

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

UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL
INFORMATION FOR THE THREE-MONTH
AND SIX-MONTH PERIODS ENDED SEPTEMBER 30, 2018

REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM
FINANCIAL INFORMATION

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A SAUDI JOINT STOCK COMPANY)
UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED SEPTEMBER 30, 2018

	Page
Report on review of condensed consolidated interim financial information	2
Condensed consolidated interim statement of profit or loss for the three-month and six-month periods ended September 30, 2018	3
Condensed consolidated interim statement of comprehensive income for the three-month and six-month periods ended September 30, 2018	4
Condensed consolidated interim statement of financial position as at September 30, 2018	5
Condensed consolidated interim statement of changes in equity for the six-month period ended September 30, 2018	6
Condensed consolidated interim statement of cash flows for the six-month period ended September 30, 2018	7
Notes to the condensed consolidated interim financial information for the three-month and six-month periods ended September 30, 2018	8 - 20



Report on review of condensed consolidated interim financial information

To the Shareholders of Saudia Dairy & Foods Company (SADAFCO):
(A Saudi Joint Stock Company)

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Saudia Dairy & Foodstuff Company (the "Company" or "SADAFCO"), and its subsidiaries (collectively referred to as the "Group") as of September 30, 2018 and the related condensed consolidated statements of profit or loss and comprehensive income for the three-month and six-month periods ended September 30, 2018 and condensed consolidated statement of changes in equity and cash flows for the six-month period then ended and notes, comprising a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 - "Interim Financial Reporting" (IAS 34), as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity", as endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, as endorsed in the Kingdom of Saudi Arabia, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34, as endorsed in the Kingdom of Saudi Arabia.

PricewaterhouseCoopers

Mufaddal A. Ali
License Number 447

October 21, 2018



SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)

(A Saudi Joint Stock Company)

Condensed consolidated interim statement of profit or loss for the three-month and six-month periods ended September 30, 2018

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	Three-month period ended September 30,		Six-month period ended September 30,	
		2018	2017	2018	2017
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue – net	4	476,624	441,307	886,795	894,137
Cost of revenue		(330,794)	(269,983)	(607,443)	(547,630)
Gross profit		145,830	171,324	279,352	346,507
Selling and distribution expenses		(69,564)	(73,131)	(127,533)	(142,329)
General and administrative expenses		(21,728)	(22,243)	(46,925)	(47,252)
Other operating income		1,047	1,431	1,867	623
Impairment loss on financial assets		(375)	(237)	(750)	(475)
Operating profit		55,210	77,144	106,011	157,074
Finance income		2,594	1,680	5,593	3,334
Profit before zakat		57,804	78,824	111,604	160,408
Zakat	10	(3,973)	(4,087)	(7,745)	(8,435)
Profit for the period		53,831	74,737	103,859	151,973
Profit / (loss) is attributable to:					
Owners of SADAFCO		54,092	75,160	104,292	152,232
Non-controlling interests		(261)	(423)	(433)	(259)
		53,831	74,737	103,859	151,973
Earnings per share:					
Basic and diluted earnings per share attributable to owners of SADAFCO (Saudi Riyals)	7	1.66	2.31	3.21	4.68

The notes from 1 to 16 form part of this condensed consolidated interim financial information.



Mussad Abdullah Al Nassar
Member Board of Directors



Waltherus Cornelis Petrus Matthijs
Chief Executive Officer



Ian David Gowlett
Chief Financial Officer

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**(A Saudi Joint Stock Company)****Condensed consolidated interim statement of comprehensive income for the three-month and six-month periods ended September 30, 2018****(All amounts in Saudi Riyals thousands unless otherwise stated)**

	Three-month period ended September 30,		Six-month period ended September 30	
	2018 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2017 (Unaudited)
Profit for the period	53,831	74,737	103,859	151,973
Other comprehensive (loss)/income				
Items that may be reclassified to profit or loss				
Exchange difference on translation of foreign operations	(320)	251	494	81
Items that will not to be reclassified to profit or loss				
Re-measurement gain on employee benefit obligation	-	-	-	-
Other comprehensive (loss) / income for the period	(320)	251	494	81
Total comprehensive income for the period	53,511	74,988	104,353	152,054
Total comprehensive income / (loss) for the period is attributable to:				
Owners of SADAFCO	53,733	75,358	104,722	152,313
Non-controlling interests	(222)	(370)	(369)	(259)
	53,511	74,988	104,353	152,054

The notes from 1 to 16 form part of this condensed consolidated interim financial information.



