some of its employee sports teams which have seen some good sporting performances by the Cricket and Basketball teams in Jeddah and Cricket, Basketball and Football teams in Dammam.

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

Health programs driven by the company doctor and in close association with the company's medical insurance provider have assisted making staff aware of early detection of medical conditions. Sessions have been held to screen for high blood pressure, diabetes and obesity and a drive took place to improve awareness

of the need for early detection of breast cancer in women, including the arrangement of free mammograms at local hospitals for female employees.

Further work has been done on employer branding efforts through websites like LinkedIn. Besides offering a tool to identify candidates when recruiting, the platform is also used to tell potential candidates about the company.

Corporate Social Responsibility

SADAFCO persists in its endeavours to serve the community in which it operates and this involvement takes many different forms.

Involvement during the year has included:

- SADAFCO was an active supporter of the inauguration of the Prince Muqrin University in Madinah.
- SADAFCO provided a sponsorship to the Alzheimer’s Association.
- In Jeddah and Dammam, SADAFCO was involved as a strategic partner with MODON’s 2016 School Visitation Program by hosting groups of school children to show them how products are manufactured from raw materials.
- SADAFCO sponsored sporting activities and supplied free products to schools in various locations across the Kingdom. This included support of the 7th Annual University Sports event held by Dar al Hekma University
- SADAFCO contributed products to charities and schools catering to special needs.
- SADAFCO contributed products to Quran schools.
- SADAFCO supported schools with healthy breakfast initiatives during the year, including on International Milk Day.
- SADAFCO supported Ministry of Healthy vaccination programs.

Main Activities of Subsidiary Companies

The main activities of the SADAFCO subsidiary companies in Kuwait, Bahrain, Qatar and Jordan are selling and distributing SADAFCO products in these countries.

Sales Contribution by Product Category

	Product	Contribution (%) 2015-16	Contribution (%) 2016-17	% Point Change
1	Milk	69	68	-1
2	Tomato Paste	10	12	2
3	Ice Cream	11	11	-
4	Powdered Milk	2	2	-
5	Cheese	3	3	-
6	Others	5	4	-1
	Total	100	100	

Sales for SADAFCO and Subsidiaries by location

	Country	Sales 2015-16 (SAR Million)	Percentage (%)	Sales 2016-17 (SAR Million)	Percentage (%)
1	Saudi Arabia	1,838	92.7	1,739	93.6
2	Bahrain	41	2.1	39	2.1
3	Qatar	49	2.5	43	2.3
4	Kuwait	8	0.4	9	0.5
5	Jordan	13	0.6	16	0.9
6	Export	34	1.7	12	0.6
	Total	1,983	100	1,858	100

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

The subsidiaries names, main activities, headquarter locations and percentage ownerships are:

	Company	Main Activity	Country	Paid Up Capital	Number of Shares	Ownership
1	SADAFCO Qatar Company (LLC)	Sale, Distribution of dairy products and goods.	Qatar	QR 1,500,000	1,500	75%
2	SADAFCO Bahrain Company (SPC)	Import, Export, Sale, Distribution of Dairy Goods, Ice Cream and Goods	Bahrain	BD 50,000	500	100%
3	National Buildings Real Estate – Closed Joint Stock Company*	Acquisition and ownership of land, Real Estate development and investment in Real Estate Projects	KSA	SAR 2,000,000	200,000	100%
4	United Gulfers Transport – Closed Joint Stock Company*	Transportation of goods, warehousing, storage and cooling	KSA	SAR 2,000,000	200,000	100%
5	National Sights Holding – Closed Joint Stock Company*	Investments through acquisition of controlling stakes	KSA	SAR 2,000,000	200,000	100%
6	SADAFCO Kuwait Foodstuff Company	Distribution of Dairy and foodstuffs	Kuwait	KD 50,000	100	49%
7	SADAFCO Jordan Foodstuff Company LLC	Import, Sale, Distribution and Marketing of Dairy, Ice Cream and other foodstuffs	Jordan	JD 250,000	250,000	100%

*The general assembly of the subsidiaries have approved the liquidation of the Companies at the Extraordinary General Assembly meeting held on 19 July 2016 and legal procedures of the liquidation are under process. These subsidiaries are not significant to the consolidated financial statements.
None of the above –mentioned subsidiaries have any debt instruments issued.

Key Performance Indicators

Net income for the year increased by SAR 40.9 million, representing 15.7 % over last year, mainly due to:

- Attractive global raw material cost prices in combination with optimal inventory management and brand support in order to maintain premium pricing resulted in strong gross margin of 41% (v 35.7% the previous year).
- General & Administration expenses decreased by 5.4% through careful expense management to partly fund the increased selling expenses.
- Selling & Distribution expenses increased by 6.7% to continue to drive the new initiatives through resource additions and to invest in enhancement of the sales efficiencies, amidst the slowing market and the aggressive price reductions by the competition.
- Deposit income contributed SAR 7.4 million from surplus cash.

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

Net Sales for 2016-17 reached SAR 1.858 billion compared to SAR 1.983 billion for last year, a decrease of 6.3%. However, the reduction in sales has not resulted in a decrease in Net Profits, which, in fact, have grown by 15.7% over last year due to the strategy of opting for branded value sales over top-line push.

Total Shareholder equity (excluding non-controlling interests) for the current period is SAR 1.261 billion compared to SAR 1.092 billion for last year, an increase of 15.4%.

In spite of the challenges of declining consumer spending and price competition, the company strengthened its market leadership positions in tomato paste and ice cream while growing its No 2 position in total plain milk.

SADAFCO feels the achieved margins for the past two years have been of an exceptional level. Going forward, together with not yet settled market conditions (both from an input cost as well as from market dynamics), margins will return to more "normal", albeit comfortable levels for our industry. Therefore, focus will continue on strengthening brands, controlling costs and improving operational efficiencies in order to maximize value creation for SADAFCO shareholders in the coming years.

The company has a healthy cash position with zero leveraging, a healthy situation for future growth through organic and acquisition strategies.

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

	Description	2012/13	2013/14	2014/15	2015/16	2016/17
1	Current Assets	680	640	617	813	1,044
2	Fixed Assets	422	498	592	577	598
3	Non-Current Assets	0	0	0	0	0
4	Current Liabilities	174	135	176	196	269
5	Non-Current Liabilities	78	81	84	100	111
6	Total Equity	850	922	949	1,094	1,262
7	Sales	1,549	1,553	1,807	1,983	1,858
	Net Income	165	171.5	141.5	260.8	301.8

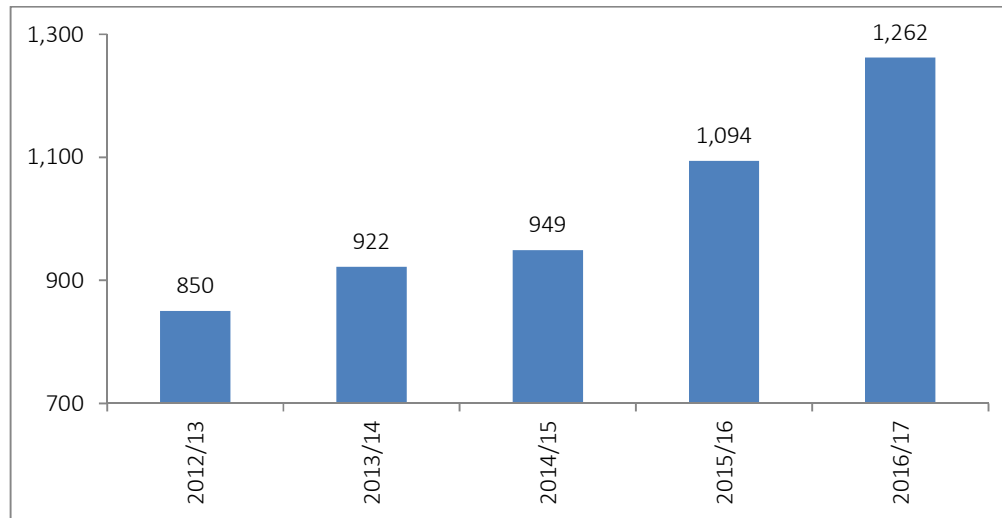
Income Statement (SAR Millions)

