
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 2013

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

Scope of review

We have reviewed the accompanying consolidated balance sheet of Saudia Dairy and Foodstuff Company (A Saudi Joint Stock Company) ("SADAFECO" or the "Company") and its subsidiaries (collectively referred to as the "Group") as at 31 December 2013, the related consolidated statements of income for the three-month and nine-month periods then ended, the consolidated cash flows, changes in shareholders' equity for the nine-month period then ended and the attached notes 1 to 16 which form an integral part of these consolidated financial statements. These interim condensed consolidated financial statements are the responsibility of the Group's Board of Directors 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 condensed consolidated financial statements for them to be in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia.


Ernst & Young
P.O. Box 1994
Jeddah 21441
Kingdom of Saudi Arabia



Ahmed I. Reda
Certified Public Accountant
License No. 356



KPMG Al Fozan & Al Sadhan
P.O. Box 55078
Jeddah 21534
Kingdom of Saudi Arabia



Ebrahim O. Baeshen
Certified Public Accountant
License No. 382



19 Rabi Al Awal 1435H
Corresponding to 20 January 2014
Jeddah, Kingdom of Saudi Arabia

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

INTERIM CONSOLIDATED BALANCE SHEET (UNAUDITED)

As at 31 December 2013

| | Notes | 2013 (SR '000) | 2012 (SR '000) |
|---|-------|-------------------|-------------------|
| <u>ASSETS</u> | | | |
| Current assets: | | | |
| Cash and cash equivalents | 4 | 133,221 | 62,798 |
| Murabaha term deposit with a bank | 5 | — | 75,000 |
| Accounts receivable | 6 | 191,569 | 239,172 |
| Deposits, prepayments and other current assets | | 31,030 | 22,384 |
| Inventories | | 213,776 | 185,757 |
| Assets relating to a subsidiary held for disposal | 9 | 2,947 | 4,725 |
| Total current assets | | 572,543 | 589,836 |
| Non-current assets: | | | |
| Investments | 7 | 243 | 243 |
| Property, plant and equipment | 8 | 489,540 | 393,941 |
| Total non-current assets | | 489,783 | 394,184 |
| Total assets | | 1,062,326 | 984,020 |
| <u>LIABILITIES AND EQUITY</u> | | | |
| Current liabilities: | | | |
| Accounts payable | | 53,399 | 42,193 |
| Accruals and other current liabilities | | 44,602 | 47,570 |
| Payable to affiliates | | 650 | 2,731 |
| Accrued Zakat | 11 | 12,288 | 13,177 |
| Unpaid dividend | | 1,533 | 1,248 |
| Liabilities relating to a subsidiary held for disposal | 9 | 893 | 1,102 |
| Total current liabilities | | 113,365 | 108,021 |
| Non-current liability: | | | |
| Employees' end of service benefits | | 80,613 | 77,498 |
| Total liabilities | | 193,978 | 185,519 |
| Equity: | | | |
| Equity attributable to the Company's shareholders: | | | |
| Capital | | 325,000 | 325,000 |
| Statutory reserve | | 162,500 | 162,500 |
| Voluntary reserve | | 106,297 | 89,416 |
| Foreign currency translation adjustments | | (2,772) | (2,696) |
| Retained earnings | | 275,879 | 222,858 |
| Total shareholders' equity | | 866,904 | 797,078 |
| Non-controlling interests | | 1,444 | 1,423 |
| Total equity | | 868,348 | 798,501 |
| Total liabilities and equity | | 1,062,326 | 984,020 |

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)