Mussad Abdullah Al Nassar
Member Board of Directors



Waltherus Cornelis Petrus Matthijs
Chief Executive Officer



Ian David Gowlett
Chief Financial Officer

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Condensed consolidated interim statement of financial position as at September 30, 2018
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	September 30, 2018 (Unaudited)	March 31, 2018 (Audited)
Assets			
Non-current assets			
Property, plant and equipment	8	751,903	663,087
Goodwill	6	31,181	-
Other non-current assets		4,796	243
		<u>787,880</u>	<u>663,330</u>
Current assets			
Inventories		322,777	347,901
Trade and other receivables		197,717	156,809
Deposits, prepayments and other assets		41,114	36,038
Cash and cash equivalents		483,817	559,099
		<u>1,045,425</u>	<u>1,099,847</u>
Total assets		<u>1,833,305</u>	<u>1,763,177</u>
Equity and liabilities			
Equity			
Issued share and paid up capital		325,000	325,000
Statutory reserve		162,500	162,500
Other reserves	14	218,352	207,923
Foreign currency translation reserves		(885)	(1,315)
Retained earnings		632,665	627,042
		<u>1,337,632</u>	<u>1,321,150</u>
Equity attributable to owners of SADAFCO		<u>1,337,632</u>	<u>1,321,150</u>
Non-controlling interests		15,847	222
Total equity		<u>1,353,479</u>	<u>1,321,372</u>
Liabilities			
Non-current liabilities			
Employee benefit obligations		112,030	112,672
Non-controlling interest put option	9	23,420	-
Non-current portion of contingent consideration payable	6	3,681	-
		<u>139,131</u>	<u>112,672</u>
Current liabilities			
Trade and other payables		139,254	144,562
Accruals and other liabilities		192,893	163,805
Due to a related party	11	1,238	243
Accrued zakat	10	7,310	20,523
		<u>340,695</u>	<u>329,133</u>
Total liabilities		<u>479,826</u>	<u>441,805</u>
Total equity and liabilities		<u>1,833,305</u>	<u>1,763,177</u>

The notes from 1 to 16 form part of this condensed consolidated interim financial information.



Mussad Abdullah Al Nassar
Member Board of Directors



Waltherus Cornelis Petrus Matthijs
Chief Executive Officer



Ian David Gowellt
Chief Financial Officer

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)

(A Saudi Joint Stock Company)

Condensed consolidated interim statement of changes in equity for the six-month period ended September 30, 2018

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Issued share and paid up capital	Statutory reserve	Other reserves	Foreign currency translation reserves	Retained earnings	Total	Non- controlling interests	Total equity
Balance at April 1, 2017 (audited)	325,000	162,500	181,835	(945)	592,710	1,261,100	1,569	1,262,669
Profit / (loss) for the period	-	-	-	-	152,232	152,232	(259)	151,973
Other comprehensive income	-	-	-	75	-	75	6	81
Total comprehensive income / (loss) for the period	-	-	-	75	152,232	152,307	(253)	152,054
Dividend	-	-	-	-	(130,000)	(130,000)	(648)	(130,648)
Transfer to other reserves	-	-	15,223	-	(15,223)	-	-	-
Balance at September 30, 2017 (unaudited)	325,000	162,500	197,058	(870)	599,719	1,283,407	668	1,284,075
Balance at April 1, 2018 (audited)	325,000	162,500	207,923	(1,315)	627,042	1,321,150	222	1,321,372
Profit / (loss) for the period	-	-	-	-	104,292	104,292	(433)	103,859
Other comprehensive income	-	-	-	430	-	430	64	494
Total comprehensive income / (loss) for the period	-	-	-	430	104,292	104,722	(369)	104,353
Non-controlling interest on acquisition of subsidiary	-	-	-	-	-	-	15,994	15,994
Dividend - see note 15	-	-	-	-	(65,000)	(65,000)	-	(65,000)
Non-controlling interest put option movement	-	-	-	-	(23,240)	(23,240)	-	(23,240)
Transfer to other reserves - see note 14	-	-	10,429	-	(10,429)	-	-	-
Balance at September 30, 2018 (unaudited)	325,000	162,500	218,352	(885)	632,665	1,337,632	15,847	1,353,479

The notes from 1 to 16 form part of this condensed consolidated interim financial information.

Musad Abdullah Al Nassar
Member Board of Directors

Walterus Cornelis Petrus Mathijs
Chief Executive Officer

Ian David Gowellt
Chief Financial Officer

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)

(A Saudi Joint Stock Company)

Condensed consolidated interim statement of cash flows for the six-month periods ended September 30, 2018

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	Six months period ended September 30	
		2018 (Unaudited)	2017 (Unaudited)
Cash flow from operating activities			
Profit before zakat		111,604	160,408
<u>Adjustments for:</u>			
Depreciation on property, plant and equipment		33,128	32,501
Gain on disposal of property, plant and equipment		(519)	(100)
Provision for doubtful accounts		752	2,350
Provision for slow moving and obsolete inventories		-	3,126
Finance costs on non-controlling interest put option and contingent consideration payable		209	-
Provision for employee benefit obligations		7,513	6,026
		<u>152,687</u>	<u>204,311</u>
<u>Working capital</u>			
Inventories		35,700	(86,175)
Trade and other receivable		(19,187)	8,589
Deposits, prepayments and other assets		(2,371)	(5,444)
Trade and other payables		(19,346)	28,238
Due to a related party		995	363
Accruals and other liabilities		<u>26,124</u>	<u>34,941</u>
		<u>174,602</u>	<u>184,823</u>
Employee benefit obligations paid		(8,155)	(8,132)
Zakat paid		(21,129)	(20,738)
Net cash inflow from operating activities		<u>145,318</u>	<u>155,953</u>
Cash flow from investing activities			
Sale proceeds from disposal of property, plant and equipment		519	104
Acquisition of other non-current assets	6	(129)	-
Payment for acquisition of subsidiary, net of cash acquired	6	(73,251)	-
Purchases of property, plant and equipment		(83,233)	(43,442)
Net cash outflow from investing activities		<u>(156,094)</u>	<u>(43,338)</u>
Cash flow from financing activities			
Dividend paid to owners of SADAFCO		(65,000)	(130,000)
Dividends paid to non-controlling interests in subsidiaries		-	(642)
Cash outflow from financing activities		<u>(65,000)</u>	<u>(130,642)</u>
Net change in cash and cash equivalents		<u>(75,776)</u>	<u>(18,027)</u>
Effects of exchange rate fluctuations on cash and cash equivalents		494	75
Cash and cash equivalents at the beginning of period		<u>559,099</u>	<u>543,914</u>
Cash and cash equivalents at the end of period		<u>483,817</u>	<u>525,962</u>

