

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

**UNAUDITED INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS**

For the three-month and nine-month periods ended 31 December 2014

## LIMITED REVIEW REPORT TO THE SHAREHOLDERS OF SAUDIA DAIRY AND FOODSTUFF COMPANY (SADAFCO) (A SAUDI JOINT STOCK COMPANY)

### Scope of review

We have reviewed the accompanying consolidated balance sheet of Saudia Dairy and Foodstuff Company - Saudi Joint Stock Company - ("SADAFCO" or "the Company") and its subsidiaries (collectively referred to as "the Group") as at 31 December 2014 and the related consolidated statement of income for the three-month and nine-month periods then ended, and the related consolidated statements of cash flows and changes in shareholders' equity for the nine-month period then ended. These interim consolidated financial statements are the responsibility of the Company's management and have been prepared by them and submitted to us together with all the information and explanations which we required. We conducted our limited review in accordance with the Saudi Organisation for Certified Public Accountants' Standard on interim financial reporting. A limited review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion on the financial statements taken as a whole. Accordingly, we do not express such an opinion.

### Conclusion

Based on our limited review, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements for them to be in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia.

for Ernst & Young

Ahmed I. Reda  
Certified Public Accountant  
License No. 356



29 Rabi Al-Awal 1436H  
20 January 2015

Jeddah

14/101/AIR

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

**INTERIM CONSOLIDATED BALANCE SHEET (UNAUDITED)**

As at 31 December 2014

	<u>Notes</u>	<u>2014</u> (SR '000)	<u>2013</u> (SR '000)
<b><u>ASSETS</u></b>			
<b>Current assets:</b>			
Cash and cash equivalents	4	11,258	133,221
Accounts receivable	5	183,152	191,569
Deposits, prepayments and other current assets		42,877	31,030
Inventories		363,333	213,776
Assets relating to a subsidiary held for disposal	6	2,337	2,947
<b>Total current assets</b>		<b>602,957</b>	<b>572,543</b>
<b>Non-current assets:</b>			
Investments	7	243	243
Property, plant and equipment	8	571,204	489,540
<b>Total non-current assets</b>		<b>571,447</b>	<b>489,783</b>
<b>Total assets</b>		<b>1,174,404</b>	<b>1,062,326</b>
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>Current liabilities:</b>			
Accounts payable		60,144	53,399
Payable to affiliates	9	3,422	650
Short term debts	10	45,000	--
Accruals and other current liabilities		50,740	44,602
Accrued Zakat	11	10,000	12,288
Unpaid dividend		1,976	1,533
Liabilities relating to a subsidiary held for disposal	6	16	893
<b>Total current liabilities</b>		<b>171,298</b>	<b>113,365</b>
<b>Non-current liability:</b>			
Employees' end of service benefits		83,455	80,613
<b>Total liabilities</b>		<b>254,753</b>	<b>193,978</b>
<b>Equity:</b>			
<b>Equity attributable to the Company's shareholders:</b>			
Capital		325,000	325,000
Statutory reserve		162,500	162,500
Voluntary reserve		122,794	106,297
Foreign currency translation adjustments		(1,996)	(2,772)
Retained earnings		310,252	275,879
<b>Total shareholders' equity</b>		<b>918,550</b>	<b>866,904</b>
<b>Non-controlling interests</b>		<b>1,101</b>	<b>1,444</b>
<b>Total equity</b>		<b>919,651</b>	<b>868,348</b>
<b>Total liabilities and equity</b>		<b>1,174,404</b>	<b>1,062,326</b>

The accompanying notes 1 to 16 form an integral part of these unaudited interim condensed consolidated financial statements.