INTERIM CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

For the three-month and nine-month periods ended 31 December 2013

| | For the three-month period ended 31 December | | For the nine-month period ended 31 December | |
|---|--|------------------|---|------------------|
| | <u>2013</u> | <u>2012</u> | <u>2013</u> | <u>2012</u> |
| | (SR '000) | (SR '000) | (SR '000) | (SR '000) |
| Continuing operations: | | | | |
| Sales - net | 358,834 | 383,198 | 1,166,331 | 1,180,598 |
| Cost of sales | <u>(240,840)</u> | <u>(267,440)</u> | <u>(794,775)</u> | <u>(816,463)</u> |
| Gross profit | 117,994 | 115,758 | 371,556 | 364,135 |
| Expenses: | | | | |
| Selling and distribution | (59,425) | (57,512) | (186,277) | (188,742) |
| General and administrative | <u>(17,269)</u> | <u>(19,170)</u> | <u>(55,173)</u> | <u>(51,946)</u> |
| Total expenses | <u>(76,694)</u> | <u>(76,682)</u> | <u>(241,450)</u> | <u>(240,688)</u> |
| Operating income | 41,300 | 39,076 | 130,106 | 123,447 |
| Other income - net | 558 | 732 | 535 | 1,883 |
| Financial (charges) / income – net | <u>(101)</u> | <u>234</u> | <u>(124)</u> | <u>2,059</u> |
| Income from continuing operations | 41,757 | 40,042 | 130,517 | 127,389 |
| Discontinuing operations: | | | | |
| Net loss for the period from discontinuing operations (Note 9) | <u>(211)</u> | <u>(43)</u> | <u>(130)</u> | <u>(488)</u> |
| Net income before Zakat | 41,546 | 39,999 | 130,387 | 126,901 |
| Zakat (Note 11) | <u>(2,906)</u> | <u>(4,400)</u> | <u>(12,158)</u> | <u>(13,200)</u> |
| Net income for the period | 38,640 | 35,599 | 118,229 | 113,701 |
| Attributable to: | | | | |
| Equity shareholders of the Parent | 38,593 | 35,538 | 117,908 | 113,365 |
| Non-controlling interests | <u>47</u> | <u>61</u> | <u>321</u> | <u>336</u> |
| Net income for the period | 38,640 | 35,599 | 118,229 | 113,701 |
| Earnings per share: | | | | |
| - on operating income - SR (Note 13) | <u>1.27</u> | <u>1.20</u> | <u>4.00</u> | <u>3.80</u> |
| - on net income for the period | | | | |
| - SR (Note 13) | <u>1.19</u> | <u>1.10</u> | <u>3.64</u> | <u>3.50</u> |
| - on net income attributable to equity shareholders of the Parent - SR (Note 13) | <u>1.19</u> | <u>1.09</u> | <u>3.63</u> | <u>3.49</u> |

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of these unaudited interim condensed consolidated financial statements

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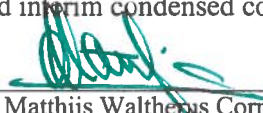
SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)


INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
For the nine-months period ended 31 December 2013

| | For the nine-month period ended 31 December 2013 (SR '000) | For the nine-month period ended 31 December 2012 (SR '000) |
|---|---|---|
| Operating activities: | | |
| Net income for the period | 118,229 | 113,701 |
| Adjustments to reconcile net income to net cash from operating activities: | | |
| Depreciation | 39,503 | 33,553 |
| Non-controlling interests | (319) | (151) |
| Gain on disposal of property, plant and equipment | (503) | (1,217) |
| Changes in operating assets and liabilities: | | |
| Decrease in accounts receivable | 28,129 | 51,310 |
| Decrease / (Increase) in prepayments and deposits | 1,757 | (4,115) |
| Decrease in inventories | 81,619 | 67,348 |
| (Decrease) in accounts payable | (55,263) | (78,629) |
| (Decrease) in payable to affiliates | (2,133) | (1,907) |
| (Decrease) in accrued Zakat, accruals and other current liabilities | (4,781) | (44,694) |
| Employees' end of service benefits - net | 2,276 | 4,456 |
| Total adjustments | 90,285 | 25,954 |
| Net cash from operating activities | 208,514 | 139,655 |
| Investing activities: | | |
| Changes in net assets directly associated with a subsidiary held for disposal | 1,718 | (1,396) |
| Net movement in Murabaha term deposit | 75,000 | 75,000 |
| Sale proceeds from disposal of property, plant and equipment | 2,930 | 2,010 |
| Purchases of property, plant and equipment | (109,056) | (105,636) |
| Net cash used in investing activities | (29,408) | (30,022) |
| Financing activity: | | |
| Dividend paid and cash used in financing activity | (97,500) | (97,500) |
| Net increase in cash and cash equivalents | 81,606 | 12,133 |
| Effect of exchange rate fluctuations on cash and cash equivalents | (1,464) | (1,046) |
| Cash and cash equivalents at the beginning of the period | 53,079 | 51,711 |
| Cash and cash equivalents at the end of the period (note 4) | 133,221 | 62,798 |