	Description	Mar 2016	Mar 2017
1	Net Sales	1,983	1,858
2	Cost of Sales	(1,274)	(1,097)
3	Gross Profit	709	761
4	Selling & Distribution	(338)	(360.4)
5	General & Administration Expenses	(95)	(89.9)
6	Financial income, net / other income	0.1	11.7
7	Zakat	(15.3)	(20.6)
	Net Profit	260.8	301.8

Statutory Payments for 2016-17 (SAR Thousands)

	Description	Due	Paid	Balance
1	Customs	24,567	24,567	-
2	Zakat	16,615	16,615	-
3	GOSI	10,781	10,781	-
4	Tadawul Contract	300	300	-
5	Government Fees & Visas	8,299	8,299	-
6	Tax	3,458	3,458	-
	Total	64,020	64,020	-

Change in Total Shareholders' Equity



Formation of the Board of Directors:

The Board of Directors is constituted of seven members elected for the term starting 1 April 2016 and ending 31 March 2018.

The board had one attended meeting and passed 13 resolutions by circulation.

Board of Directors' Meetings for 2016-17:

Name	Capacity	Attended	Resolution by Circulation													Total	
			2016										2017				
			14/11	19/4	1/5	3/5	13/6	14/6	20/7	19/10	25/12	26/12	27/12	9/1	12/1		23/3
HH Shiekh Hamad Sabah Al-Ahmad	Non-executive	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	14
Mr Faisal Hamad Mubarak Al-Ayyar	Non-executive	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	14
Mr Abdullah Yaqoob Bishara	Independent	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	14
Mr Tariq Mohammad Abdulsalam	Non-executive	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	14
Mr Ahmed Mohamed Hamed Al-Marzouki	Independent	x	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	13
Mr Suleiman Saud Jarallah Al-Jarallah	Independent	x	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	13
Mr Mussad Abdullah Abdul Aziz Al-Nassar	Executive	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	14

Board Members' Directorships in Joint Stock Companies

Name	Listed Company Directorships
1 HH Sheikh Hamad Sabah Al-Ahmad	1. Chairman of KIPCO – Kuwait 2. Chairman of SADAFCO – Saudi Arabia 3. Chairman of Gulf Egypt Hotels & Tourism Company - Egypt
2 Mr Faisal Hamad Mubarak Al-Ayyar	1. Vice Chairman of KIPCO – Kuwait 2. Vice Chairman of Gulf Insurance Company – Kuwait 3. Vice Chairman of Kuwait Jordanian Bank 4. Vice Chairman of SADAFCO – Saudi Arabia 5. Vice Chairman of United Gulf Bank – Bahrain
3 Mr Abdullah Yaqoob Bishara	1. Board Member SADAFCO – Saudi Arabia 2. Board Member of KIPCO – Kuwait
4 Mr Tariq Mohammad Abdulsalam	1. Chairman United Real Estate Company – Kuwait 2. Vice Chairman Kuwait Clearing Company – Kuwait 3. Board Member Kamco Investment Company – Kuwait 4. Board Member SADAFCO – Saudi Arabia 5. Board Member Al Qurain Petrochemicals Industries Company- Kuwait
5 Mr Ahmed Mohamed Hamed Al-Marzouki	1. Board Member SADAFCO – Saudi Arabia
6 Mr Suleiman Saud Jarallah Al-Jarallah	1. Board Member SADAFCO – Saudi Arabia
7 Mr Mussad Abdullah Abdul Aziz Al-Nassar	1. Board Member SADAFCO – Saudi Arabia 2. Chairman of National Sights Holding - under liquidation - Saudi Arabia 3. Chairman of National Buildings Real Estate – under liquidation - Saudi Arabia 4. Chairman of United Gulfers Transport – under liquidation - Saudi Arabia

Board Committees

1) The Audit Committee

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

During 2016-17, the Audit Committee held one attended meeting and passed eight resolutions by circulation.

The Audit Committee's functions and responsibilities include:

- 1) Overseeing SADAFCO's Internal Audit (IA) function in order to determine adequacies in implementation of IA guidelines, actions and tasks set by the SADAFCO Board of Directors and establish the adequacy of internal control functions.
- 2) To produce a written report with its views and recommendations regarding the IA function and to review the IA report and oversee the implementation of its recommendations.
- 3) Recommend to the SADAFCO Board of Directors the appointment of auditors, their dismissal and agreement of their fees and to ensure their independence. Review of the Audit Plan with the auditors and study feedback remarks on the financial statements.
- 4) Review and give feedback on the financial statements before the initial and annual presentation to the SADAFCO Board of Directors.
- 5) Review accounting policies used and make recommendations to the SADAFCO Board of Directors.

An Extra-Ordinary Meeting held on 7 February 2017 approved tasks and audit committee remuneration and selected Mr. Faisal Hamad Mubarak Al- Ayyar, Mr. Tariq Mohammad Abdulsalam and Mr. Ahmed Mohamed Hamed Al-Marzouki as audit committee members for the current tenure ending 31 March 2018.

Audit Committee Members and their Meetings during 2016-17

Name	Capacity	Attended	By Circulation									Total	
		2016											2017
		14/11	18/04	20/04	30/04	22/05	26/05	19/07	18/10	11/01			
Mr. Faisal Hamad Mubarak Al-Ayyar	Chairman	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	9	
Mr. Tariq Mohammad Abdulsalam	Member	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	9	
Mr. Ahmed Mohamed Hamed Al-Marzouki	Member	x	✓	✓	✓	✓	✓	✓	✓	✓	✓	8	

2) The Nomination and Remuneration Committee

The Nomination and Remuneration Committee consists of three non-executive Board Members. The annual shareholders' meeting held on 28 June 2011 approved the committee membership criteria, their tenure and committee charter. Their responsibilities are as follows:

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

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

Nomination and Remuneration Committee Members, Meetings and Resolutions during 2016-17

Name	Capacity	Attended Meetings	Resolutions By Circulation		Total
		14/11/2016	30/04/2016	01/01/2017	
Mr Faisal Hamad Mubarak Al-Ayyar	Chairman	✓	✓	✓	3
Mr Tariq Mohammad Abdulsalam	Member	✓	✓	✓	3
Mr Suleiman Saud Jarallah Al-Jarallah	Member	x	✓	✓	2

Board Members and Executive Management Team Remuneration:

	Description	Non-Executive BOD Members (6)	Executive Board Member (1)	* Senior Executives (7) (Includes CEO and CFO)
1	Salaries & Wages	0	424	4,206
2	Allowances	0	241	1,352
3	Bonuses & Incentives	400 each	464	2,895
4	Benefits in Kind	0	0	0
(SAR 000)	Total	2,400	1,129	8,454

* One of the seven Senior Executives left the company during financial year.

