



**Saudia Dairy and Foodstuff Company (SADAFCO)**  
**Annual Board of Directors' Report**  
**Financial Year 2015-16**

## **Message from the Chairman**

On behalf of the Board of Directors, I am pleased to present to you SADAFCO's Annual Report for the 12 months ending 31 March 2016. This document includes Financial Year-End Results, the Auditor's Report and a summary of the highlights of the year's performance and accomplishments.

The year ended on net sales of SAR 1.983 billion, a growth of 9.7% over last year delivering net operating income of SAR 276 million, an increase of 77% over last year. In this process SADAFCO strengthened its position as the manufacturer of Saudi Arabia's most popular Tomato Paste and Ice Cream and a strong No 2 in Plain Milk.

Capital Expenditure investments during the year amounted to SAR 68 million, focussing mainly on further improvement of our product supply capabilities and efficiencies in Sales & Distribution, Supply Chain and Manufacturing.

SADAFCO also emphasized its commitment to the environment by investing in means to help reduce wastage of the region's scarce resources and harness abundant renewable resources that exist in the Middle East.

Systems have been introduced at SADAFCO's Jeddah Factory to minimize wastage and save scarce resources like water.

In the field of renewable resources, the previously-publicised, SAR2-million, Riyadh Regional Distribution Centre Solar Project is nearing completion. We expect solar generated power to come on line around May this year providing SADAFCO not only the opportunity to reduce costs but also to learn more about the technology for possible broader use at other company locations. Up to 40% of daytime energy requirements for the Riyadh RDC will be generated by the sun.

SADAFCO is now entering the 40<sup>th</sup> anniversary since it established its roots with a joint venture in Saudi Arabia in 1976. During the past 12 months the company has also marked the 10<sup>th</sup> anniversary of its listing on Tadawul.

Since listing SADAFCO has continued to deliver attractive yields and capital gains to its shareholders and this year the Board of Directors is recommending a SAR 4.00 per share dividend, subject to the approval of shareholders.

On behalf of the SADAFCO Board of Directors, I would like to 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 private sector in the Kingdom.

My appreciation goes to my fellow Board Members, Shareholders, Executive Management Team members and SADAFCO employees for their combined and continued efforts to develop and grow the company.

Finally, thank you to SADAFCO's growing, loyal consumer base and to all our customers for their support during the past year.

**Hamad Sabah Al-Ahmad**  
**Chairman**

## Message from the Chief Executive Officer

During 2015-16 SADAFCO achieved SAR 1.983 billion net sales, 9.7% up on last year.

This performance was backed by market share gains in Saudi Arabia across all major categories of participation, most notably the improvement of our market leadership positions in Tomato Paste and Ice Cream and the strengthening of our second place in Plain Milk.

These gains have been made in spite of increased challenges created by a shifting socio-economic landscape, especially in view of the sustained low global oil prices, resulting in an economic slowdown as our customers and consumers change the way they make their purchases.

The initial increases in fuel, electricity and water had no material impact on SADAFCO's results last year. The medium to long-term effects of these changes are being monitored.

In the meantime, SADAFCO continues to offer its service to customers through 24 of its own distribution points across the Middle East covering Saudi Arabia, Bahrain, Qatar, Kuwait and Jordan. These locations include larger Regional Distribution Centres (RDCs) in Riyadh, Jeddah and Dammam. SADAFCO feeds the depots with product from its three ISO22000:2005 accredited factories in Jeddah and Dammam.

Thanks to this wide-reaching network we are able to consistently deliver our quality products to our loyal customers and consumers.

In January this year the company signed a Memorandum of Understanding to acquire the lease rights of land and buildings in Jeddah for SAR16.5 million. This action with the intent of increasing storage and logistic capabilities close to the two Jeddah factories will support the company's strategy to further boost manufacturing capacities.

In terms of future growth, product innovation remains high on the SADAFCO agenda and during the year we introduced *Crispy* Tortilla Chips, a gluten-free snack option produced for us in Europe, and *Majestique*, a sparkling Apple-based fruit drink that previously proved to be a favourite among local consumers. While restricted to two launches during this year, the New Product Development (NPD) plan is an active program seeking out opportunities, investigating potential and, when appropriate, developing products for launch.

SADAFCO maintains pressure on the process of recruiting and retaining local talent. This has paid off as the company again achieved Green Status on the Saudi Ministry of Labour's Nitaqat system. In addition to this, the representation of women within the local work force ended the year at 4.7%.