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SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
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INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the nine-months period ended 31 December 2013

| | Attributable to equity shareholders of the Parent | | | | | | | |
|---|---|---|---|--|---|---------------------------|--|----------------------------------|
| | <u>Capital</u> (SR '000) | <u>Statutory reserve</u> (SR '000) | <u>Voluntary reserve</u> (SR '000) | <u>Foreign currency translation adjustments</u> (SR '000) | <u>Retained earnings</u> (SR '000) | <u>Total</u> (SR '000) | <u>Non- controlling interests</u> (SR '000) | <u>Total equity</u> (SR '000) |
| Balance at 1 April 2012 | 325,000 | 162,500 | 78,080 | (1,650) | 219,379 | 783,309 | 1,238 | 784,547 |
| Net income for the period | -- | -- | -- | -- | 113,365 | 113,365 | 336 | 113,701 |
| Dividend paid (Note 14) | -- | -- | -- | -- | (97,500) | (97,500) | -- | (97,500) |
| Transfer to reserves | -- | -- | 11,336 | -- | (11,336) | -- | -- | -- |
| Board of directors' remuneration (Note 12 (d)) | -- | -- | -- | -- | (1,050) | (1,050) | -- | (1,050) |
| Foreign currency translation adjustments | -- | -- | -- | (1,046) | -- | (1,046) | (151) | (1,197) |
| Balance at 31 December 2012 | <u>325,000</u> | <u>162,500</u> | <u>89,416</u> | <u>(2,696)</u> | <u>222,858</u> | <u>797,078</u> | <u>1,423</u> | <u>798,501</u> |
| 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 14) | -- | -- | -- | -- | (97,500) | (97,500) | -- | (97,500) |
| Transfer to reserves | -- | -- | 11,791 | -- | (11,791) | -- | -- | -- |
| Board of directors' remuneration (Note 12 (d)) | -- | -- | -- | -- | (1,050) | (1,050) | -- | (1,050) |
| Foreign currency translation adjustments | -- | -- | -- | (1,464) | -- | (1,464) | (319) | (1,783) |
| Balance at 31 December 2013 | <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> |

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

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

For the three-month and nine-month periods ended 31 December 2013

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 2013, 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 Company for food stuff*^ | 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 9)



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

For the three-month and nine-month periods ended 31 December 2013

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 2013.

(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.

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



Mussad Abdullah Al Nassar
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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (UNAUDITED)**

For the three-month and nine-month periods ended 31 December 2013

2. BASIS OF PREPARATION (continued)

(d) Use of estimates and judgements (continued)

(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

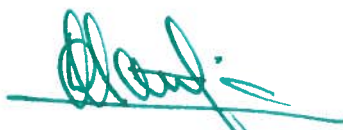
The Group assesses, at each reporting date or more frequently if events or changes in circumstances indicate, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable 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.

(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.



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SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)

(A Saudi Joint Stock Company)

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

For the three-month and nine-month periods ended 31 December 2013

2. BASIS OF PREPARATION (continued)

(d) Use of estimates and judgements (continued)

(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. Certain prior period amounts have been reclassified to confirm the presentation in the current period.

(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.

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.