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

	Name	01 April 2016	31 March 2017	% Change (+/-)
Board of Directors				
1	HH Sheikh Hamad Sabah Al-Ahmad Representing: United Industries Company	1,000	1,000	-
2	Mr Faisal Hamad Mubarak Al-Ayyar Representing: United Gulf Bank	1,000	1,000	-
3	Mr Abdullah Yaqoob Bishara	1,000	1,000	-
4	Mr Tariq Abdulsalam Rep: Al Qurain Petrochemicals Industries	13,036,461	13,036,461	-
5	Mr Ahmed Mohamed Hamed Al-Marzouki	22,250	22,250	-
6	Mr Suleiman Saud Jarallah Al-Jarallah	1,000	1,000	-
7	Mr Mussad Abdullah Abdul Aziz Al-Nassar	11,000	11,000	-
Executive Management Team				
1	Mr Waltherus Matthijs	3,000	3,500	16.7
2	Mr Mohammed Jameel Attar*	0	0	-
3	Mr Paul van Schaik	0	0	-
4	Mr Raffael Josef Reinders	0	0	-
5	Mr Marek Mierzejewski	0	0	-
6	Mr Shehzad Altaf**	0	0	-
7	Mr Sriram Chandran***	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.

* Mr Mohammed Jameel Attar (Director Marketing) left the company on 14 July 2016 (as disclosed to CMA)

** Mr Shehzad Altaf (Director Marketing & Trade Marketing) joined the company on 22 February 2017 (as disclosed to CMA)

*** Mr Sriram Chandran (Chief Financial Officer) joined the company on 19 March 2017 (as disclosed to CMA)

Major Shareholders owning 5% or more and changes during the financial year

	Name	Number of Shares on 01 April 2016	Number of Shares on 31 March 2017	Percentage Ownership on 01 April 2016	Percentage Ownership on 31 March 2017	% 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	11.69 %	11.69 %	-

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 in the process of developing manuals that will contribute to a more solid risk management process.

Based on the internal and external audit reports during the current year and the 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 effective.

Related Party Transactions

The company enters into transactions with related parties using the same criteria applied to all other parties and under the best terms of trade. Related Parties are defined as SADAFCO Board Members, major shareholders and Senior Executives or any of their first degree relatives, in line with the regulations and guidelines of the Capital Markets Authority (CMA) and the Ministry of Commerce and Industry (MOCI) in this regard. Transactions with these parties require disclosure.

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

Company Name	Country	Nature of Transaction	Value SAR 000s	Closing Balance
Buruj Co-Op Insurance Company	KSA	Service	13,423	0

SADAFCO entered into a one year contract with Al Buruj Cooperative Insurance (offering insurance services) starting on 1 July 2016 and ending on 30 June 2017, their offer was the best in overall terms. Al Buruj is 28.5% owned by Gulf Insurance Company (GIC). Mr Faisal Hamad Al-Ayyar is Vice Chairman of SADAFCO and Vice Chairman of the GIC Board of Directors (indirect interest).

The SADAFCO Ordinary General Assembly meeting held on 01 June 2016 approved this transaction and agreed to its renewal for another year starting on 01 July 2016 to 30 June 2017.

SADAFCO's Dividend Distribution Policy

SADAFCO's By-Laws state in Article 50 that Annual Net Profits may be distributed in the following way:

- 1) 10% of the net profit shall be set aside to form the company's statutory reserve, and the ordinary general assembly may resolve to cease such setting aside when the said reserve reaches 30% of the paid up capital.
- 2) The ordinary general assembly may, on the proposal of the board of directors, set aside (10%) of the net profits to form voluntary reserve to be allocated to the determined objective or objectives as per the resolution issued from AGM.
- 3) The ordinary general assembly may resolve to form other reserves, to the extent that the same is in the interests of the company or will ensure the distribution of fixed profits so far as possible among the shareholders. The said assembly may likewise deduct from the net profits amounts to establish social organizations for the company's workers or to assist any such organizations already in existence.
- 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 these bylaws, and Article 76 of the Companies' Law, a proportion of (10%) to balance shall thereafter be allocated to remunerate the board of directors, but provided that the entitlement to such remuneration shall be proportionate to the number of sessions attended by a member.

Major Decisions and Future Plans

Tabuk Project

SADAFCO has leased 10,244 m² of land in Tabuk Industrial City from Saudi Industrial Property Authority (MODON) for a period of 20 years.

A new warehouse is being built on the land at a cost of SAR 17 million and it will replace the existing rented location in Tabuk. It is expected to improve on operational efficiency of supply chain and cater for growth.

Construction work on the warehouse started in February 2017 and the facility is expected to be completed by end of December 2017.

This project will be financed by SADAFCO own resources generated through operations and the positive impact will start after the completion of the warehouse.

Jeddah Warehouse Project

In June 2016, SADAFCO finalised the agreement with MODON to acquire lease rights of land measuring 24,293 m² in Jeddah First Industrial City. Subsequently in April 2017, after a feasibility study, the Board of Director's approved the construction of a warehouse on this land. The total estimated cost of this project will be SAR 145 million.

Construction work on the project is expected to start in May 2017 and completed around the end of 2018.

The project will be funded by cash generated from own operations.

This warehouse will provide long-term infrastructure solutions to both the manufacturing and logistics operations, resulting in future cost savings and growth opportunities.

International Financial Reporting Standards (IFRS) Implementation Status

As announced on Tadawul during the year, SADAFCO is prepared for the transition to IFRS in line with Saudi Organization for Certified Public Accountants (SOCPA) requirements.

The first statutory period of adoption of IFRS for SADAFCO is the quarter ending 30 June 2017. The new accounting policies to be adopted in line with IFRS have been approved by Board of Directors.

The opening IFRS consolidated statement of financial position as at 1 April 2016 and the comparative quarterly interim consolidated financial statements have been prepared in accordance with IFRS. There is no material impact on adoption of IFRS on the Company's Financial Statements.

There are no substantial obstacles or difficulties that may affect the company's ability to prepare and issue its interim financial statements in accordance with IFRS as approved by SOCPA on time .

Risk Management

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

- 1) Market Risk (which includes Commission and Interest Rate Risk and Currency Risk)
- 2) Credit Risk
- 3) Liquidity Risk
- 4) Operational Risk

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

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

Market Risk

Commission arises from the possibility that changes in commission rates will affect future profitability or the fair values of financial instruments. The company is subject to commission rate risk on its commission bearing assets and liabilities. The management limits the company's commission rate risk by monitoring changes in commission rates in the currencies in which its commission bearing assets and liabilities are denominated. At balance sheet date, the company does not have any interest bearing assets, except murabaha short-term bank deposits, and liabilities.

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

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The company seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and by monitoring outstanding receivables. Further, the company has exposure to credit risk with respect to balances with banks. The company manages this risk by depositing in banks with sound credit ratings. At the balance sheet date, no significant concentrations of credit risk were identified by management. The company sells its products to large number of customers. The five largest customers account for 42 % (2016: 46%) of outstanding accounts receivable at 31 March.

Liquidity Risk

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

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

Operational Risk

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

Fines imposed on SADAFCO

A fine of SAR 30,000 was imposed in favour of the Ministry of Interior (MOI) relating to the hiring of security personnel in Makkah without obtaining the necessary licence.