Programs like Team Blue and The Program for Saudi Nationals have also been introduced to focus on the development of these individuals preparing them to be future leaders in various functions within the company.

Finally, I thank the Board of Directors for their continued support, our staff for their dedication and hard work in achieving the reported results and our suppliers and customers for their valuable contributions to making our achievements possible.

I commend the SADAFCO team on their perseverance and persistence in frequently overcoming obstacles and finding solutions in day to day operations.

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 at the Jeddah Factory in 1977. Ten years later the European partners sold their shares to the Saudi and Kuwaiti shareholders and in 1990 the three companies merged into one to officially form Saudia Dairy and Foodstuff Company.

An initial public offering (IPO) led to the company's listing on the Saudi Arabian Stock Exchange, Tadawul, on 23 May 2005.

The company celebrates its 40<sup>th</sup> anniversary in 2016.

## Main Activities of the Company

SADAFCO is a leading, world-class, Saudi Arabia-based company whose activities include local production, importing, distribution and marketing of a wide range of products. The portfolio includes Dairy Products, Ice Cream, Tomato Paste, Snacks and Drinks in the Middle East and North Africa.

The company's core products are under its flagship *Saudia* brand. Other brand names in its portfolio are *Crispy*, *Baboo* and *Majestique*. It currently offers around 100 Stock Keeping Units (SKU).

SADAFCO has three, ISO22000:2005-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 other Middle Eastern and North African markets through the Export function in conjunction with distribution agents.

SADAFCO ended 2015-16 with net sales of SAR1.983billion, reflecting a growth of 9.7% over 2014-15 and increased retail market shares in key product categories, indicating a strengthening of consumer loyalty to the company brands.

## Sales & Distribution:

Not many local food companies can claim a reach of 35,000 customers each week and SADAFCO is one of the leaders in this area. A wide reach through around 500 sales routes of both controlled-temperature and freezer trucks allow us to safely distribute our products in sometimes harsh climatic conditions.

Our Sales & Distribution team is tasked with ensuring the right product mix reaches consumers at the right place and at the right time. This is a challenge for SADAFCO's large portfolio of Plain Milk, Flavoured Milk, Enhanced Nutrition Milk, Laban, Evaporated Milk, Instant Milk Powder, Cream, Tomato Paste, Tomato Ketchup, Arabic Coffee, Snacks, Cheeses, Drinks, Ice Cream, French Fries and Butter.

The space limitations on product mix on daily routes require careful planning, a daily focus of the sales team and their support structures. This brings together theory and practice to find the best mix for daily loading to ensure optimal sales with low returns of unsold products at the end of the day.

This approach, initiated late in 2013 and fully rolled out by end March 2016, helps enforce disciplines required for successful van sales to effectively meet consumer demand in a dynamic and competitive market. It has helped Business Managers target their energies and point them in the right direction for the best results.

This means we are now a more professional organisation when it comes to our efforts at the front line of the business across our Middle Eastern distribution network.

New to the Executive Management Team is Marek Mierzejewski, who has spent 20 years delivering growth in sales and market share for multi-nationals in Europe and Asia. He brings specific experience in emerging markets in Europe and Asia and has a record of designing long-term strategies to drive market penetration and optimizing channel management.

## Marketing:

A clear, independent measure of our marketing success is the retail market share audit data that tracks our progress in the main categories. These audits provide accurate trends and market rankings and they show *Saudia* has gained ground to strengthen its No 2 spot in the Plain Milk market to 30% from 28% a year ago.

*Saudia* Tomato Paste remains the No 1 choice for Tomato Paste in Saudi Arabia with a share of 46% (up two percentage points) and in the Ice Cream category *Saudia's* selection of Impulse and Take-Home frozen items remain the most popular choice with Saudi consumers. In Ice Cream SADAFCO has improved from 19% to 20.4%.

During 2015-16 we introduced two new products.

In January 2016 we launched *Crispy* Tortilla Chips, an extension to the *Crispy* range. They are a gluten-free offering packed for SADAFCO in Europe and they allow our snack offering to target teenage and adult consumers.

*Majestique*, an old consumer favourite, was re-launched in February after almost 10 years off the market. The recipe of the re-launched product is unchanged from the original "apple juice, sparkling water with a dash of spearmint and orange", however, a new bottle design has been introduced and so far the feedback has been positive.