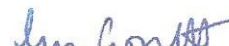
The notes from 1 to 16 form part of this condensed consolidated interim financial information.



Mussad Abdullah Al Nassar
Member Board of Directors



Waltherus Cornelis Petrus Matthijs
Chief Executive Officer



Ian David Gowlett
Chief Financial Officer

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**(A Saudi Joint Stock Company)****Notes to the condensed consolidated interim financial information for the three-month and six-month periods ended September 30, 2018****(All amounts in Saudi Riyals thousands unless otherwise stated)**

1. General Information

Saudia Dairy & Foodstuff Company (the "Company" or "SADAFCO"), is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia under Commercial Registration number 4030009917 issued in Jeddah dated Rabi Al-Akhar 21, 1396H (April 22, 1976).

The Company and its subsidiaries (collectively referred to as the "Group") are primarily engaged in the production and distribution of dairy products, beverages and various foodstuff in the Kingdom of Saudi Arabia and certain other Gulf and Arab countries. Information on the Group's structure is provided in Note 5 of this condensed consolidated interim financial information.

2. Basis of preparation**2.1 Statement of compliance**

This condensed consolidated interim financial information of the Group has been prepared in compliance with IAS 34 "Interim Financial Reporting" that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

The condensed consolidated interim financial information does not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended March 31, 2018 ("last annual financial statements"). IAS 34 states that the condensed interim financial information is intended to provide an update on the latest complete set of annual financial statements. Hence, IAS 34 requires less disclosure in interim financial information compared to International Financial Reporting Standards ("IFRS") annual financial statements.

2.2 Preparation of the financial statements

The condensed consolidated interim financial information has been prepared on a historical cost basis except for the following material items in the Condensed Consolidated Statement of Financial Position:

- The defined benefit obligation is recognised at the present value of future obligations using the Projected Unit Credit Method.
- Certain non-current assets measured at fair value.
- Non-controlling interest put option is recognised at the present value of redemption amount.

The condensed consolidated interim financial information is presented in Saudi Riyals being the functional currency of the Company and Group's presentation currency and all values are rounded to nearest thousand Saudi Riyals, unless otherwise indicated.

2.3 New and amended standards adopted by the Group

The Group has adopted IFRS 15 "Revenue from contracts with customers" (see (a) below) and IFRS 9 "Financial Instruments" (see (b) below) from April 1, 2018.

(a) IFRS 15 - Revenue from contracts with customers

The Group has adopted IFRS 15 using the modified retrospective method with the effect of initially applying this standard recognized at the date of initial application (i.e. April 1, 2018). Accordingly, information stated for 2017 has not been restated (i.e. it is presented, as previously reported, under IAS 18). The application of IFRS 15 did not have any impact on the condensed consolidated interim financial information of the Group.

(b) IFRS 9 - Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Group has adopted IFRS 9 with the effect of initially applying this standard recognized at the date of initial application (i.e. April 1, 2018). The Group has taken an exemption not to restate the comparative information for prior periods with respect to the classification and measurement (including impairment) requirements. The adoption of IFRS 9 did not have any significant impact on the measurement and recognition of the financial instruments on the condensed consolidated interim financial information except for the change in the classification of the financial instruments as listed below:

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFECO)**(A Saudi Joint Stock Company)****Notes to the condensed consolidated interim financial information for the three-month and six-month periods ended September 30, 2018****(All amounts in Saudi Riyals thousands unless otherwise stated)****2. Basis of preparation****2.3 New and amended standards adopted by the Group (continued)**

The following table shows changes in classification and measurement in accordance with the original IAS 39 and the new IFRS 9 for the Group's financial assets and financial liabilities as of April 1, 2018:

	Original classification Under IAS 39	New Classification Under IFRS 9	Original Measurement Under IAS 39	New Measurement Under IFRS 9	Original carrying amount Under IAS 39	New carrying amount Under IFRS 9
Financial assets						
Trade and other receivables	Loans and receivables	Financial assets at amortized cost	Amortized cost	Amortized cost	146,669	146,669
Cash and cash equivalents	Loans and receivables	Financial assets at amortized cost	Amortized cost	Amortized cost	559,099	559,099
Financial liabilities						
Trade and other payables	Other financial liabilities at amortized cost	Financial liabilities at amortized cost	Amortized cost	Amortized cost	144,562	144,562
Accruals and other liabilities	Other financial liabilities at amortized cost	Financial liabilities at amortized cost	Amortized cost	Amortized cost	163,805	163,805
Due to a related party	Other financial liabilities at amortized cost	Financial liabilities at amortized cost	Amortized cost	Amortized cost	243	243

Impact of the new impairment model

IFRS 9 replaces the 'incurred loss' model with a forward-looking 'expected credit loss' (ECL) model. Cash is placed with banks with sound credit ratings. Cash at bank, net advances and other receivables are considered to have low credit risk therefore 12 months expected loss model was used for impairment assessment. Based on management's impairment assessment the provision required in respect of these balances for all the period presented is not material.