Mussad Abdullah Al Nassar  
Member Board of Directors

Waltherus Cornelis Petrus Matthijs  
Chief Executive Officer

Khalid A. Bakhsh  
Chief Financial Officer

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

**INTERIM CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)**

For the three-month and nine-month periods ended 31 December 2014

	For the three-month period ended 31 December		For the nine-month period ended 31 December	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
	(SR '000)	(SR '000)	(SR '000)	(SR '000)
<b>Continuing operations:</b>				
Sales – net	447,794	358,834	1,342,696	1,166,331
Cost of sales	(320,851)	(240,840)	(948,959)	(794,775)
<b>Gross profit</b>	<b>126,943</b>	<b>117,994</b>	<b>393,737</b>	<b>371,556</b>
Expenses:				
Selling and distribution	(79,383)	(59,425)	(219,396)	(186,277)
General and administrative	(15,878)	(17,269)	(52,697)	(55,173)
Total expenses	(95,261)	(76,694)	(272,093)	(241,450)
<b>Operating income</b>	<b>31,682</b>	<b>41,300</b>	<b>121,644</b>	<b>130,106</b>
Other income - net	354	558	243	535
Financial charges – net	(371)	(101)	(816)	(124)
<b>Net income from continuing operations</b>	<b>31,665</b>	<b>41,757</b>	<b>121,071</b>	<b>130,517</b>
<b>Discontinuing operations:</b>				
Net loss for the period from discontinuing operations (Note 6)	(301)	(211)	(314)	(130)
<b>Net income before Zakat</b>	<b>31,364</b>	<b>41,546</b>	<b>120,757</b>	<b>130,387</b>
Zakat (Note 11)	(1,120)	(2,906)	(8,643)	(12,158)
<b>Net income for the period</b>	<b>30,244</b>	<b>38,640</b>	<b>112,114</b>	<b>118,229</b>
<b>Attributable to:</b>				
Equity shareholders of the Parent	30,097	38,593	111,765	117,908
Non-controlling interests	147	47	349	321
<b>Net income for the period</b>	<b>30,244</b>	<b>38,640</b>	<b>112,114</b>	<b>118,229</b>
<b>Earnings per share:</b>				
- on operating income - SR (Note 12)	0.97	1.27	3.74	4.00
- on net income after Zakat - SR (Note 12)	0.93	1.19	3.45	3.64
- on net income attributable to equity shareholders of the Parent - SR (Note 12)	0.93	1.19	3.44	3.63

The accompanying notes 1 to 16 form an integral part  
of these unaudited interim condensed consolidated financial statements

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**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
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**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)**

For the nine-month period ended 31 December 2014

	<u>2014</u> (SR '000)	<u>2013</u> (SR '000)
<b>Operating activities:</b>		
Net income for the period	112,114	118,229
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	51,394	39,503
Non-controlling interests	(407)	(319)
Gain on disposal of property, plant and equipment		(503)
<b>Changes in operating assets and liabilities:</b>		
(Increase)/decrease in accounts receivable	(11,625)	28,129
Decrease in deposits, prepayments and other current assets	1,229	1,757
(Increase)/decrease in inventories	(54,912)	81,619
Increase/(decrease) in accounts payable	3,285	(55,263)
Increase/(decrease) in payable to affiliates	2,786	(2,133)
Decrease in accrued Zakat, accruals and other current liabilities	(14,166)	(4,781)
Employees' end of service benefits – net	2,900	2,276
Total adjustments	(19,516)	90,285
<b>Net cash from operating activities</b>	<u>92,598</u>	<u>208,514</u>
<b>Investing activities:</b>		
Changes in net assets directly associated with a subsidiary held for disposal	413	1,718
Net movement in Murabaha term deposits with a bank	--	75,000
Sales proceeds of property, plant and equipment	--	2,930
Purchases of property, plant and equipment (note 8)	(124,920)	(109,056)
<b>Net cash used in investing activities</b>	<u>(124,507)</u>	<u>(29,408)</u>
<b>Financing activities:</b>		
Proceeds from short term debts	45,000	--
Dividend paid (note 13)	(113,750)	(97,500)
<b>Net cash used in financing activities</b>	<u>(68,750)</u>	<u>(97,500)</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	(100,659)	81,606
Effect of exchange rate fluctuations on cash and cash equivalents	(996)	(1,464)
Cash and cash equivalents at the beginning of the period	112,913	53,079
<b>Cash and cash equivalents at the end of the period (note 4)</b>	<u>11,258</u>	<u>133,221</u>