Marketing activities have contributed positively to increased sales and market shares.

Campaigns on television and other media remain a part of this effort. In addition to this SADAFCO's products have gained increased presence on Social Media platforms with successful initiatives introduced to Facebook, Instagram and Twitter.

*Saudia Champions* and *My Saudia Kitchen* are mainstays of activation plans 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 young homemakers at Malls across the region.

## Manufacturing:

Capital expenditure to shore up capacity to meet increasing consumer demand remains important at SADAFCO's factories, especially at the main Jeddah Factory where *Saudia* Plain and Flavoured Milk and Laban are produced. This factory, established in 1976, accounts for the bulk of manufacturing output for the company.

Previously, continuous mixing processing lines were installed in the Jeddah factory but now we have taken things a step further in order to further improve efficiencies and to reduce wastage. Jeddah Factory has now also installed a recovery system that allows us to salvage production losses. This helps reduce wastage and saves on water usage.

We are already proud to use only three and a half litres of water to produce one finished litre of milk and as we further fine-tune the sustainable business model for milk production, we continue to find ways to minimize water usage in the processing of our products.

Capacity expansion through the acquisition of additional high-speed lines is an on-going process to ensure that filling capabilities keep abreast of the processing systems.

The Quality Assurance function continued to uphold internationally-recognised standards to guarantee the highest levels of quality. In August 2015, Jeddah Factory re-affirmed their quality credentials with an ISO22000:2005 re-accreditation. Jeddah Ice Cream Factory was re-accredited earlier in the year and the Dammam Factory is already in the process of re-certifying.

Currently the three SADAFCO factories share the manufacturing load of the company as follows:

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

Jeddah Ice Cream Factory produces all lines of Ice Cream.

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

## **Supply Chain:**

Supply Chain has continued to play an important role in sourcing, purchasing, shipping and storing ingredients and packaging required for the local production of SADAFCO's products. They also source *Saudia* and *Crispy* products produced by third-party manufacturers including French Fries, Butter, Triangle Cheese, Ketchup, Tortilla Chips, Instant Milk Powder and Sterilized Cream in tins.

During the year Supply Chain transported about 49 million cases of finished goods from factories to depots across the region on trucks travelling a collective 21.5 million kilometres.

Key project work to highlight relates to traceability, a focus for SADAFCO Supply Chain for the past 12 months. The level of traceability achieved so far allows us to view product manufacturing history by pallet. This includes the tracking of product ingredients used and finished goods' pallet destination once it leaves the factory. Eventually the level of detail will be tracked down to each carton.

This complicated process is being introduced in phases with Jeddah Factory launched in November 2015 and Jeddah Ice Cream Factory following in March 2016. Other *Go Live* milestones for Dammam Factory and other, third-party raw material and packaging warehouses will occur during the remainder of 2016.

A Memorandum of Understanding was signed in January 2016 for the acquisition of rights to the lease of land and buildings in Jeddah, close to our factories. This supports the company's strategy to continuously boost its current manufacturing and logistical capabilities and increase its storage capabilities.

Tracking moveable assets received a boost with the introduction of the first stage of GPS tracking for SADAFCO's fleet of tractor heads and trailers. This process not only allows for the tracking of assets but also allows for the monitoring of vehicle movements for route deviations and unnecessary down time.

## **Organizational Development:**

The growth of SADAFCO creates employment opportunities within the organisation and Organizational Development plays the lead role in promoting the company as an employer of choice to attract suitable, skilled candidates for recruitment and retention to keep the company's wheels in motion.

Furthermore, the function is responsible for the development, where necessary, of individuals within SADAFCO to fill skills gaps that exist within the workforce.

While staff retention remains a challenge, Organizational Development aims to limit attrition through education, training and, most importantly, the creation of a healthy work environment.

Efficiencies within the function have improved with the further development of the HRMIS system we have called Jahiz. Launched on 1 April last year, the system continues to be expanded with a number of additional functionalities being added during the year, laying the foundation for further efficiencies, better managed processing and enhanced management reporting. Jahiz also helps to move the company towards a paperless environment.

SADAFCO remains on track with Saudization targets set by the Saudi Ministry of Labour's Nitaqat Program and during 2015-16 we have again achieved Green Status. By the year end, 104 women in the company accounted for 4.7% of the workforce and they continue to contribute to our efforts in laboratories, offices and production lines across the company.