Impairment losses related to trade receivables are presented separately in the condensed consolidated interim statement of profit or loss. As a result, the Group reclassified impairment losses amounting to Saudi Riyals 0.48 million and Saudi Riyals 0.24 million, recognised under IAS 39, from 'Selling and Distribution Expense' to impairment loss on financial assets in the condensed consolidated interim statement of profit or loss for the three-month and six-month periods ended September 30, 2017. The application of IFRS 9 impairment requirements as at April 1, 2018 results in no additional impairment allowance.

The accounting policies relating to revenue from contracts with customers and classification and measurement of financial assets and financial liabilities, impairment of financial assets are disclosed in Note 3.

2.4 Standards and interpretations issued but not yet effective and applied by the Group

The following are the new standards and interpretation, which have been published that are not mandatory for March 31, 2019 reporting periods and have not been early adopted by the Group.

Effective for annual periods beginning on or after	Standard, amendment or interpretation	Summary of requirements
Annual reporting periods beginning on or after January 1, 2019, early adoption is permitted	IFRS 16 – Leases	IFRS 16 proposes a lease classification that would be based on the nature of asset that was the subject of the lease. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change. Management is in the process of assessing the potential impact on its year-end consolidated financial statements.
Annual reporting periods beginning on or after January 1, 2021, early adoption is permitted	IFRS 17 – Insurance contracts	IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. Management believes that the adoption will not have a material impact on its year-end consolidated financial statements.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**(A Saudi Joint Stock Company)****Notes to the condensed consolidated interim financial information for the three-month and six-month periods ended September 30, 2018****(All amounts in Saudi Riyals thousands unless otherwise stated)****2. Basis of preparation (continued)****2.4 Standards and interpretations issued but not yet effective and applied by the Group (continued)**

Effective for annual periods beginning on or after	Standard, amendment or interpretation	Summary of requirements
Annual reporting periods beginning on or after January 1, 2021, early adoption is permitted	IFRIC 22 – Foreign currency transactions and advance consideration	IFRIC 22 addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice. Management believes the adoption will not have a material impact on its year-end consolidated financial statements..
Annual reporting periods beginning on or after January 1, 2021, early adoption is permitted	IFRIC 23 – Uncertainty over income tax treatments	IFRIC 23 clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation. Management believes the adoption will not have a material impact on its year-end consolidated financial statements..
Annual reporting periods beginning on or after January 1, 2021, early adoption is permitted	Amendments to IFRS 9, Financial Instrument	Prepayment features with negative compensation and treatment of de-recognition of financial liability measured at amortised cost. Management believes the adoption will not have a material impact on its year-end consolidated financial statements.
Annual reporting periods beginning on or after January 1, 2021, early adoption is permitted	Amendments to IAS 19, Employee benefits' on plan amendment, curtailment or settlement	These amendments require an entity to <ul style="list-style-type: none"> • use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and • recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling. Management believes the adoption will not have a material impact on its year-end consolidated financial statements.

There are no other relevant IFRS or IFRS interpretations that are not yet effective that would be expected to have a material impact on the Group's condensed consolidated interim financial information.

2.5 Critical accounting estimates and judgements

In preparing this condensed consolidated interim financial information, management has made judgments and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the annual financial statements for the year ended March 31, 2018, except for the new significant judgments and key sources of estimation uncertainty related to the application of IFRS 15 and IFRS 9, business combination, contingent consideration and non-controlling interest put option, which are described in Note 3.

3. Significant accounting policies

The accounting policies adopted by the Group for the preparation of the condensed consolidated interim financial information are consistent with those followed in preparation of the Group's annual consolidated financial statements for the year ended March 31, 2018, except for accounting policies related to the new standards adopted by the Group effective as of April 1, 2018 (see Note 2.3) and certain other accounting policies as described below.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**(A Saudi Joint Stock Company)****Notes to the condensed consolidated interim financial information for the three-month and six-month periods ended September 30, 2018****(All amounts in Saudi Riyals thousands unless otherwise stated)**

3. Significant accounting policies (continued)**3.1 Business combinations**

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase. Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss. The group recognises contingent consideration which results from business combinations at fair value at acquisition date. Management exercises judgement in the determination of the discount rate and the probability of performance targets being met.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

3.2 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any. For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the condensed consolidated interim statement of profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods. On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3.3 Non-controlling interest put options

Written put options in respect of which the Group does not have an unconditional right to avoid the delivery of cash, are recognised as financial liabilities. Under this method, the non-controlling interest is not derecognised when the financial liability in respect of the put option is recognised, as the non-controlling interest still has present access to the economic benefits associated with the underlying ownership interest. Non-controlling interest put options are initially recognised at the present value of redemption amount and reduction to controlling interest equity. All subsequent changes in liability is recognised in the condensed consolidated interim statement for profit or loss. The Group uses its judgement to select a variety of methods, and assumptions made are based on market and Group specific conditions existing at each reporting period.