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**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
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**INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)**  
For the nine-month period ended 31 December 2014

	Attributable to equity shareholders of the Parent						Non-	
	Capital	Statutory	Voluntary	Foreign	Retained	Total	controlling	Total equity
	(SR '000)	reserve	Reserve	currency	earnings	(SR '000)	interest	(SR '000)
		(SR '000)	(SR '000)	translation	(SR '000)		(SR '000)	
				adjustments				
				(SR '000)	(SR '000)	(SR '000)		(SR '000)
Balance at 1 April 2013	325,000	162,500	94,506	(1,308)	268,312	849,010	1,442	850,452
Net income for the period	--	--	--	--	117,908	117,908	321	118,229
Dividend paid (Note 13)	--	--	--	--	(97,500)	(97,500)	--	(97,500)
Transfer to reserves	--	--	11,791	--	(11,791)	--	--	--
Board of directors' remuneration	--	--	--	--	(1,050)	(1,050)	--	(1,050)
Foreign currency translation adjustments	--	--	--	(1,464)	--	(1,464)	(319)	(1,783)
Balance at 31 December 2013 (Unaudited)	<u>325,000</u>	<u>162,500</u>	<u>106,297</u>	<u>(2,772)</u>	<u>275,879</u>	<u>866,904</u>	<u>1,444</u>	<u>868,348</u>
Balance at 1 April 2014	325,000	162,500	111,617	(1,000)	323,414	921,531	1,159	922,690
Net income for the period	--	--	--	--	111,765	111,765	349	112,114
Dividend paid (Note 13)	--	--	--	--	(113,750)	(113,750)	--	(113,750)
Transfer to reserves	--	--	11,177	--	(11,177)	--	--	--
Foreign currency translation adjustments	--	--	--	(996)	--	(996)	(407)	(1,403)
Balance at 31 December 2014 (Unaudited)	<u>325,000</u>	<u>162,500</u>	<u>122,794</u>	<u>(1,996)</u>	<u>310,252</u>	<u>918,550</u>	<u>1,101</u>	<u>919,651</u>

The accompanying notes 1 to 16 form an integral part of these unaudited interim condensed consolidated financial statements.



Mussad Abdullah Al Nassar  
Member Board of Directors



Matthijs Waltherus Cornelis Petrus  
Chief Executive Officer



Khalid A. Bakhsh  
Chief Financial Officer

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS (UNAUDITED)**

For the nine-month period ended 31 December 2014

**1. ORGANIZATION AND PRINCIPAL ACTIVITIES**

(a) Saudia Dairy and Foodstuff Company (SADAFCO) (the "Company") is a Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 4030009917 dated 21 Rabi Al-Akhar 1396H, corresponding to 21 April 1976. The Company and its subsidiaries (listed in Note 1(b)), collectively described as the "Group" in these interim condensed 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.

(b) At 31 December 2014, the Company has investments in the following subsidiaries:

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

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

\*The above subsidiaries have not yet commenced their operations.

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

Other subsidiaries:

- Swiss Premium Foods Company SAE, Egypt (see Note 6)



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

For the nine-month period ended 31 December 2014

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**2. BASIS OF PREPARATION**

**(a) Statement of compliance**

The accompanying interim condensed consolidated financial statements have been prepared in accordance with the Standard for Interim Financial Information issued by the Saudi Organization for Certified Public Accountants (SOCPA).

These interim condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements of the Group for the year ended 31 March 2014.

**(b) Basis of measurement**

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

**(c) Functional and presentation currency**

These interim condensed consolidated financial statements are presented in Saudi Arabian Riyals (SR) which is the functional currency. All financial information presented in SR has been rounded to the nearest thousand.

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

The preparation of interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.