We are also committed to providing opportunities to the physically and intellectually challenged and to date there are 25 men and women in this category who are working for the company and adding value to SADAFCO's operation.

The Organizational Development function was again active in the area of health education and awareness initiatives. These included early-detection check-ups around the Kingdom, regular communication concerning general health and health warnings related to MERS-Corona Virus and Zika Virus. A vaccination initiative also resulted in around 1,000 employees benefitting.

## **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. SADAFCO also owns three subsidiaries based in Saudi Arabia which have not been active since their inception in 2008.

### Corporate Social Responsibility:

During the year SADAFCO identified an opportunity to harness renewable energy resources and the Riyadh Regional Distribution Centre was selected for the company's first investment into solar power.

The total financial commitment is SAR2 million, which the company views as a contribution to social responsibility through the application of green, environmentally-friendly principles. The project also allows SADAFCO to effectively reduce its energy consumption and to learn more about solar energy for successful application to other locations.

SADAFCO supports communities within which it operates by sponsoring sporting activities and supplying free products to schools in various locations across the Kingdom. The company has also contributed products to charities and schools catering to special needs.

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

### Sales Contribution by Product Category

	Product	Contribution 2014-15	Contribution 2015-16	% Point Change
1	Milk	68%	69%	1%
2	Tomato Paste	9%	10%	1%
3	Ice Cream	10%	11%	1%
4	Powdered Milk	3%	2%	-1%
5	Cheese	3%	3%	0
6	Others	7%	5%	-2%
	<b>Total</b>	<b>100%</b>	<b>100%</b>	

### Sales for SADAFCO and Subsidiaries by geographic location:

	Country	Sales 2014-15 (SAR Million)	Percentage (%)	Sales 2015-16 (SAR Million)	Percentage (%)
1	Saudi Arabia	1,681	93%	1,838	92.7%
2	Bahrain	39	2.2%	41	2.1%
3	Qatar	44	2.4%	49	2.5%
4	Kuwait	9	0.5%	8	0.4%
5	Jordan	13	0.7%	13	0.6%
6	Export (other Countries )	21	1.2%	34	1.7%
	<b>Total</b>	<b>1,807</b>	<b>100%</b>	<b>1,983</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, headquarters locations and percentage of ownership are:**

	<b>Company</b>	<b>Main Activity</b>	<b>Country</b>	<b>Paid Up Capital</b>	<b>Number of Shares</b>	<b>Ownership</b>
1	SADAFCO Qatar Company (LLC)	Sale, Distribution of dairy products and goods.	Qatar	QR1,500,000	1,500	75%
2	SADAFCO Bahrain Company (SPC)	Import, Export, Sale, Distribution of Dairy Goods, Ice Cream and Goods	Bahrain	BD50,000	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	SAR2,000,000	200,000	100%
4	United Gulfers Transport – Closed Joint Stock Company*	Transportation of goods, warehousing, storage and cooling	KSA	SAR2,000,000	200,000	100%
5	National Sights Holding – Closed Joint Stock Company*	Investments through acquisition of controlling stakes	KSA	SAR2,000,000	200,000	100%
6	SADAFCO Kuwait Foodstuff Company	Distribution of Dairy and foodstuffs	Kuwait	KD50,000	100	49%
7	SADAFCO Jordan Foodstuff Company LLC	Import, Sale, Distribution and Marketing of Dairy, Ice Cream and other foodstuffs	Jordan	JD250,000	250,000	100%

**Note:** On 17 May 2015 all legal procedures relating to the liquidation of Swiss Premium Food Company (SPF) were completed and the Commercial Registration was cancelled.

\* The SADAFCO Board of Directors recommended in its meeting on 21 March 2016 to the Board of Directors of the following subsidiaries:

1. National Sight Holding Company (Investments)
2. National Buildings Real Estate Company (Real Estate)
3. United Gulfers Transport Company (Transport Logistics)

to liquidate the above-mentioned companies and to take all necessary action to bring the liquidation to a close following the EGM approval of each subsidiary.

The above-mentioned subsidiaries have been inactive since their inceptions in 2008. This has already been announced on Tadawul.

None of the above-mentioned subsidiaries have any debt instruments issued.