Declarations

SADAFCO declares and confirms the following:

- 1) Its accounts have been prepared in accordance with correct procedures.
- 2) The internal auditing has been prepared on a sound basis and has been implemented effectively
- 3) There is no doubt about its ability to continue its operations.
- 4) There are no outstanding loans or dues on the company.
- 5) The company is fully committed to adhere to the rules and regulations stipulated in the company's by-laws and other relevant ministerial resolutions and company law (not already included in SADAFCO's by laws). There are no fines or penalties imposed neither by the CMA nor any other legal or supervisory entity other than the aforementioned fine of SAR 30,000 penalty imposed by MOI penalty due to hiring security guards in Makkah Depot without license.
- 6) None of the BOD members and senior management, including the CEO and CFO, their spouses or children owns any shares in affiliate companies; and no contracts were issued where any of them had a material interest other than those transactions disclosed in this Board Report.
- 7) No loans were made to any Board Member; SADAFCO has not guaranteed any loans made by any Board or Executive Management Team member.
- 8) No shareholder waived his/her rights to dividends or other material benefits and none of the Executive Management Team members waived their right to receive any salary or compensation.
- 9) All the shares are common stock with equal voting and other rights in accordance with the law. There are neither preferential shares nor shares with special voting rights outstanding.
- 10) Following the review and audit of the financial statements by Ernst and Young, it was confirmed that SADAFCO's accounts were compiled in line with the accounting standards of the Accounting Standards Committee of the Saudi Organization for Certified Public Accountants (SOCPA). The External Auditors' report was issued without reservation. The financial statements were found to be a true and fair reflection of the company's financial position and in line with the requirements of companies' law and SADAFCO's articles of association.
- 11) The company does not implement any stock options and has not issued any convertible debt instruments.
- 12) The company has not set up any reserves or investments for the benefit of its employees.

Corporate Governance Compliance

	Article	Number of articles	Fully Applied	Partially Applied	Not Applied	Not Applicable	Comments
1	Three: General Rights of Shareholders	1	-	1	-	-	By laws do not grant the right of shareholders to company assets upon liquidation , SADAFCO complies with company law
2	Four: Facilitation of shareholders Exercise of rights and access to information	2	2	-	-	-	
3	Five: Shareholders right related to the General Assembly	10	10	-	-	-	
4	Six: Voting Rights	4	3	-	-	1	In reference to 6/D: This refers to Judicial persons acting on behalf of others and is not relevant to SADAFCO
5	Seven: Dividends rights of Shareholders	2	1	-	1	-	In reference to 7/a : the company applies a dividend distribution policy based on article 50 of its bylaws.
6	Eight: Policies and Procedure related to disclosure	1	1	-	-	-	
7	Nine: disclosure in the Board of Directors' report	7	7	-	-	-	
8	Ten: Main Functions of the Board of Directors	17	14	1	2	-	<ul style="list-style-type: none"> (A-1) Partially implemented as the risk management policy is not finalized. Not Applied: (H/1,5) These are governed in each contract and CSR is determined annually.
9	Eleven: Responsibilities of the Board	8	7	-	1	-	(11/H) the authority of each executive team member is defined in their individual employment contract.
10	Twelve: Formation of the Board	9	8	-	-	1	12/T Not applicable in the bylaws.
11	Thirteen: Committee of the Board	3	3				
12	Fourteen: Audit Committee	11	11				
13	Fifteen: Nomination and Remuneration Committee	8	8				
14	Sixteen: Meetings of the Board	4	4				
15	Seventeen: Remuneration and Indemnification of Board Members	1	1				
16	Eighteen: Conflict of Interest within the Board	3	3	-	-	-	
	Total items	91	83	2	4	2	

**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A SAUDI JOINT STOCK COMPANY)**

CONSOLIDATED FINANCIAL STATEMENTS

31 MARCH 2017

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Saudia Dairy and Foodstuff Company (SADAFCO) (A Saudi Joint Stock Company)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Saudia Dairy and Foodstuff Company ("SADAFCO" or "the Parent Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated balance sheet as at 31 March 2017, and the consolidated statement of income, consolidated statement of cash flows and consolidated statement of changes in shareholders' equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing 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 are independent of the Group in accordance with professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Saudia Dairy and Foodstuff Company (SADAFCO) (A Saudi Joint Stock Company)

Report on the Audit of the Consolidated Financial Statements (continued)

Key audit matter	Why considered most significant	How our audit addressed the key audit matter
Provision for zakat	<p>The Parent Company files its zakat return with the General Authority of Zakat and Tax ("GAZT") on an annual basis. The GAZT has issued assessment orders for the years from 1997 up to 2011, which resulted in an additional zakat exposure of the Parent Company amounting to SR 21.8 million. The Parent Company has submitted bank guarantees and paid under protest amounting to SR 25.5 million to GAZT. The significant additional zakat exposure resulted mainly due to disallowance of certain items. The interpretation of the GAZT is being contested by the Group and the appeal proceedings are underway at various levels of available appellate forums available to the Group, hence ultimate outcome of the matter cannot be determined at this stage.</p> <p>Assessments for the years 2012 to 2016 are yet to be raised. However, in line with the assessments raised by the GAZT for the years 1997 to 2011, if certain items are disallowed, this would result in an additional zakat exposure.</p> <p>We considered this as a key audit matter as it involves significant management estimation and assessments and the additional amounts by the GAZT are material to the consolidated financial statements.</p> <p><i>Refer to note 3 for the accounting policy relating to zakat and note 10 for the related disclosures for zakat.</i></p>	<ul style="list-style-type: none"> • In order to assess the status and likely outcome of the matter, we have obtained correspondences between the Group, GAZT and Group's zakat consultant to determine the details of the additional demand made by the GAZT. We further obtained the related appeal documents to confirm the fact that the matters have been contested at various appellate forums and to assess the status of the outcome of those appeals. • We held meetings with those charged with governance and senior management of the Group to obtain update on the zakat matter and the results of their interactions with the relevant appeal committees. • We also assessed the adequacy of the net exposure disclosed and the appropriateness of the management's judgments relating to the zakat matter in light of the facts and circumstances of the Group. • We also assessed the appropriateness of the disclosures included in the consolidated financial statements of the Group.
Impairment of inventories	<p>As at 31 March 2017, the Group had inventories amounting to SR 340.2 million and related provision for slow moving and obsolete inventories amounting to SR 18.7 million. These inventories comprise raw and packing materials, finished goods, spare parts and goods-in-transit which are subject to the risk of impairment in value due to either perishable nature or/and current adverse market situation.</p>	<p>Among other audit procedures in this area, we tested the inventory provision calculations against the Group's policy for aged, obsolete and slow-moving inventories. We attended stock counts close to the year-end to observe and understand the Group's procedures for identifying obsolete inventory and we observed such inventories at the count.</p>

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Saudia Dairy and Foodstuff Company (SADAFCO) (A Saudi Joint Stock Company)

Report on the Audit of the Consolidated Financial Statements (continued)