3.4 Financial instruments

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**(A Saudi Joint Stock Company)****Notes to the condensed consolidated interim financial information for the three-month and six-month periods ended September 30, 2018****(All amounts in Saudi Riyals thousands unless otherwise stated)**

3. Significant accounting policies (continued)**(i) Financial assets****Classification**

The Group classifies its financial assets under the following categories:

- Fair value through profit or loss (FVTPL);
- Fair value through other comprehensive income (FVTOCI); and
- Amortised cost.

These classifications are on the basis of business model of the Group for managing the financial assets, and contractual cash flow characteristics.

The Group measures financial asset at amortised cost when it is within the business model to hold assets in order to collect contractual cash flows, and contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income.

(a) MeasurementInitial recognition

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in two categories:

- Debt instruments at amortised cost
- Equity instruments at FVTPL or FVTOCI

Debt instruments

A 'debt instrument' is measured at the amortised cost if both the following conditions are met:

- (a) The asset is held within a business model whose objective is to hold assets for collecting contractual cash flows; and
- (b) Contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the profit or loss. The losses arising from impairment are recognised in the profit or loss. This category generally applies to trade and other receivables, bank balances.

Equity investments

All equity investments in scope of IFRS 9 are measured at fair value. Equity instruments which are held for trading are classified as at FVTPL. For all other equity instruments, the Group decides to classify the same either as at FVTOCI or FVTPL. The Group makes such election on an instrument-by-instrument basis. The classification is made on initial recognition and is irrevocable. If the Group decides to classify an equity instrument as at FVTOCI, all fair value changes on the instrument, excluding dividends, are recognized in the other comprehensive income. There is no recycling of the amounts from other comprehensive income to profit or loss, even on sale of investment. However, the Group may transfer the cumulative gain or loss within equity. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Equity instruments included within the FVTPL category are measured at fair value with all changes recognized in the profit or loss.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)

(A Saudi Joint Stock Company)

Notes to the condensed consolidated interim financial information for the three-month and six-month periods ended September 30, 2018

(All amounts in Saudi Riyals thousands unless otherwise stated)

3. Significant accounting policies (continued)

3.4 Financial instruments (continued)

(i) Financial assets (continued)

(b) Measurement (continued)

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

(c) Impairment of financial assets

In accordance with IFRS 9, the Group assesses on a forward looking basis the expected credit losses associated with its financial assets at amortised cost e.g., deposits, trade and other receivables and bank balance. For recognition of impairment loss on financial assets and risk exposure, the Group determines that whether there has been a significant increase in the credit risk since initial recognition.

The Group follows 'simplified approach' for recognition of impairment loss allowance on trade receivables resulting from transactions within the scope of IFRS 9, if they do not contain a significant financing component. The application of simplified approach does not require the Group to track changes in credit risk. Rather, it recognises impairment loss allowance based on lifetime ECLs at each reporting date, right from its initial recognition. Lifetime ECL are the expected credit losses resulting from all possible default events over the expected life of a financial instrument.

ECL impairment loss allowance (or reversal) recognized during the period is recognized as income/ expense in the statement of profit and loss.

(ii) Financial liabilities

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities.

Financial liabilities are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument. The Group classifies non-derivative financial liabilities into the 'financial liabilities at amortized cost'. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method. Non-derivative financial liabilities of the Group comprises trade and other payables, accruals and other liabilities and due to a related party.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired. Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)

(A Saudi Joint Stock Company)

Notes to the condensed consolidated interim financial information for the three-month and six-month periods ended September 30, 2018

(All amounts in Saudi Riyals thousands unless otherwise stated)

3. Significant accounting policies (continued)

3.4 Financial instruments (continued)

(iii) Offsetting

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

3.5 Revenue

The Group recognizes revenue to depict the transfer of promised goods to customers. The Group recognizes revenue from contracts with customers based on a five step model as set out in IFRS 15:

Step 1. Identify the contract with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria that must be met.

Step 2. Identify the performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.

Step 3. Determine the transaction price: The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Step 4. Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Group will allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.

Step 5. Recognize revenue when (or as) the entity satisfies a performance obligation.

The Group satisfies a performance obligation and recognizes revenue over time, if one of the following criteria is met:

1. The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs; or
2. The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
3. The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

For performance obligations, where one of the above conditions are not met, revenue is recognized at the point in time at which the performance obligation is satisfied.

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment.

Revenue is recognized in the condensed consolidated interim statement of profit or loss to the extent that it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. For contracts that permit the customer to return an item, under IFRS 15 revenue is recognised to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Therefore, the amount of revenue recognised is adjusted for expected returns, which are estimated based on the historical data.

The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to inventory and credit risks.

Sale of goods

Revenue from sale of goods is recognised when the customer obtains controls of the goods at a point in time i.e. on delivery and acknowledgement of goods. Payment of the transaction price is due as per the credit term when the customer purchases the goods. Revenue is measured at the fair value of the consideration received or receivable net of discounts and taxes. Revenue is recognised to the extent it is probable that the economic benefits will flow to the Group and the revenue and costs, can be measured reliably.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Notes to the condensed consolidated interim financial information for the three-month and six-month periods ended September 30, 2018
(All amounts in Saudi Riyals thousands unless otherwise stated)
4. Segment information
4.1 Operating segment

Following the management approach in regard to IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Board of Directors and CEO (CODM), who is responsible for allocating the reportable segments and assessing their performance. The drinks segment represents milk and juice products, while non-drinks represent ice creams, tomato paste, cheese and snacks.