### Key Performance Indicators:

- 1) The consolidated net profit for the year is SAR 260.828 million, compared to net profit for the same period last year of SAR 141.469 million an increase of 84.37%.
- 2) The earnings per share (EPS) for the year are SAR 8.03 compared to SAR 4.35 for the same period last year.
- 3) The total gross profit for the year is SAR 708.637 million compared to the same period last year of SAR 552.28 million an increase of 28.3%.
- 4) The operating net profit for the year is SAR275.658 million compared to operating net profit for the same period last year of SAR 155.593 million, an increase of 77.17%.
- 5) The key drivers for the increase in net profit of SAR 119.4 million (84.4%) during the twelve month period compared to the same period last year are: Mainly due to sales growth of 9.7% (SAR 176 million), attractive commodity prices contribution to gross profit growth of 28%; despite tough competitive market conditions, a less favorable economic situation and the increase in selling and distribution expenses of 6% and general and administrative expenses of 23% to support existing products, new product launches, training and retention programs for Nationals as well as salary adjustments across the company.
- 6) The company has achieved a full year high end single digit growth (9.7%) building upon its strong market shares: with high growth in drinking milk, Tomato paste and Ice Cream, despite the challenging market and economic conditions. The other less dominant product categories in the SADAFCO portfolio are performing satisfactorily while the new product launches, such as Majestique and Crispy Tortilla have started on a positive note. SADAFCO's business model has been able to absorb the recent tariff increases and is fit to take on foreseeable challenges.

Cash balance of SAR246 million with zero leveraging, strong working capital ratios all contributed to enhanced shareholder value. The earnings per share have almost doubled to SAR8.03 vs. SAR4.35 compared to the same period last year. EBITDA has improved from SAR225 to SAR358 million increase of SAR133 million (59%) due to the investment in capital expenditure. Cash generated from operating activities has increased by SAR 132 million reach to SAR 362 million as a result of higher profit and control of other working capital items.

Shareholders equity has increased by 15% to SAR 1,093 million

Operating profit for the financial year ended 31 March 2016 was SAR 275.658 Million compared to the same period last year of SAR 155.593 Million with an increase of 77.17% the increase in the operating profit compared to the same period last year is mainly due to attractive prices of raw the main materials which has contributed to the increase in growth of gross profit by 28% and to an increase in sales by 9.7% (SAR 176 million).

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

	Description	2011/12	2012/13	2013/14	2014/15	2015/16
1	Current Assets	773	680	640	617	813
2	Fixed Assets	323	422	498	592	577
3	Non-Current Assets	0	0	0	0	0
4	Current Liabilities	238	174	135	176	196
5	Non-Current Liabilities	73	78	81	84	100
6	Total Equity	785	850	922	949	1,094
7	Sales	1,336	1,549	1,553	1,807	1,983
	<b>Net Income</b>	<b>152</b>	<b>165</b>	<b>171.5</b>	<b>141.5</b>	<b>260.8</b>

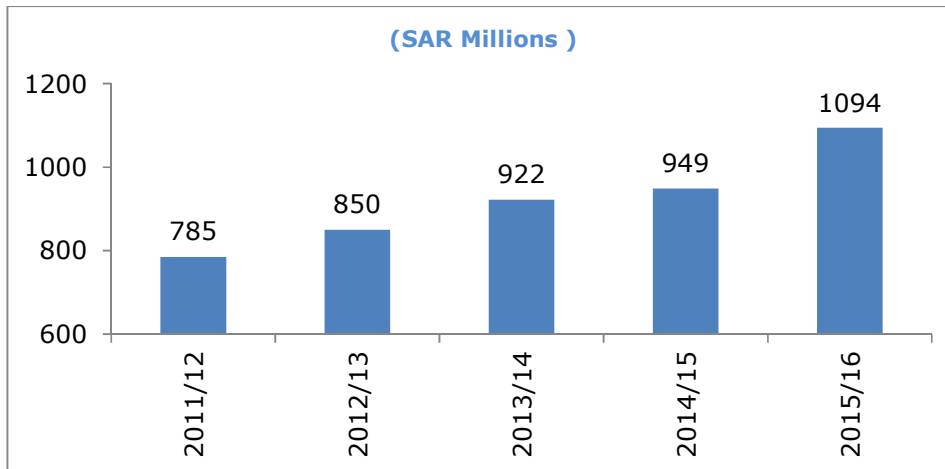
### Income Statement (SAR Millions)