Key audit matter	Why considered most significant	How our audit addressed the key audit matter
<p>Impairment of inventories</p>	<p>For perishable raw material and finished goods, the Group adopts a policy of providing for inventory when it reaches a certain age, and also for any inventory where there are specific quality concerns.</p> <p>For spares, including supplies and other items, management considers them to be impaired when there is evidence of a deterioration in the physical condition and/or no movements in the specific period.</p> <p>Establishing a provision for slow-moving, obsolete and damaged inventory involves estimation and judgment, and the gross inventories and related provision are material to the consolidated financial statements, hence We considered this as a key audit matter.</p> <p><i>Refer to note 3 to the consolidated financial statements for the accounting policy relating to the impairment of inventories, note 2 for the critical accounting estimates and judgements and notes 7 for the disclosures of movement in provision for slow moving and obsolete inventories.</i></p>	<p>We evaluated the assumptions used by management.</p> <p>For perishable inventories, on a sample basis, we:</p> <ul style="list-style-type: none"> ▪ tested expiry reports ▪ tested inventory to sales subsequent to the year end and assessed that they were sold at more than net book value; and ▪ considered the sales return subsequent to the year end to determine that enough provision is made. <p>For spares, including supplies and other items, which are assessed for impairment as per policy, on a sample basis, we performed the following procedures:</p> <ul style="list-style-type: none"> ▪ tested ageing of spares ▪ tested accuracy of the ageing reports <p>For impairment regarding physical damage and wear & tear of spares, we assessed the appropriateness of the qualitative and quantitative assumptions used.</p>
<p>Accounts receivable provision</p>	<p>At 31 March 2017, gross accounts receivables of the Group were SR 170.6 million against which provisions of SR 17.3 million was made.</p> <p>We considered this as a key audit matter as the Group makes subjective judgements and makes assumptions to determine the impairment and the timing of recognition of such impairment and the potential impact of impairment could be material to the consolidated financial statements.</p> <p>In particular, the determination of impairment against accounts receivables includes:</p> <ul style="list-style-type: none"> • The use of accounting policy of the Group underlying the calculation. • The identification of impairment events and judgments used to calculate the impairment against specific accounts receivables; <p><i>Refer to note 3 to the consolidated financial statements for the significant accounting policy, note 2 for the critical accounting estimates and judgements and note 5 which details the disclosure of impairment against accounts receivable</i></p>	<p>We assessed the design and implementation, and tested the operating effectiveness of key controls including the following:</p> <ul style="list-style-type: none"> ▪ management's processes for establishing and monitoring provision ▪ the identification of doubtful receivables <p>For receivables which are assessed for impairment as per policy, we performed the following procedures:</p> <ul style="list-style-type: none"> ▪ tested ageing of receivables ▪ also tested, on a sample basis, accuracy of the ageing reports <p>For receivables which are not past due but individually assessed for impairment, we performed the following procedures on a sample basis:</p> <ul style="list-style-type: none"> ▪ tested receivables to form our own assessment as to whether impairment events had occurred ▪ assessed whether impairment had been identified and recorded in a timely manner.

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Saudia Dairy and Foodstuff Company (SADAFCO) (A Saudi Joint Stock Company)

Report on the Audit of the Consolidated Financial Statements (continued)

Other Information included in the Group's 2017 Annual Report

Other information consists of the information included in the Group's 2017 annual report, other than the consolidated financial statements and our auditors' report thereon. Management is responsible for the other information in its annual report. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and 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. If, based on the work we have performed, 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 accounting standards generally accepted in the Kingdom of Saudi Arabia, and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants and the provisions of Companies' Law, 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 are responsible for overseeing the Group's financial reporting process.

Auditors' 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 Auditing Standards 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 Auditing Standards endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism 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.
- 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.

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Saudia Dairy and Foodstuff Company (SADAFCO) (A Saudi Joint Stock Company)

Report on the Audit of the Consolidated Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- 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.

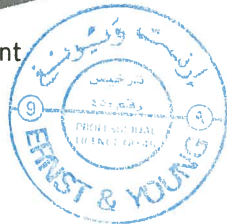
for Ernst & Young

Ahmed I. Reda
Certified Public Accountant
Licence No. 356

7 Sha'ban 1438H
3 May 2017

Jeddah

17/371/AIR



SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED BALANCE SHEET

As at 31 March 2017

	<i>Note</i>	<i>2017</i> <i>(SR '000)</i>	<i>2016</i> <i>(SR '000)</i>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4	543,914	246,284
Accounts receivable	5	161,798	171,192
Deposits, prepayments and other current assets	6	16,640	14,462
Inventories	7	321,429	381,120
TOTAL CURRENT ASSETS		1,043,781	813,058
NON-CURRENT ASSETS			
Available for sale investments	8	243	243
Property, plant and equipment	9	598,004	577,203
TOTAL NON-CURRENT ASSETS		598,247	577,446
TOTAL ASSETS		1,642,028	1,390,504
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable		99,380	67,304
Accruals and other current liabilities		145,126	110,286
Due to related parties	14	1,108	-
Accrued zakat	10	20,677	16,602
Dividend payable		2,433	2,306
TOTAL CURRENT LIABILITIES		268,724	196,498
NON-CURRENT LIABILITY			
Employees' end of service benefits		111,072	100,422
TOTAL LIABILITIES		379,796	296,920
SHAREHOLDERS' EQUITY			
Equity attributable to shareholders of the Parent Company			
Share capital	11	325,000	325,000
Statutory reserve	11	162,500	162,500
Voluntary reserve	11	181,835	151,734
Foreign currency translation and other adjustments		(945)	(1,178)
Retained earnings		592,273	454,163
Total equity attributable to the shareholders of the Parent Company		1,260,663	1,092,219
Non-controlling interests		1,569	1,365
TOTAL SHAREHOLDERS' EQUITY		1,262,232	1,093,584
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,642,028	1,390,504

Mussad Abdullah Al Nassar
Member Board of Directors

Waltherus Cornelis Petrus Matthijs
Chief Executive Officer

Srirama Chandran Venkata
Chief Financial Officer

The attached notes from 1 to 22 form part of these consolidated financial statements.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 March 2017

	Note	2017 (SR '000)	2016 (SR '000)
Sales, net		1,857,739	1,982,764
Cost of sales		(1,096,589)	(1,274,127)
GROSS PROFIT		761,150	708,637
EXPENSES			
Selling and distribution	12	(360,452)	(337,934)
General and administration	13	(89,899)	(95,045)
		(450,351)	(432,979)
INCOME FROM MAIN OPERATIONS		310,799	275,658
Other income, net		4,996	423
Financial income, net		6,668	80
INCOME BEFORE ZAKAT		322,463	276,161
Zakat	10	(20,690)	(15,333)
NET INCOME FOR THE YEAR		301,773	260,828
Attributable to:			
Equity shareholders of the Parent Company		301,011	260,213
Non-controlling interests		762	615
NET INCOME FOR THE YEAR		301,773	260,828
Earnings per share:			
Income from main operations (in SR per share)	17	9.56	8.48
Net income (in SR per share)	17	9.29	8.03
Net income attributable to equity shareholders of the Parent Company (in SR per share)	17	9.26	8.01

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Chief Financial Officer

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SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2017

	<i>Note</i>	<i>2017</i> <i>(SR '000)</i>	<i>2016</i> <i>(SR '000)</i>
OPERATING ACTIVITIES			
Net income for the year		301,773	260,828
Adjustments for:			
Depreciation	9	75,847	82,173
Gain on disposal of property, plant and equipment		(915)	(1,018)
Provision for doubtful accounts	5	3,111	6,230
Provision for slow moving and obsolete inventories	7	5,410	4,150
Provision for employees' end of service benefits		17,630	22,908
		402,856	375,271
Changes in operating assets and liabilities:			
Accounts receivable		6,283	(5,314)
Deposits, prepayments and other current assets		(2,178)	11,263
Inventories		54,281	(32,552)
Accounts payable		32,076	(41,565)
Due to related parties		1,108	(937)
Accrued zakat, accruals and other current liabilities		39,042	62,927
Cash from operations		533,468	369,093
Employees' end of service benefits paid		(6,980)	(6,254)
Net cash from operating activities		526,488	362,839
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	9	(97,141)	(67,836)
Proceeds from disposal of property, plant and equipment	9	1,408	1,332
Net cash used in investing activities		(95,733)	(66,504)
FINANCING ACTIVITIES			
Dividend paid	18	(130,000)	(113,750)
Board of directors remuneration paid		(2,800)	(1,400)
Non-controlling interests		(558)	(475)
Net cash used in financing activities		(133,358)	(115,625)
INCREASE IN CASH AND CASH EQUIVALENTS		297,397	180,710
Effect of exchange rate fluctuations		233	(851)
Cash and cash equivalents at the beginning of the year		246,284	66,425
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	4	543,914	246,284