	Three-month period ended				As of and six-month period ended			
	Drinks	Non-Drinks	Unallocated	Total	Drinks	Non-Drinks	Unallocated	Total
September 30, 2018 (Unaudited)								
Revenue - net	278,666	197,958	-	476,624	526,575	360,220	-	886,795
Profit before zakat	36,422	21,382	-	57,804	72,807	38,797	-	111,604
Depreciation	12,040	4,577		16,617	24,402	8,726	-	33,128
Property, plant and equipment					537,100	214,803	-	751,903
Goodwill					-	31,181	-	31,181
Current assets					-	44,204	1,001,221	1,045,425
Other non-current assets					-	4,553	243	4,796
Total assets					537,100	294,741	1,001,464	1,833,305
Current liabilities					-	17,297	323,398	340,695
Non-controlling interest put option					-	23,420	-	23,420
Non-current portion of contingent consideration payable					-	3,681	-	3,681
Employee benefit obligation					-	195	111,835	112,030
Total liabilities					-	44,593	435,233	479,826

	Three-month period ended				As of and Six-month period ended			
	Drinks	Non-Drinks	Unallocated	Total	Drinks	Non-Drinks	Unallocated	Total
September 30, 2017 (Unaudited)								
Revenue - net	304,612	136,695	-	441,307	589,758	304,379	-	894,137
Profit before zakat	56,203	22,621	-	78,824	116,204	44,204	-	160,408
Depreciation (*)	13,692	2,670	-	16,362	23,708	8,793	-	32,501
Property, plant and equipment (*)					444,198	164,743	-	608,941
Current assets					-	-	1,103,383	1,103,383
Other non-current assets					-	-	243	243
Total assets					444,198	164,743	1,103,626	1,712,567
Current liabilities					-	-	322,763	322,763
Employee benefit obligation					-	-	105,729	105,729
Total liabilities					-	-	428,492	428,492

(*) Certain reclassifications have been made in property, plant and equipment within segments to conform presentation to the information disclosed for the period ended September 30, 2018.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)

(A Saudi Joint Stock Company)

Notes to the condensed consolidated interim financial information for the three-month and six-month periods ended September 30, 2018**(All amounts in Saudi Riyals thousands unless otherwise stated)****4. Segment information (continued)****4.1 Operating segment (continued)**

The management has categorized its geographical operations as follows:

	Three-month period ended September 30,		Six-month period ended September 30,	
	2018 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2017 (Unaudited)
Geographic information				
Revenue from external customers				
Kingdom of Saudi Arabia	406,715	411,119	791,033	834,752
Poland	47,583	-	47,583	-
Gulf Cooperation Council (GCC countries)	13,657	23,445	28,316	45,882
Others	8,669	6,743	19,863	13,503
Total	476,624	441,307	886,795	894,137

	Six-month period ended September 30,	
	2018 (Unaudited)	2017 (Unaudited)
Non-current operating assets		
Kingdom of Saudi Arabia	703,158	598,612
Poland	73,771	-
Gulf Cooperation Council (GCC countries)	8,465	8,947
Others	2,486	1,625
Total	787,880	609,184

4.2 Adjustments

Certain non-current assets, current assets, current liabilities and long-term liabilities are not allocated to operating segments as they are managed on a Group basis.

4.3 Reconciliation of profit

	Three-month period ended September 30,		Six-month period ended September 30,	
	2018 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2017 (Unaudited)
Profit before zakat	57,804	78,824	111,604	160,408
Zakat	(3,973)	(4,087)	(7,745)	(8,435)
Profit after zakat	53,831	74,737	103,859	151,973

5. Group information

The condensed consolidated interim financial information of the Group includes:

Name	Relationship	Principal activities	Country of incorporation	% equity interest	
				September 30, 2018	March 31, 2018
SADAFCO Bahrain Company SPC	Subsidiary	Foodstuff and dairy products	Bahrain	100%	100%
SADAFCO Jordan Foodstuff Company LLC	Subsidiary	Foodstuff and dairy products	Jordan	100%	100%
SADAFCO Qatar Company	Subsidiary	Foodstuff and dairy products	Qatar	75%	75%
SADAFCO Kuwait Foodstuff Co. W.L.L (*)	Subsidiary	Foodstuff and dairy products	Kuwait	49%	49%
SADAFCO Poland sp. Z.o.o. (**)	Subsidiary	Holding company	Poland	100%	-
Mlekoma sp. Z.o.o. (**)	Subsidiary	Dairy products	Poland	76%	-
Foodexo sp. Z.o.o. (**)	Subsidiary	Dairy products	Poland	76%	-
Mlekoma Dairy Z.o.o. (**)	Associate	Dairy products	Poland	37%	-

(*) Remaining equity interest is beneficially held through parties nominated by the Company.