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

For the three-month and nine-month periods ended 31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 non-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

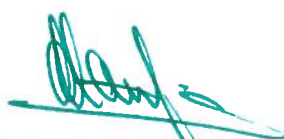
Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after zakat / tax from discontinued operations in the statement of profit or loss.

(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.



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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED
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For the three-month and nine-month periods ended 31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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. Changes in the fair value are credited or charged to the interim condensed 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.

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

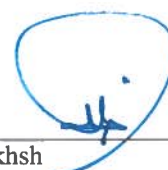
Sales are recognized when products are delivered or shipped to customers and when risks and rewards are transferred. Sales represent the invoiced value of the goods supplied during the period, net of discounts and returns.



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

For the three-month and nine-month periods ended 31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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.



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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED
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For the three-month and nine-month periods ended 31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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.


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)

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4. CASH AND CASH EQUIVALENTS

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

| | <u>2013</u> (SR '000) | <u>2012</u> (SR '000) |
|---------------------------------------|--------------------------|--------------------------|
| Cash and cheques in hand | 13,011 | 9,527 |
| Balances with banks - current account | 33,210 | 33,271 |
| Murabaha term deposits | <u>87,000</u> | <u>20,000</u> |
| | <u>133,221</u> | <u>62,798</u> |

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

5. MURABAHA TERM DEPOSIT WITH A BANK

During the period ended 30 September 2013, Murabaha deposit amounting to SR 75 million with United Gulf Bank, Bahrain (a related party) matured.

6. ACCOUNTS RECEIVABLE

Accounts receivable at 31 December comprise the following:

| | <u>2013</u> (SR '000) | <u>2012</u> (SR '000) |
|---------------------------------------|--------------------------|--------------------------|
| Trade receivables | 165,607 | 208,229 |
| Less: Provision for doubtful accounts | <u>(16,768)</u> | <u>(17,019)</u> |
| Net trade receivables | 148,839 | 191,210 |
| Net advances and other receivables | 39,232 | 44,227 |
| Related parties (Note 12) | <u>3,498</u> | <u>3,735</u> |
| | <u>191,569</u> | <u>239,172</u> |

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7. INVESTMENTS

- (a) Investment at 31 December comprise the following:

| | <u>2013</u> (SR '000) | <u>2012</u> (SR '000) |
|--|--------------------------|--------------------------|
| Investments available for sale (unquoted) | 1,336 | 1,336 |
| Less: Provision for non-temporary decline in value | (1,093) | (1,093) |
| | <u>243</u> | <u>243</u> |

- (b) SADAFCO's ownership interest in some of the investments (1(b)) is held through parties nominated by the Company.

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 (2012: SR 1,538 thousand) is through certain shareholders of the Company.
- (b) The additions during the period amounting to SR 109,056 thousand (2012: SR 105,636 thousand), mainly represent purchase of machinery for Dammam, Jeddah factories and the expansion of Riyadh Distribution Centre.

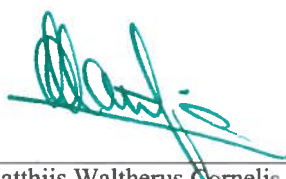
9. DISCONTINUING OPERATIONS (SUBSIDIARY HELD FOR DISPOSAL)

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.



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9. DISCONTINUING OPERATIONS (SUBSIDIARY HELD FOR DISPOSAL) (continued)

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

| | For the three-month period 31 December | | For the nine-month period 31 December | |
|---|---|-------------|--|--------------|
| | <u>2013</u> | <u>2012</u> | <u>2013</u> | <u>2012</u> |
| | (SR '000) | (SR '000) | (SR '000) | (SR '000) |
| Expenses and net loss for the period from discontinuing operations | (211) | (43) | (130) | (488) |