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Mussad Abdullah Al Nassar  
Member Board of Directors



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Waltherus Cornelis Petrus Matthijs  
Chief Executive Officer



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Chief Financial Officer



**NOTES TO THE INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS (UNAUDITED)**  
For the nine-month period ended 31 December 2014

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**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 and prolonged decline in the fair value of equity investment below its cost is considered as objective evidence for the impairment. The determination of what is 'significant' and 'prolonged' requires judgement. The Group also considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

**(ii) Impairment of non-financial assets**

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



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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS (UNAUDITED)**  
For the nine-month period ended 31 December 2014

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

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

**(iii) Provision for impairment of trade receivables**

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

**(iv) Provision for slow moving inventory items**

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

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The following significant accounting policies used by the Group for the preparation of these interim condensed consolidated financial statements are consistent with those used for the preparation of the annual consolidated financial statements.

**(a) Basis of consolidation**

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

**(b) Investments in subsidiaries**

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the interim condensed consolidated financial statements from the date that control commences until the date control ceases.



Mussad Abdullah Al Nassar  
Member Board of Directors



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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS (UNAUDITED)**

For the nine-month period ended 31 December 2014

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

**(b) Investments in subsidiaries (continued)**

All intra-group balances and financial transactions resulting from transactions between the Company and the subsidiaries are eliminated in preparing these interim condensed consolidated financial statements. Also, any unrealized gains and losses arising from intra-group transactions are also eliminated on consolidation.

The attributable equity interest of third parties in the Group is included under the non controlling interests caption in these interim condensed consolidated financial statements.

**(c) Assets relating to a subsidiary held for disposal**

The Group classifies non-current assets and disposal groups as held for sale or for distribution to equity holders of the parent if their carrying amounts will be recovered principally through a sale or distribution rather than through continuing use. Such current assets and disposal groups classified as held for sale or as held for distribution are measured at the lower of their carrying amount and fair value less costs to sell or to distribute. Costs to distribute are the incremental costs directly attributable to the distribution, excluding the finance costs and zakat / tax expense.

The criteria for held for distribution classification is regarded as met only when the distribution is highly probable and the asset or disposal group is available for immediate distribution in its present condition. Actions required to complete the distribution should indicate that it is unlikely that significant changes to the distribution will be made or that the distribution will be withdrawn. Management must be committed to the distribution expected within one year from the date of the classification. Similar considerations apply to assets or a disposal group held for sale.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale or as held for distribution.

Assets and liabilities classified as held for sale or for distribution are presented separately as current items in the statement of financial position.

A disposal group qualifies as discontinued operation if it is:

- A component of the Group that is a CGU or a group of CGUs
- Classified as held for sale or distribution or already disposed in such a way, or
- A major line of business or major geographical area

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after zakat / tax from discontinued operations in the statement of profit or loss.



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

For the nine-month period ended 31 December 2014

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

**(d) Account receivables**

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

**(e) Available for sale investments**

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

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

**(f) 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 interim consolidated statement of income when incurred.

Depreciation is charged to the interim condensed consolidated statement of income on a straight-line basis over the estimated useful lives of individual item of property, plant and equipment.



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

For the nine-month period ended 31 December 2014

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

**(f) Property, plant and equipment and depreciation (continued)**

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

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

**(g) 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 period, net of discounts and returns.

**(h) 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.

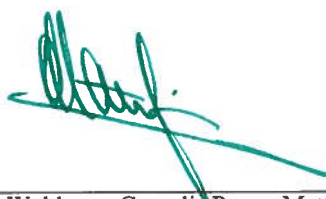
**(i) Zakat and income tax**

The Company and its Saudi Arabian subsidiaries are subject to Zakat and income-tax in accordance with the regulations of the Department of Zakat and Income Tax ("DZIT"). The foreign subsidiaries are subject to tax regulations in their respective countries of incorporation. Zakat and income tax are charged to interim consolidated statement of income.