Mussad Abdullah Al Nassar
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Chief Financial Officer

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SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO) (A SAUDI JOINT STOCK COMPANY)
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 March 2017

Attributable to shareholders of the Parent Company

	Share capital (SR '000)	Statutory reserve (SR '000)	Voluntary reserve (SR '000)	Foreign currency translation and other adjustments (SR '000)	Retained earnings (SR '000)	Total (SR '000)	Non-controlling interests (SR '000)	Total (SR '000)
Balance as at 31 March 2015	325,000	162,500	125,713	(327)	335,121	948,007	1,225	949,232
Net income for the year	-	-	-	-	260,213	260,213	615	260,828
Dividend paid (note 18)	-	-	-	-	(113,750)	(113,750)	-	(113,750)
Board of directors' remuneration	-	-	-	-	(1,400)	(1,400)	-	(1,400)
Transfer to reserve	-	-	26,021	-	(26,021)	-	-	-
Foreign currency translation and other adjustments	-	-	-	(851)	-	(851)	(475)	(1,326)
Balance as at 31 March 2016	325,000	162,500	151,734	(1,178)	454,163	1,092,219	1,365	1,093,584
Net income for the year	-	-	-	-	301,011	301,011	762	301,773
Dividend paid (note 18)	-	-	-	-	(130,000)	(130,000)	-	(130,000)
Board of directors' remuneration	-	-	-	-	(2,800)	(2,800)	-	(2,800)
Transfer to reserve	-	-	30,101	-	(30,101)	-	-	-
Foreign currency translation and other adjustments	-	-	-	233	-	233	(558)	(325)
Balance as at 31 March 2017	325,000	162,500	181,835	(945)	592,273	1,260,663	1,569	1,262,232

Mussad Abdullah Al Nassar
Member Board of Directors

Waltherus Cornelis Petrus Matthijs
Chief Executive Officer

Srirama Chandran Venkata
Chief Financial Officer

The attached notes from 1 to 22 form part of these consolidated financial statements.

**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2017

1 ORGANIZATION AND PRINCIPAL ACTIVITIES

Saudia Dairy and Foodstuff Company (SADAFCO) (“the Parent Company”) is a Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 4030009917 dated 21 Rabi Al-Akhar 1396H, corresponding to 21 April 1976.

The Parent Company and its subsidiaries (as listed below), collectively described as the “Group” in these consolidated financial statements, are primarily engaged in the production and distribution of dairy products, beverages and various foodstuff in the Kingdom of Saudi Arabia and certain Gulf and Arab countries.

At 31 March 2017, the Parent Company has investments in the following subsidiaries:

<i>Name</i>	<i>Principal activities</i>	<i>Country of incorporation</i>	<i>SADAFCO’s beneficial interest</i>
SADAFCO Bahrain Company SPC	Foodstuff and dairy products	Bahrain	100%
SADAFCO Jordan Foodstuff Company LLC	Foodstuff and dairy products	Jordan	100%
National Buildings Real Estate Company*^	Real estate	Kingdom of Saudi Arabia	100%
United Gulfers Logistics Company*^	Logistics	Kingdom of Saudi Arabia	100%
National Sight Holding Company*^	Investment company	Kingdom of Saudi Arabia	100%
SADAFCO Qatar Company	Foodstuff and dairy products	Qatar	75%
SADAFCO Kuwait Foodstuff Co. W.L.L	Foodstuff and dairy products	Kuwait	49%

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

* The General Assembly of the subsidiaries has approved the liquidation of the companies at the Extraordinary General Assembly Meeting held on 19 July 2016 and legal procedures of liquidation are under process. These subsidiaries are not significant to the consolidated financial statements.

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

2 BASIS OF PREPARATION

(a) Statement of compliance

The accompanying consolidated financial statements have been prepared in accordance with the generally accepted accounting standards in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants (SOCPA).

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

The preparation of consolidated financial statements in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates and judgments are based on management’s best knowledge of current events and actions, actual results ultimately may differ from those estimates.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 March 2017

2 BASIS OF PREPARATION (continued)

(d) Use of estimates and judgements (continued)

Significant areas where management has used estimates, assumptions or exercised judgments are as follows:

(i) Impairment of available for sale investments

The Group exercises judgement to consider the impairment of available for sale investments as well as their underlying assets. This includes the assessment of objective evidence which causes other than temporary decline in the value of investments. Any significant or prolonged decline in the fair value of equity investment below its cost is considered as objective evidence for the impairment. The determination of what is 'significant' and 'prolonged' requires judgement. The Group also considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

(ii) Impairment of non-financial assets

The Group assesses, at each reporting date or more frequently if events or changes in circumstances indicate, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less cost to sell, and its value in use, and is determined for the individual asset, unless the asset does not generate cash inflows which are largely independent from other assets or groups. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less costs to sell, an appropriate source is used, such as observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets exist, it is based on discounted future cash flow calculations.

(iii) Provision for impairment of trade receivables

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

(iv) Provision for slow moving inventory items

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

(v) Useful lives of property, plant and equipment

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

Investment in subsidiaries

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

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 March 2017

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in subsidiaries (continued)

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases. All intra-group balances and financial transactions resulting from transactions between the Parent Company and the subsidiaries are eliminated in preparing these consolidated financial statements. Also, any unrealized gains and losses arising from intra-group transactions are also eliminated at consolidation. The attributable equity interest of third parties in the Group is included under the non controlling interests caption in these consolidated financial statements.

Accounts receivable

Accounts receivable are stated at original invoice amount less provisions made for amounts which in the opinion of the management may not be received. Bad debts are written off when identified.

Available for sale investments

Investments which are neither bought with the intention of being held to maturity nor for trading purposes are classified as available for sale and are stated at fair value and included under non-current assets unless they are intended to be sold in the next fiscal year. Securities for which related fair value cannot be instantly determined there are other indicators through which the market value can be objectively determined, accordingly, these are non-instantly available securities. Thus, if the fair value is not available in the aforementioned form, the cost will be the most appropriate, objective and reliable measurement of the fair value of the securities. Changes in the fair value are credited or charged to the consolidated statement of changes in shareholders' equity. However, any non-temporary decline in value is charged to the consolidated statement of income. Fair value is determined by reference to the market value.

Property, plant and equipment and depreciation

Property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment loss, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset. Finance costs on borrowings to finance the construction of the assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognized in the consolidated statement of income when incurred. Depreciation is charged to the consolidated statement of income on a straight-line basis over the estimated useful lives of individual items of property, plant and equipment.

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

	<u>%</u>
Buildings	2.5-10
Machinery and equipment	10
Vehicles and trailers	15-20
Furniture, fixtures and office equipment	10-20

Revenue recognition

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

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

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

Inventories

Inventories are valued at the lower of cost (determined principally by using the standard cost method but adjusted to approximate the respective actual cost) and net realizable value. Costs of finished goods include material cost, direct labour and appropriate manufacturing overhead. The cost of inventories includes expenditure incurred in acquiring and bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 March 2017

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Zakat and income tax

The Parent Company and its Saudi Arabian subsidiaries are subject to zakat and income-tax in accordance with the regulations of the General Authority of Zakat and Tax ("GAZT"). The foreign subsidiaries are subject to tax regulations in their respective countries of incorporation. Zakat and income tax are charged to consolidated statement of income.

Employees' end of service benefits

Employees' end of service benefits, calculated in accordance with labour regulations of the countries of incorporation of the Group member companies, are accrued and charged to consolidated statement of income.