	Description	Mar 2015	Mar 2016
1	Net Sales	1,807	1,983
2	Cost of Sales	(1,255)	(1,274)
3	Gross Profit	552	709
4	Selling & Distribution	(320)	(338)
5	General & Administration Expenses	(77)	(95)
6	Financial & Bank Charges	(1.5)	0.1
7	Zakat	(12)	(15.3)
	<b>Net Profit (Loss)</b>	<b>141.5</b>	<b>260.8</b>

### Statutory Payments for 2015-16 (SAR Thousands)

	Description	Due	Paid	Balance
1	Customs	30,181	30,181	-
2	Zakat	12,354	12,354	-
3	GOSI	10,130	10,130	-
4	Tadawul Contract	300	300	-
5	Government Fees & Visas	9,163	9,163	-
6	Tax	2,993	2,993	-
	<b>Total</b>	<b>65,121</b>	<b>65,121</b>	-

### Change in Shareholders' Equity



### Formation of the Board of Directors:

The Board of Directors is constituted of seven members elected for the cycle started on 1 April 2016 and ending on 31 March 2018. The board had three attended meetings and passed six resolutions by circulation.

### Board of Directors' Meetings for 2015-16:

Name	Capacity	Attended			Resolution by Circulation						Total
		2015		2016	2015					2016	
		23/04	7/10	21/03	21/04	17/05	18/06	13/07	19/10	14/01	
HH Shiekh Hamad Sabah Al-Ahmad	Non-executive	✓	✓	×	✓	✓	✓	✓	✓	✓	8
Mr Faisal Hamad Mubarak Al-Ayyar	Non-executive	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
Mr Abdullah Yaqoob Bishara	Independent	✓	✓	×	✓	✓	✓	✓	✓	✓	8
Mr Tariq Mohammad Abdulsalam	Non-executive	✓	✓	×	✓	✓	✓	✓	✓	✓	8
Mr Ahmed Mohamed Hamed Al-Marzouki	Independent	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
Mr Suleiman Saud Jarallah Al-Jarallah	Independent	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
Mr Mussad Abdullah Abdul Aziz Al-Nassar	Executive	✓	✓	✓	✓	✓	✓	✓	✓	✓	9

### 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.Board Member SADAFCO – Saudi Arabia 5.Vice Chairman of United Gulf Bank – Bahrain
3 Mr Abdullah Yaqoob Bishara	1.Chairman of North Africa Holding Company – Kuwait 2.Board Member SADAFCO – Saudi Arabia 3.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 Kuwait Jordanian Bank – Jordan 4.Board Member SADAFCO – Saudi Arabia 5.Board Member Al Qurain Petrochemicals Industries Company- Kuwait
5 Mr Ahmed Mohamed Hamed Al-Marzouki	Board Member SADAFCO – Saudi Arabia
6 Mr Sulaiman Saud Jarallah Al-Jarallah	Board Member SADAFCO – Saudi Arabia
7 Mr Mussad Abdullah Abdul Aziz Al-Nassar	1.Board Member SADAFCO – Saudi Arabia 1.National Sights Holding – Saudi Arabia Chairman 3.National Buildings Real Estate – Saudi Arabia Chairman 4.United Gulfers Transport – Saudi Arabia Chairman

## 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 2015-16, the Audit Committee held three attended meetings and passed nine 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.

### Audit Committee Members and their Meetings during 2015-16:

Name	Capacity	Attended			By Circulation									Total	
		2015		2016	2015										2016
		23/4	7/10	21/3	1/4	20/4	16/5	20/5	9/6	17/6	12/7	18/10	13/1		
Mr. Faisal Hamad Mubarak Al-Ayyar	Chairman	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	12	
Mr. Tariq Mohammad Abdulsalam	Member	✓	✓	x	✓	✓	✓	✓	✓	✓	✓	✓	✓	11	
Mr. Ahmed Mohamed Hamed Al-Marzouki	Member	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	12	

### 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 has 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 two attended meetings and two resolutions were passed by circulation.

#### Nomination and Remuneration Committee Members, Meetings and Resolutions during 2015-16:

Name	Capacity	Attended Meetings		Resolutions By Circulation		Total
		2015	2016	2015	2016	
		7/10	21/3	1/4	17/6	
Mr Faisal Hamad Mubarak Al-Ayyar	Chairman	✓	✓	✓	✓	4
Mr Tariq Mohammad Abdulsalam	Member	✓	x	✓	✓	3
Mr Suleiman Saud Jarallah Al-Jarallah	Member	✓	✓	✓	✓	4

#### Board Members and Executive Management Team Remuneration:

	Description	Non-Executive BOD Members (6)	Executive Board Member (1)	Senior Executives (8) *
1	Salaries & Wages	0	410,400	5,648,481
2	Allowances	0	234,259	2,006,199
3	Bonuses & Incentives	200,000 each	261,497	2,154,454
4	Benefits in Kind	0	0	0
(SAR)	<b>Total</b>	<b>1,200,000</b>	<b>906,156</b>	<b>9,809,134</b>

\* The senior executives who received the highest remuneration were eight members, including the CEO and CFO. Three members of the total 8 have left the company during the financial year.