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

| | <u>2013</u> (SR '000) | <u>2012</u> (SR '000) |
|---|--------------------------|--------------------------|
| <u>Assets:</u> | | |
| Property, plant and equipment | -- | 82 |
| Others | <u>2,947</u> | <u>4,643</u> |
| Assets classified as held for disposal | <u>2,947</u> | <u>4,725</u> |
| <u>Liabilities:</u> | | |
| Accrued liabilities | <u>893</u> | <u>1,102</u> |
| Liabilities classified as held for disposal | <u>893</u> | <u>1,102</u> |
| Net assets directly associated with subsidiary held for disposal | <u>2,054</u> | <u>3,623</u> |

10. COMMITMENTS AND CONTINGENCIES

- (a) At 31 December 2013, the Group has outstanding commitments for future capital expenditures amounting to SR 26,785 thousand (2012: SR 37,369 thousand).
- (b) As at 31 December 2013, the Group has a contingent liability of SR 10,004 thousand (2012: SR 17,758 thousand) in respect of guarantees issued by the Company's bankers to the Department of Zakat and Income Tax (Note 11).


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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 with Minister of Justice against BOG decision. Pending resolution of the case, an amount of SR 7,765 thousand has been paid to the DZIT “under protest”. SADAFCO will seek its refund on favourable resolution of the matter.

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 lodged 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 based on Preliminary Appeal Committee (PAC) decision. The Company has filed an appeal with the HAC against the PAC decision. SADAFCO has lodged a bank guarantee with the DZIT amounting to SR 4,576 thousands together with a bank collection order for SR 166 thousand paid “under protest”.

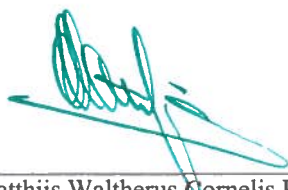
The DZIT raised final assessments for the years ended 31 March 2008 through 31 March 2011 with an additional assessment liability of SR 9,235 thousand. The Company has filed an appeal with DZIT against the final assessment and has paid SR 1,846 thousand “under protest”

The management believes that the ultimate appeal decision for the disallowed items shall be in the favour of the Company therefore no additional provision required.

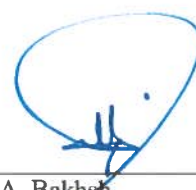
The Company has file Zakat return for the years 31 March 2012 and 2013 with the DZIT. The DZIT’s review awaited.



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12. 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, 8 and 9, significant related party transactions for the period ended 31 December 2013 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>2013</u> (SR '000) (Unaudited) | <u>2012</u> (SR '000) (Unaudited) | <u>2013</u> (SR '000) (Unaudited) | <u>2012</u> (SR '000) (Unaudited) |
| Affiliates | Purchase of goods and services* | (2,696) | (5,339) | (650) | (2,731) |
| Affiliates | Current account | (411) | 427 | 3,498 | 3,735 |
| Affiliate | Sale of a subsidiary | -- | 4,861 | -- | -- |
| | | | | <u>3,498</u> | <u>3,735</u> |

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

- (c) In addition to the disclosure set out in note 5, profit earned on Murabaha term deposit with United Gulf Bank amounts to SR 644 thousand for the period ended 31 December 2013 (2012: SR 2,352 thousand).
- (d) Board of Directors' remuneration amounting to SR 1,050 thousand (2012: SR 1,050 thousand), is calculated in accordance with Article 35-4 of the Company's Articles of Association and is considered as an appropriation and is shown in the statement of changes in shareholders' equity.

13. 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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13. 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 2013 was 32.5 million (2012: 32.5 million) shares of SR 10 each. The calculation of diluted earnings per share is not applicable to the Company.

14. DIVIDEND

In the Annual General Assembly meeting of the Company held on June 24, 2013, the shareholders authorised a final dividend of Saudi Riyals 3 per share (2012: Saudi Riyals 3 per share) amounting to SR 97,500 thousand (2012: SR 97,500 thousand), which was appropriated from the retained earnings and paid during the quarter ended 30 September 2013.

15. 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.

16. APPROVAL OF FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were authorised for issue by the Board of Directors on 19 Rabi Al Awal 1435H corresponding to 20 January 2014.



Mussad Abdullah Al Nassar
Member Board of Directors



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