Expenses

Selling and distribution expenses are those arising from the Group's efforts underlying their marketing, selling and distribution functions. All other expenses excluding cost of sales and financial charges are classified as general and administrative expenses.

Operating lease payments

Payments under operating leases are recognized in the consolidated statement of income on a straight-line basis over the terms of the lease.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis to realise the assets and settle the liabilities simultaneously. Income and expense are not offset in the consolidated statement of income unless required or permitted by the generally accepted accounting principles in the Kingdom of Saudi Arabia.

Foreign currencies

Transactions denominated in foreign currencies are recorded at the rate of exchange prevailing at the date of the respective transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Saudi Arabian Riyals (for the Parent Company) or the relevant currencies (for subsidiaries) at the exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the consolidated statement of income.

Exchange difference, arising from the translation of foreign currency financial statements of subsidiaries are allocated to the shareholders of the Parent Company and non-controlling interests in proportion to their ownership interests in the investee companies. SADAFCO's share in exchange difference is recorded as a separate component of shareholders' equity, whereas amounts relating to the non-controlling shareholders are included under non-controlling interests in the consolidated balance sheet.

Cash and cash equivalents

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

Provisions

A provision is recognized if, as a result of past events, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefit, will be required to settle the obligation.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 March 2017

4 CASH AND CASH EQUIVALENTS

	2017 (SR '000)	2016 (SR '000)
Cash in hand	9,278	9,030
Balances with banks - current account	19,380	37,254
Murabaha short-term bank deposits	515,256	200,000
	<u>543,914</u>	<u>246,284</u>

5 ACCOUNTS RECEIVABLE

	2017 (SR '000)	2016 (SR '000)
Trade receivables	170,620	177,205
Less: Provision for doubtful receivables (see below)	(17,334)	(14,447)
	<u>153,286</u>	<u>162,758</u>
Net trade receivables	153,286	162,758
Net advances and other receivables	8,512	8,434
	<u>161,798</u>	<u>171,192</u>

At 31 March 2017, trade receivables at nominal value of SR 17.3 million (2016: SR 14.4 million) were provided. Movement in the provision for doubtful accounts is as follows:

	2017 (SR '000)	2016 (SR '000)
At the beginning of the year	14,447	18,124
Charge for the year	3,111	6,230
Amount written off during the year	(224)	(9,907)
	<u>17,334</u>	<u>14,447</u>

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

	Total (SR '000)	Neither past due nor impaired (SR '000)	Past due but not impaired	
			Up to 30 days (SR '000)	Over 31 days (SR '000)
2017	<u>153,286</u>	<u>147,279</u>	<u>5,452</u>	<u>555</u>
2016	<u>162,758</u>	<u>157,125</u>	<u>5,296</u>	<u>337</u>

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

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 March 2017

6 DEPOSITS, PREPAYMENTS AND OTHER CURRENT ASSETS

	<i>2017</i> <i>(SR '000)</i>	<i>2016</i> <i>(SR '000)</i>
Prepayments	15,351	13,465
Security and other deposits	1,212	912
Others	77	85
	<u>16,640</u>	<u>14,462</u>

7 INVENTORIES

	<i>2017</i> <i>(SR '000)</i>	<i>2016</i> <i>(SR '000)</i>
Raw and packing materials	218,933	225,862
Finished goods	64,807	59,926
Spare parts, supplies and other items	22,503	27,341
Goods-in-transit	33,960	81,419
	<u>340,203</u>	<u>394,548</u>
Less: Provision for slow moving and obsolete inventories (see below)	(18,774)	(13,428)
	<u>321,429</u>	<u>381,120</u>

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

	<i>2017</i> <i>(SR '000)</i>	<i>2016</i> <i>(SR '000)</i>
At the beginning of the year	13,428	10,135
Charge for the year	5,410	4,150
Amount written off during the year	(64)	(857)
	<u>18,774</u>	<u>13,428</u>

8 AVAILABLE FOR SALE INVESTMENTS

	<i>2017</i> <i>(SR '000)</i>	<i>2016</i> <i>(SR '000)</i>
Investments available for sale (unquoted)	250	250
Less: Provision for non-temporary decline in value	(7)	(7)
	<u>243</u>	<u>243</u>

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
At 31 March 2017

9 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings (SR '000)	Machinery and equipment (SR '000)	Vehicles and trailers (SR '000)	Furniture, fixtures and office equipment (SR '000)	Capital work- in-progress (SR '000)	Total 2017 (SR '000)	Total 2016 (SR '000)
Cost :							
At the beginning of the year	356,756	823,895	215,954	74,892	47,696	1,519,193	1,457,893
Additions (see note 9c)	128	2,061	701	286	93,965	97,141	67,836
Disposals	(1,424)	(23,116)	(17,271)	(438)	-	(42,249)	(6,536)
Transfers, net	5,487	46,609	5,508	4,414	(62,018)	-	-
At the end of the year	360,947	849,449	204,892	79,154	79,643	1,574,085	1,519,193
Depreciation:							
At the beginning of the year	183,741	538,194	154,337	65,718	-	941,990	866,039
Charge for the year (see note 9a)	12,970	40,588	19,750	2,539	-	75,847	82,173
Disposals	(1,346)	(22,908)	(17,106)	(396)	-	(41,756)	(6,222)
At the end of the year	195,365	555,874	156,981	67,861	-	976,081	941,990
Net book amounts:							
At 31 March 2017	165,582	293,575	47,911	11,293	79,643	598,004	
At 31 March 2016	173,015	285,701	61,617	9,174	47,696		577,203

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 March 2017

9 PROPERTY, PLANT AND EQUIPMENT (continued)

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

	<i>2017</i> <i>(SR '000)</i>	<i>2016</i> <i>(SR '000)</i>
Cost of sales	49,025	51,518
Selling and distribution expenses (note 12)	25,260	28,452
General and administration expenses (note 13)	1,562	2,203
	75,847	82,173

(b) The ownership interest of the Parent Company in certain freehold land held in Madinah amounting to SR 1,538 thousand (2016: SR 1,538 thousand) is through a shareholder of the Parent Company. The Parent Company holds legal documents confirming its beneficial interest.

(c) The additions during the year mainly represent purchase of machinery for factories, sales depot, distribution vehicles and lease rights of industrial land.

10 ZAKAT

Charge for the year

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

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

	<i>2017</i> <i>(SR '000)</i>	<i>2016</i> <i>(SR '000)</i>
Charge for the year	20,690	15,333

Movements in provision during the year

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

	<i>2017</i> <i>(SR '000)</i>	<i>2016</i> <i>(SR '000)</i>
At the beginning of the year	16,602	13,623
Charge for the year	20,690	15,333
Payment during the year	(16,615)	(12,354)
At the end of the year	20,677	16,602

Parent Company

Zakat assessments for the years up to and including 1996 have been finalised with the General Authority for Zakat and Tax ("GAZT").

The GAZT raised final assessments for the years 1997 through 2002 with an additional zakat liability of SR 8,254 thousand. Board of Grievance (BOG) rendered its decision in favour of the GAZT. The Parent Company has filed a review petition against BOG decision. Pending resolution of the case, the assessed amount has been paid "under protest".