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

	Name	01 April 2015	31 March 2016	Change
<b>Board of Directors</b>				
1	HH Sheikh Hamad Sabah Al-Ahmad Representing: United Industries Company	1,000	1,000	0
2	Mr Faisal Hamed Mubarak Al-Ayyar Representing: United Gulf Bank	1,000	1,000	0
3	Mr Abdullah Yaqoob Bishara	1,000	1,000	0
4	Mr Tariq Abdulsalam Rep: Al Qurain Petrochemicals Industries	13,036,461	13,036,461	0
5	Mr Ahmed Mohamed Hamed Al-Marzouki	22250	22,250	0
6	Mr Sulaiman Saud Jarallah Al-Jarallah	1,000	1,000	0
7	Mr Mussad Abdullah Abdul Aziz Al-Nassar	11,000	11000	0
<b>Executive Management Team</b>				
1	Mr Waltherus Matthijs	3,000	3,000	0
2	Mr Khalid Abdulrahman Bakhsh*	0	0	0
3	Mr Mohammed Jameel Attar	0	0	0
4	Mr Paul van Schaik	0	0	0
5	Mr Raffael Josef Reinders	0	0	0
6	Mr Ioannis Theotokas**	0	0	0
7	Mr Johan Paelinck***	0	0	0
8	Mr Marek Mierzejewski****	0	0	0

The BOD members and Executive 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 Khalid Abdulrahman Bakhsh (CFO) left the company on 17 May 2015 (as disclosed to CMA)

\*\* Mr Ioannis Theotokas (Director Commercial Operations) left the company on 25 August 2015 (as disclosed to CMA)

\*\*\* Mr Johan Paelinck (Director Supply Chain) left the company on 27 January 2016 (as disclosed to CMA)

\*\*\*\* Mr Marek Mierzejewski (Director Sales & Distribution) joined the company on 12 January 2016 (as disclosed to CMA).

**Major Shareholders as at 31 March 2016:**

	Name	Number of Shares on 01 April 2015	Number of Shares on 31 March 2016	Percentage Ownership on 01 April 2015	Percentage Ownership on 31 March 2016	Change
1	Al Qurain Petrochemicals Industries Company	13,036,461	13,036,461	40.11%	40.11%	0
2	Al-Samh Trading Co Ltd	3,798,008	3,798,008	11.69 %	11.69 %	0

**Annual Internal Audit Results Review of the Effectiveness of the Internal Control Procedures:**

Within its day-to-day functions, SADAFCO's Internal Audit Department assessed the efficiency and effectiveness of the internal control systems framework and its reports were issued and presented to the Audit Committee.

There were no major gaps in the company's Internal Controls that require disclosure. However, the reports did suggest some room for improvement, such as further development through formalizing the risk management mechanisms, enhancing the communication of the code of conduct and improving the frequency of updating the company's policies and procedures.

Noting that management has already taken action on previously reported issues, where it revised and published company's policies and procedures, including the code of conduct and whistle blowing policy, which will contribute to an enhanced control system.

The Audit Committee of SADAFCO continues to review the efficiency of internal controls on an on-going basis and supervises the work of the Internal Auditors in accordance with Article 14 of the Corporate Governance Regulations.

The committee receives feedback in the form of regular reports which highlight areas of concern.

**Related Party Transactions:**

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

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

Company Name	Country	Nature of Transaction	Value SAR 000s	Closing Balance
Buruj Co-Op Insurance Company	KSA	Service	14,149	0

SADAFCO entered into a one year contract with Al Buruj Cooperative Insurance (offering insurance services) starting on 1 July 2015 and ending on 30 June 2016, 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 a SADAFCO Board member and is GIC Board of Directors' Vice-Chairman. The SADAFCO Ordinary General Assembly meeting held on 30 June 2015 approved this transaction and agreed to its renewal for another year starting on 01 July 2015 to 30 June 2016.