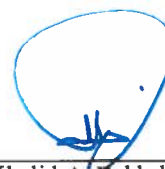
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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED  
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For the nine-month period ended 31 December 2014

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

**(j) 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 interim consolidated statement of income.

**(k) Expenses**

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

**(l) Operating lease payments**

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

**(m) Foreign currencies**

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

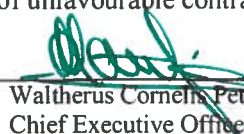
Exchange difference, arising from the translation of foreign currency financial statements of subsidiaries are allocated to the shareholders of the Parent Company and non-controlling shareholders in proportion to their ownership interests in the investee companies. SADAFCO's share in exchange difference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

**(n) Derivative financial instruments**

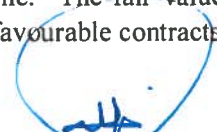
The Group uses interest rate swaps to strategically hedge its risk against interest rate movements and thus hedge accounting is not followed. The interest rate swaps are included in the interim consolidated balance sheet at fair value and any resultant gain or loss is recognized in the interim consolidated statement of income. The fair values of interest rate swaps are included in "other receivables" in case of favourable contracts and "other payables" in case of unfavourable contracts.



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

**(o) Cash and cash equivalents**

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

**(p) 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.

**(q) Segment reporting**

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

**4. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents at 31 December, comprise the following:

	<u>2014</u> (SR '000)	<u>2013</u> (SR '000)
Cash and cheques in hand	7,199	13,011
Balances with banks - current account	4,059	33,210
Murabaha term deposits	--	87,000
	<u>11,258</u>	<u>133,221</u>

During the period ended 31 December 2013, the Company placed Murabaha deposits amounting to SR 87 million with commercial banks at a market rate which was matured in January 2014.



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**5. ACCOUNTS RECEIVABLE**

Accounts receivable at 31 December, comprise the following:

	<u>2014</u> (SR '000)	<u>2013</u> (SR '000)
Trade receivables	173,593	165,607
Less: Provision for doubtful accounts	<u>(17,972)</u>	<u>(16,768)</u>
Net trade receivables	155,621	148,839
Net advances and other receivables	23,556	39,232
Related parties (Note 9)	<u>3,975</u>	<u>3,498</u>
	<u>183,152</u>	<u>191,569</u>

**6. DISCONTINUING OPERATIONS (SUBSIDIARY HELD FOR DISPOSAL)**

Swiss Premium Foods Company SAE, Egypt (SPF), a subsidiary of SADAFCO, was engaged in manufacturing and production of ice cream products. During the year ended 31 March 2009, SADAFCO decided to sell its beneficial interest of 96.3% in SPF and consequently at 31 March 2009 SPF was classified as a subsidiary held for disposal. On 7 October 2009, the shareholders of SPF decided to liquidate the Company. On 31 December 2009, the Ministry of Commerce in Egypt notified the Company as 'under liquidation'.

Under the liquidation process, certain assets of SPF have been sold for SR 5,800 thousands (LE 9,500 thousands). This amount has been fully received during the quarter ended 30 September 2012, and is classified in the other assets net of payments made towards other accrued expenses. The legal formalities relating to the liquidation are still in progress.

The results of the subsidiary for the period ended 31 December are presented below:

	For the three-month periods 31 December		For the nine-month periods 31 December	
	<u>2014</u> (SR '000)	<u>2013</u> (SR '000)	<u>2014</u> (SR '000)	<u>2013</u> (SR '000)
Net loss for the period from discontinuing operations	<u>(301)</u>	<u>(211)</u>	<u>(314)</u>	<u>(130)</u>



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**6. DISCONTINUING OPERATIONS (SUBSIDIARY HELD FOR DISPOSAL) (continued)**

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

	<u>2014</u> (SR '000)	<u>2013</u> (SR '000)
<b>Assets:</b>		
Others	2,337	2,947
<b>Assets classified as held for disposal</b>	<u>2,337</u>	<u>2,947</u>
<b>Liabilities:</b>		
Accrued liabilities	16	893
<b>Liabilities classified as held for disposal</b>	<u>16</u>	<u>893</u>
<b>Net assets directly associated with subsidiary held for disposal</b>	<u>2,321</u>	<u>2,054</u>

**7. INVESTMENTS**

Investment at 31 December, comprise the following:

	<u>2014</u> (SR '000)	<u>2013</u> (SR '000)
Investments available for sale (unquoted)	1,336	1,336
Less: Provision for non-temporary decline in value	<u>(1,093)</u>	<u>(1,093)</u>
	<u>243</u>	<u>243</u>



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**8. PROPERTY, PLANT AND EQUIPMENT**

- (a) The ownership interest of the Company in certain freehold land held in Madinah amounting to SR 1,538 thousand (2013: SR 1,538 thousand) is through a shareholder of the Company. The Company holds legal documents confirming its beneficial interest.
- (b) The additions during the period amounting to SR 124,920 thousand (2013: SR 109,056 thousand), mainly represent purchase of machinery for Dammam and Jeddah factories and the construction of Riyadh Distribution Centre.