(**) During the three-month period ended September 30, 2018, the Group acquired a controlling stake in Mlekoma sp. Z.o.o. and its subsidiary Foodexo sp. Z.o.o, and an associate Mlekoma Dairy Z.o.o (collectively referred to as "Mlekoma group") through a wholly owned subsidiary, SADAFCO Poland, incorporated in Poland. Please refer Note 6 for more details.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**(A Saudi Joint Stock Company)****Notes to the condensed consolidated interim financial information for the three-month and six-month periods ended September 30, 2018****(All amounts in Saudi Riyals thousands unless otherwise stated)****6. Business combination**

SADAFCO through its wholly-owned subsidiary, SADAFCO Poland, acquired a total stake of 76% in Mlekoma group on July 2, 2018 through a series of agreements, collectively referred to as Share Purchase Agreement (SPA). The Group considers this transaction as a strategic opportunity to invest in vertical (upward) integration, being a source of the milk powder, one of the key raw materials.

This condensed consolidated interim financial information includes the results of Mlekoma group from July 2, 2018, as the Group effectively obtained control of Mlekoma group from that date. The acquired business contributed revenues of Saudi Riyals 47.6 million and net profit of Saudi Riyals 0.1 million to the Group from July 2, 2018 to September 30, 2018. If the acquisition had taken place at the beginning of the period, the consolidated revenue and net profit for the six-month period ended September 30, 2018 would have been Saudi Riyals 104.2 million and Saudi Riyals 1.2 million, respectively.

The Group recognises non-controlling interests in Mlekoma group at its proportionate share of the acquired net identifiable assets.

The acquisition of Mlekoma Group has been accounted based on provisional fair values of identifiable assets and liabilities on the acquisition date and the management is in the process of determining the fair values of assets and liabilities acquired.

The consideration paid, the provisional fair values of the assets and liabilities recognised at the date of acquisition and the non-controlling interest's proportionate share in the recognised amounts of the acquiree's identifiable net assets are summarised as follows:

	Fair value of acquisition (Provisional)
Assets acquired	
Non-current assets	
Property, plant and equipment	38,711
Other non-current assets	3,369
	42,080
Current assets	
Inventories	10,576
Trade and other receivables	22,473
Deposits, prepayments and other assets	2,705
Cash and cash equivalents	4,028
	39,782
Total assets	81,862
Liabilities assumed	
Current liabilities	
Trade and other payables	14,038
Accruals and other liabilities	1,052
Income tax payable	171
Total liabilities	15,261
Identifiable net assets	66,601
Purchase consideration	
Consideration paid in cash	77,279
Non-controlling interest	15,994
Contingent consideration	5,564
	98,837
Less: Identifiable net assets acquired	(66,601)
	32,236
Less: deferred tax on contingent consideration	(1,055)
Provisional goodwill on acquisition	31,181

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**(A Saudi Joint Stock Company)****Notes to the condensed consolidated interim financial information for the three-month and six-month periods ended September 30, 2018****(All amounts in Saudi Riyals thousands unless otherwise stated)****6. Business Combination (continued)**

Contingent consideration payable is estimated based on the terms of SPA, the management's knowledge of the business and how the current economic environment is likely to impact the business of Mlekoma Group. In the event that certain pre-determined sales targets and net margins are achieved by Mlekoma group for the years 2018, 2019 and 2020, the Group may be required to pay the former owners an amount ranging from Saudi Riyals 2 million to Saudi Riyals 5 million for each year up to maximum undiscounted amount of Saudi Riyals 5 million for each year. There is no minimum amount payable under terms of SPA.

The fair value of the contingent consideration of Saudi Riyals 5.6 million has been estimated by calculating the present value of the future expected cash flows at pre-tax discount rate of 3.1%. This is a level 3 fair valuation.

7. Earnings per share (EPS)

The basic and dilutive EPS is computed as follows:

	Three-month period ended September 30,		Six-month period ended September 30,	
	2018 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2017 (Unaudited)
Profit attributable to owners of SADAFCO	54,092	75,160	104,292	152,232
Weighted average number of ordinary shares outstanding (in thousands)	32,500	32,500	32,500	32,500
Basic and diluted earnings per share	1.66	2.31	3.21	4.68

8. Property, plant and equipment

- (a) The ownership interest of the Group in certain freehold land held in Madinah amounting to Saudi Riyals 1.54 million (2017: Saudi Riyals 1.54 million) is through a shareholder of the Group. The Group holds legal documents confirming its beneficial interest.
- (b) The additions during the six-month period ended September 30, 2018 amounting to Saudi Riyals 121 million (2017: Saudi Riyals 24.82 million), mainly represent addition to capital work-in-progress for under construction Jeddah central warehouse and plant and machinery in the factories.

9. Non-controlling interest put option

As detailed in Note 6, the Group entered into business acquisition of a subsidiary in Poland, Mlekoma Group, through SPA which included clauses whereby the non-controlling interest equity holders will put their remaining shareholding to the Group at the expiry date of the option i.e fifth year of the completion date as per the terms of SPA. As per the terms of SPA, it is a binding irrevocable option to acquire from the non-controlling interest equity holders their remaining shareholding.