The GAZT raised final assessments for the years 2003 and 2004 with an additional zakat liability of SR 5,135 thousand. The Parent Company's appeal against the Higher Appeal Committee (HAC) decision is awaiting review by the BOG. SADAFCO has submitted a bank guarantee with the GAZT amounting to SR 5,382 thousand for years 2003 and 2004. The GAZT has encashed the bank guarantee and the Parent Company has accepted encashment under protest.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 March 2017

10 ZAKAT (continued)

Parent Company (continued)

The GAZT raised assessments for the years ended 31 March 2005 through 31 March 2007 with an additional zakat liability of SR 4,742 thousand. The HAC has issued its decision on the Parent Company's appeal against the Preliminary Objection Committee (POC). Based on HAC's decision, the assessed liability will reduce to SR 3,550 thousand, approximately. The Parent Company has filed an appeal against HAC's decision with the BOG. The Parent Company has lodged a bank guarantee with the GAZT for SR 4,576 thousands and paid SR 166 thousand "under protest". The GAZT has issued revised assessment based on HAC decision with an additional zakat liability of SR 4,426 thousand. The Parent Company has submitted a letter with the GAZT requesting them to correct errors in revised assessment. The BOG rendered its decision in favour of the GAZT. The Parent Company filed an appeal against the BOG decision. Subsequently, the Administrative Appellate Court of BOG rendered their decision and the Parent Company is seeking further clarification from them.

The GAZT raised final assessments for the years ended 31 March 2008 through 31 March 2011 with an additional assessment liability of SR 9,235 thousand. POC has rendered its decision on the Parent Company's appeal against the GAZT's additional assessment. The Parent Company has filed an appeal with HAC against POC's decision. In addition, the Parent Company has submitted a bank guarantee with the GAZT for SR 5,270 thousand and paid SR 1,846 thousand "under protest". The GAZT issued revised assessment based on POC decision with an additional Zakat liability of SR 4,027 thousand. The Parent Company has submitted a letter with the GAZT requesting them to correct errors in revised assessment. The HAC conducted a hearing session on 28 March 2017. The HAC requested for certain additional information. The Parent Company has submitted the additional information requested by HAC. The HAC decision is awaited.

The GAZT has not yet raised assessments for the years 2012 through 2016.

11 SHAREHOLDERS' EQUITY

Share capital

The share capital of the Parent Company is SR 325,000 thousand (2016: SR 325,000 thousand) divided into 32,500 thousand shares of SR 10 each, which is fully paid.

Statutory reserve

In accordance with Company's bye laws, the Parent Company is required to transfer at least 10% of net income for the year to a statutory reserve until such reserve equals 30% of paid-up capital. This having been achieved, accordingly, the Company has resolved to discontinue such transfers. This reserve is not available for distribution.

Voluntary reserve

In accordance with Parent Company's bye laws, the shareholders decided to create a voluntary reserve by transfer of 10% of the net income attributable to equity shareholders of the Parent Company to the reserve. The utilization of this reserve is at the discretion of the shareholders. In the current year, transfer has been made to the voluntary reserve.

12 SELLING AND DISTRIBUTION EXPENSES

	<i>2017</i> <i>(SR '000)</i>	<i>2016</i> <i>(SR '000)</i>
Employee costs	139,633	135,652
Advertising and sales promotion	135,519	117,596
Depreciation (note 9(a))	25,260	28,452
Repairs and maintenance costs	8,983	8,728
Insurance	6,392	5,604
Rent	4,206	3,303
Communication	2,561	2,413
Others	37,898	36,186
	360,452	337,934

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

At 31 March 2017

13 GENERAL AND ADMINISTRATION EXPENSES

	2017 (SR '000)	2016 (SR '000)
Employee costs	65,714	72,612
Professional fees	3,768	5,009
Travel and other expenses	2,266	2,184
Repairs and maintenance costs	2,075	1,339
Communication	2,045	1,484
Depreciation (note 9(a))	1,562	2,203
Insurance	777	659
Rent	363	360
Others	11,329	9,195
	<u>89,899</u>	<u>95,045</u>

14 RELATED PARTY TRANSACTIONS AND BALANCES

- (a) Transactions with related parties were undertaken in the ordinary course of business at commercial terms and were approved by the management.
- (b) In addition to the disclosures set out in notes 1 and 9(b), significant related party transactions and balances for the year ended 31 March and balances arising there from are described as below:

<i>Transactions with</i>	<i>Nature of transaction</i>	<i>Amount of transactions</i>		<i>(Due to) /from related parties</i>	
		2017 (SR '000)	2016 (SR '000)	2017 (SR '000)	2016 (SR '000)
Affiliate	Purchase of goods and services*	(13,423)	(14,149)	(1,108)	-
	Net settlement against purchase of goods and services	12,315	15,086	-	-
				<u>(1,108)</u>	<u>-</u>
Affiliate	Current account	-	(2,619)	-	-

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

15 COMMITMENTS AND CONTINGENCIES

- (a) At 31 March 2017, the Group has outstanding commitments for future capital expenditures amounting to SR 55,269 thousand (2016: SR 71,051 thousand).
- (b) As at 31 March 2017, the Group has contingent liabilities of SR 10,024 thousand (2016: SR 9,924 thousand) in respect of guarantees issued by the Parent Company's bankers mainly to the GAZT (note 10).

16 OPERATING LEASES

SADAFCO and its subsidiaries have certain warehouses and sales depots under operating leases extending for a period of more than one year. Most of these leases are for an initial period of five years with an option to renew the leases after that date. Lease payments are negotiated annually to reflect market rates.

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

At 31 March 2017

16 OPERATING LEASES (continued)

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

	2017 (SR '000)	2016 (SR '000)
Not later than one year	8,020	7,503
Later than one year but not later than five years	5,428	3,567
Later than five years	1,801	275
	<u>15,249</u>	<u>11,345</u>

17 EARNINGS PER SHARE

Earnings per share on operating income are calculated by dividing the operating income by the weighted average number of ordinary shares in issue during the year.

Earnings per share on net income are calculated by dividing the net income by the weighted average number of ordinary shares in issue during the year.

Earnings per share attributable to equity holders of the Parent Company are calculated by dividing the net income attributable to equity holders of the Parent Company by the weighted average number of ordinary shares in issue during the year.

The weighted average number of ordinary shares outstanding during the year ended 31 March 2017 was 32.5 million (2016: 32.5 million) shares of SR 10 each. The calculation of diluted earnings per share is not applicable to the Group.

18 DIVIDEND

In the Annual General Assembly Meeting of the Parent Company held on 1 June 2016, the shareholders authorized a dividend of SR 4 per share (2015: SR 3.5 per share) amounting to SR 130,000 thousand (2015: SR 113,750 thousand) and paid during 2016.

19 RISK MANAGEMENT

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

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

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

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

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 commission bearing assets and liabilities. The management limits the Group's commission rate risk by monitoring changes in commission rates in the currencies in which its commission bearing assets and liabilities are denominated. At balance sheet date, the Group does not have any interest bearing assets, except murabaha short-term bank deposits, and liabilities.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 March 2017

19 RISK MANAGEMENT (continued)

Currency risk

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

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and by monitoring outstanding receivables. Further, the Group has exposure to credit risk with respect to balances with banks. The Group manages this risk by depositing in banks with sound credit ratings. At the balance sheet date, no significant concentrations of credit risk were identified by management. The Group sells its products to large number of customers. The five largest customers account for 42% (2016: 46%) of outstanding accounts receivable at 31 March.

Liquidity risk

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

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

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to operate effectively, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but it 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.

20 SEGMENT INFORMATION

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

21 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The Group's financial assets consist of cash and bank balances, available for sale investments, accounts receivable and other current assets, its financial liabilities consist of accounts payable, payable to affiliates, accruals and other liabilities, dividend payable and accrued zakat. The fair values of financial instruments are not materially different from their carrying values.

22 APPROVAL OF FINANCIAL STATEMENTS

These consolidated financial statements were authorized for issue by the Board of Directors on 7 Sha'ban 1438H corresponding to 3 May 2017.