



**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 40<sup>th</sup> 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 (%)	Contribution (%)	% Point Change
		2015-16	2016-17	
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
	<b>Total</b>	<b>100</b>	<b>100</b>	

### 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
	<b>Total</b>	<b>1,983</b>	<b>100</b>	<b>1,858</b>	<b>100</b>

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)**

	<b>Description</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
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
	<b>Net Income</b>	<b>165</b>	<b>171.5</b>	<b>141.5</b>	<b>260.8</b>	<b>301.8</b>

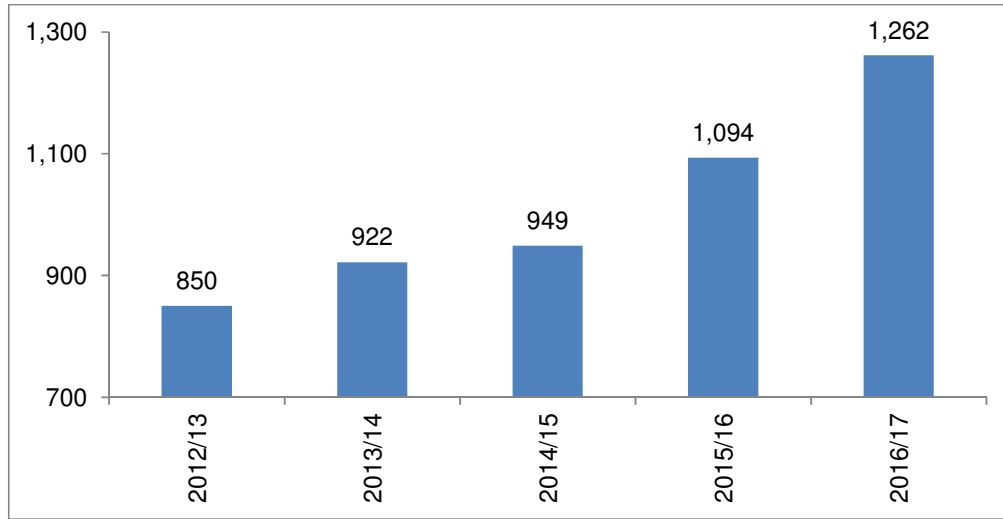
#### **Income Statement (SAR Millions)**

	<b>Description</b>	<b>Mar 2016</b>	<b>Mar 2017</b>
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)
	<b>Net Profit</b>	<b>260.8</b>	<b>301.8</b>

#### **Statutory Payments for 2016-17 (SAR Thousands)**

	<b>Description</b>	<b>Due</b>	<b>Paid</b>	<b>Balance</b>
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	-
	<b>Total</b>	<b>64,020</b>	<b>64,020</b>	-

### 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	×	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	13
Mr Suleiman Saud Jarallah Al-Jarallah	Independent	×	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	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 for investment – 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									
		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)	<b>Total</b>	<b>2,400</b>	<b>1,129</b>	<b>8,454</b>

\* 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 (+/-)
<b>Board of Directors</b>				
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	-
<b>Executive Management Team</b>				
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.

<b>Company Name</b>	<b>Country</b>	<b>Nature of Transaction</b>	<b>Value SAR 000s</b>	<b>Closing Balance</b>
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 m<sup>2</sup> 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 m<sup>2</sup> 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"> <li>(A-1) Partially implemented as the risk management policy is not finalized.</li> </ul> Not Applied: <ul style="list-style-type: none"> <li>(H/1,5) These are governed in each contract and CSR is determined annually.</li> </ul>
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	-	-	-	
	<b>Total items</b>	<b>91</b>	<b>83</b>	<b>2</b>	<b>4</b>	<b>2</b>	