The put option available to the non-controlling interest equity holders is exercisable within period of 15 business days from the expiry date of the option. The redemption value is higher of purchase price as per SPA or determined by applying earnings multiplier to audited EBITDA of financial year 2022 of Mlekoma group as reduced by net debt in accordance with the SPA. The Group has estimated a gross cash outflow of Saudi Riyals 27.1 million at the exercise of option. A pre-tax discount rate of 3.1% has been used. This is a level 3 fair valuation.

10. Zakat matters

Zakat assessments for the years up to and including 2007 have been finalised with the General Authority of Zakat and Tax (GAZT)

The GAZT has raised assessments for the years ended March 31, 2005 through March 31, 2007. Based on Higher Appeal Committee (HAC) decision, the additional zakat liability from GAZT's viewpoint is Saudi Riyals 4.4 million. After correction of material errors, the additional liability is expected to be approximately Saudi Riyals 3.8 million approximately and final assessment from the GAZT is awaited.

The GAZT raised final assessments for the years ended March 31, 2008 through March 31, 2011. Revised additional zakat liability based on Preliminary Appeal Committee (PAC) decision is approximately Saudi Riyals 4 million. SADAFCO has lodged a bank guarantee with the GAZT for Saudi Riyals 5.3 million. The HAC rendered its decision on SADAFCO's appeal against PAC's decision. Based on HAC's decision, the additional assessed liability of Saudi Riyals 4.0 million is likely to reduce further by Saudi Riyals 0.4 million. The management has filed an appeal against the HAC's decision with the Board of Grievance (BOG).

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFECO)**(A Saudi Joint Stock Company)****Notes to the condensed consolidated interim financial information for the three-month and six-month periods ended September 30, 2018****(All amounts in Saudi Riyals thousands unless otherwise stated)****10. Zakat matters (continued)**

During the three-month period ended September 30, 2018, the GAZT issued final assessments for the years ended March 31, 2012 and 2013, and raised an additional Zakat liability amounting to Saudi Riyals 6.7 million. SADAFECO has filed an appeal against the assessment, which is awaiting GAZT's review. The Company believes its position to be robust in the areas of interpretation.

The GAZT has not yet raised assessments for the years 2014 through 2017.

11. Related party matters**11.1 Transactions and balances with related parties**

- (a) Transactions with related parties were undertaken in the ordinary course of business at commercial terms and were approved by the management.
- (b) Significant related party transactions and balances for the period ended September 30 and balances arising there from are described as under:

Transactions with	Nature of transaction	Amount of transactions				Due to related parties	
		Three-month period ended September 30		Six-month period ended September 30		September 30, 2018	March 31, 2018
		2018	2017	2018	2017	(Unaudited)	(Audited)
Buruj Cooperative Insurance Company (affiliate) (*)	Insurance premium	2,662	(2,445)	5,276	(5,868)	1,238	243

* These transactions represent the insurance expense net of any claims received from Buruj Cooperative Insurance Company.

11.2 Compensation of key management personnel of the Group

Compensation to Group's key management personnel includes salaries, and contributions to post-employment defined benefit plan. The Group has recognized an expense of Saudi Riyals 7.1 million for the six-month period ended September 30, 2018 (2017: Saudi Riyals 7.4 million).

12. Financial Instruments**12.1 Financial assets**

	September 30, 2018 (Unaudited)	March 31, 2018 (Audited)
Financial assets at amortised cost		
Trade and other receivables – net	179,231	146,669
Cash and cash equivalents	483,817	559,099
Total financial assets	663,048	705,768

Receivables

Receivables are non-derivative financial assets carried at amortised cost. The carrying value may be affected by changes in the credit risk of the counterparties.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**(A Saudi Joint Stock Company)****Notes to the condensed consolidated interim financial information for the three-month and six-month periods ended September 30, 2018****(All amounts in Saudi Riyals thousands unless otherwise stated)****12.2 Financial liabilities**

	September 30, 2018 (Unaudited)	March 31, 2018 (Audited)
Financial liabilities at amortized cost		
Trade and other payables	139,254	144,562
Accruals and other liabilities	190,981	163,805
Due to a related party	1,238	243
	331,473	308,610
Financial liabilities at fair value through profit or loss		
Non-controlling interest put option	23,420	-
Contingent consideration payable	5,593	-
	29,013	-
Total financial liabilities	360,486	308,610

13. Commitments and contingencies

- (a) As at September 30, 2018, the Group has outstanding commitments for future capital expenditures amounting to Saudi Riyals 65.7 million (March 31, 2018: Saudi Riyals 79.5 million).
- (b) As at September 30, 2018, the Group has a contingent liability of Saudi Riyals 10 million (March 31, 2018: Saudi Riyals 10 million) in respect of guarantees issued by the Company's bankers to the GAZT (Note 10).

14. Other reserve

In the prior years, the shareholders decided to create a voluntary reserve by transfer of ten percent of the net income attributable to equity shareholders of SADAFCO to the reserve. The utilization of this reserve is at the discretion of the shareholders. In the current period, transfer has been made to the voluntary reserve.

15. Dividends

In the Extraordinary General Assembly meeting of the Group held on July 3, 2018, the shareholders authorized dividends of Saudi Riyals 2 per share amounting to Saudi Riyals 65 million for year ended March 31, 2018.

16. Approval and authorization for issue

On October 21, 2018, these condensed consolidated interim financial information was authorized for issue by the Board of Directors.