**9. 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(b), 5, 6, 7 and 8, significant related party transactions for the period ended 31 December 2014 and balances arising there from are described as under:

<u>Transactions with</u>	<u>Nature of transaction</u>	<u>Amount of Transactions</u>		<u>Closing balance Receivable/(Payable)</u>	
		<u>2014</u> (SR '000) (Unaudited)	<u>2013</u> (SR '000) (Unaudited)	<u>2014</u> (SR '000) (Unaudited)	<u>2013</u> (SR '000) (Unaudited)
Affiliates/Jointly controlled entity	Purchase of goods and services *	10,799	2,696	(3,422)	(650)
Affiliates	Current account	500	(411)	3,975	3,498

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

**10. SHORT TERM DEBTS**

Short-term debts represents amount outstanding on Islamic mode basis with certain commercial banks. The financing is at agreed mark-ups. The facilities are secured by promissory notes issued by the Company.



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**11. ZAKAT**

Zakat assessments for the years up to and including 1996 have been finalised with the Department of Zakat and Income Tax (DZIT).

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

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

The DZIT raised assessments for the years ended 31 March 2005 through 31 March 2007 with an additional Zakat liability of SR 4,742 thousand. The HAC has recently issued its decision on the Company's appeal against the Preliminary Appeal Committee (PAC). Based on HAC's decision, the assessed liability will reduce to SR 3,550 thousands, approximately. The Company has filed an appeal against HAC's decision with the BOG. BOG review of the Company's appeal is awaited. The Company has lodged a bank guarantee with the DZIT for SR 4,576 thousands and paid SR 166 thousand "under protest".

The DZIT raised final assessments for the years ended 31 March 2008 through 31 March 2011 with an additional assessment liability of SR 9,235 thousand. PAC has recently rendered its decision on the Company's appeal against the DZIT's additional assessment. Based on the Company's understanding of the PAC's decision, the additional assessed liability will reduce to approximately SR 5,270 thousand. However, the Company intends to file an appeal with HAC against PAC's decision. The Company has paid SR 1,846 thousand "under protest".

The management believes that the ultimate appeal decisions for the disallowed items shall be in the favour of the Company therefore no additional provision is required. The DZIT has not yet raised assessments for the years 2012 and 2013.

**12. 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 period.

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 period.



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**12. EARNINGS PER SHARE (continued)**

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

The weighted average number of ordinary shares outstanding during nine-months ended 31 December 2014 was 32.5 million (2013: 32.5 million) shares of SR 10 each. The calculation of diluted earnings per share is not applicable to the Company.

**13. DIVIDEND**

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

**14. SEGMENT REPORTING**

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

**15. COMMITMENTS, CONTINGENCIES AND DERIVATIVE CONTRACTS**

- (a) At 31 December 2014, the Group have outstanding commitments for future capital expenditures amounting to SR 57,993 thousand (2013: SR 26,785 thousand).
- (b) As at 31 December 2014, the Group has a contingent liability of SR 10,004 thousand (2013: SR 10,004 thousand) in respect of guarantees issued by the Company's bankers to the Department of Zakat and Income Tax (Note 11).

**16. APPROVAL OF FINANCIAL STATEMENTS**

These interim condensed consolidated financial statements were authorised for issue by the Board of Directors on 29 Rabi Al-Awal 1436H, corresponding to 20 January 2015.



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Mussad Abdullah Al Nassar  
Member Board of Directors



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Waltherus Cornelis Petrus Matthijs  
Chief Executive Officer



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