## **SADAFCO's Dividend Distribution Policy**

The SADAFCO Articles of Association state in Article 35 that Annual Net Profits may be distributed after the deduction of all general expenses and other costs. They may be distributed in the following way:

- 1) 10% of the Annual Net Profits are to be set aside for a Statutory Reserve. The General Assembly may choose to stop this Reserve once it is equal to half of the company's capital.
- 2) The General Assembly may suggest to the SADAFCO Board of Directors that another Reserve where a further 10% of Net Profits may be accumulated.
- 3) There may be a distribution to shareholders thereafter where a first payment/dividend equal to 5% of the paid up capital is payable.
- 4) After the above distributions are made there may be an allocation of 10% of net profits to reward the Board of Director Members, provided that the maximum allowable Board compensation is in compliance with CMA and MOCI rules and regulations.
- 5) All remaining profits may then be distributed to shareholders as an extra dividend.

## **Major Decisions and Future Plans:**

On 28 January 2016 SADAFCO signed a memorandum of understanding with the Saudi Factory for Electrical Appliances Company (Ltd) regarding the acquisition of the lease rights of land and buildings in First Industrial City in Jeddah for SAR 16.5 million. This reflects the company's continued strategy to boost its current manufacturing and logistical capabilities and increase its storage capabilities. Due to its close proximity SADAFCO's Jeddah factories, the land creates ideal opportunities for the creation of infrastructure for further growth. This transaction will be finalized upon completion of the lease transfer formalities.

## **IFRS implementation plan:**

In compliance with Saudi Organization for Certified Public Accountants (SOCPA) resolution and CMA's instructions regarding its implementation, SADAFCO's Board of Directors and management have formulated an action plan for IFRS implementation and convergence.

The Plan consists of following phases:

### **Phase 1**

- Analyzing and identifying the differences between the current accounting policies based on SOCPA standards and the requirements of IFRS (gap analysis).

### **Phase 2:**

- Giving adequate training courses for accounting staff to increase their skills and awareness of IFRS requirements
- Choosing between alternative accounting policies recommended by IFRS and identifying the financial impact of each policy.
- Reviewing all IFRS recommended policies and procedures adopted by the company to ensure its internal compliance.
- Identifying the impact of IFRS convergence on IT Systems to support IFRS financial disclosure.

### **Final phase**

- Preparation of IFRS compliant financial statements as per SOCPA's instructions.

We are confident that due to the progress in the implementation phases that SADAFCO will be ready to issue the first IFRS compliant interim financial statement as of first quarter ending 30 June 2017

**SADAFCO Risk Exposure:**

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

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

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

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

**Market risk**

Commission arises from the possibility that changes in commission rates will affect future profitability or the fair values of financial instruments. The Company is subject to commission rate risk on its interest bearing assets and liabilities. The management limits the Company's interest rate risk by monitoring changes in interest rates in the currencies in which its interest bearing assets and liabilities are denominated and uses interest rate swaps to strategically hedge its risk, if considered necessary by the management. The Company does not have any interest bearing assets, except murabaha short-term deposits, and liabilities.

**Currency risk**

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 46 % (2015: 43%) 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, other liabilities and dividend payable. 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, authorisation and reconciliation procedures, staff education and assessment processes, such as the use of internal audit.

### **Fines imposed on SADAFCO**

A fine of SAR 50,000 was imposed in favour of the Ministry of Commerce and Industry relating to an incident of non-disposal of materials immediately after their expiry.

### **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 50,000 relating to the MOCI penalty imposed by the Board of Grievance.
- 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.

## Conclusion

In conclusion, we would like to thank our fellow Board Members for their exceptional performance in steering the company and accomplishing the results for 2015-16.

Thanks go to the Executive Management Team for their efforts in achieving their targets set.

Important stakeholders in SADAFCO's existence are our consumers, customers and shareholders and we note our gratitude to them for their continued support to help us achieve top results both during the year under review and in years to come.

We look forward to greater achievements and continued excellence in the year ahead.

Best regards,

**Board of Directors**  
**SADAFCO**

## 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 35 of its bylaws.
6	Eight: Policies and Procedure related to disclosure	1	1	-	-	-	
7	Nine: disclosure in the Board of Directors' report	7	7	-	-	-	
8	Ten: Main Functions of the Board of Directors	17	14	1	2	-	<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	-	-	-	
		91	83	2	4	2	