

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

UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION  
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED DECEMBER 31, 2018  
AND 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 NINE-MONTH PERIODS ENDED DECEMBER 31, 2018**

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## *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 December 31, 2018 and the related condensed consolidated statements of profit or loss and comprehensive income for the three-month and nine-month periods then ended and condensed consolidated statement of changes in equity and cash flows for the nine-month period ended December 31, 2018 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

January 23, 2019



**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
**(A Saudi Joint Stock Company)**  
**Condensed consolidated interim statement of profit or loss**  
**(All amounts in Saudi Riyals thousands unless otherwise stated)**

|  | Note | Three-month period ended<br>December 31, |                     | Nine-month period ended<br>December 31, |                     |
|--|------|--|---------------------|---|---------------------|
|  |      | 2018<br>(Unaudited)                      | 2017<br>(Unaudited) | 2018<br>(Unaudited)                     | 2017<br>(Unaudited) |
| Revenue – net  | 4    | 462,666                                  | 419,932             | 1,349,461                               | 1,314,069           |
| Cost of revenue  |      | (322,865)                                | (270,490)           | (930,308)                               | (818,120)           |
| Gross profit   |      | 139,801                                  | 149,442             | 419,153                                 | 495,949             |
| Selling and distribution expenses  |      | (61,949)                                 | (66,329)            | (189,482)                               | (208,658)           |
| General and administrative expenses  |      | (22,649)                                 | (20,516)            | (69,574)                                | (67,768)            |
| Other operating income   |      | (479)                                    | 277                 | 1,388                                   | 900                 |
| Impairment loss on financial assets  |      | (375)                                    | (2,111)             | (1,125)                                 | (2,586)             |
| Operating profit   |      | 54,349                                   | 60,763              | 160,360                                 | 217,837             |
| Finance income   |      | 2,894                                    | 1,589               | 8,487                                   | 4,923               |
| Profit before zakat  |      | 57,243                                   | 62,352              | 168,847                                 | 222,760             |
| Zakat  |      | (3,627)                                  | (4,048)             | (11,372)                                | (12,483)            |
| Profit for the period  |      | 53,616                                   | 58,304              | 157,475                                 | 210,277             |
| Profit is attributable to:   |      |  |                     |   |                     |
| Owners of SADAFCO  |      | 54,147                                   | 58,517              | 158,439                                 | 210,749             |
| Non-controlling interests  |      | (531)                                    | (213)               | (964)                                   | (472)               |
|  |      | 53,616                                   | 58,304              | 157,475                                 | 210,277             |
| Earnings per share:  |      |  |                     |   |                     |
| Basic and dilutive earnings per share<br>(Saudi Riyals) attributable to owners of<br>SADAFCO | 7    | 1.67                                     | 1.80                | 4.88                                    | 6.48                |

The notes from 1 to 17 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**  
**(All amounts in Saudi Riyals thousands unless otherwise stated)**

|  | Three-month period ended<br>December 31, |                     | Nine-month period ended<br>December 31, |                     |
|--|--|---------------------|---|---------------------|
|  | 2018<br>(Unaudited)                      | 2017<br>(Unaudited) | 2018<br>(Unaudited)                     | 2017<br>(Unaudited) |
| <b>Profit for the period</b>   | <b>53,616</b>                            | <b>58,304</b>       | <b>157,475</b>                          | <b>210,277</b>      |
| <b>Other comprehensive income</b>                                    |  |                     |   |                     |
| <i>Items that may be reclassified to profit or loss</i>              |  |                     |   |                     |
| Exchange difference on translation of foreign operations             | (16)                                     | (192)               | 478                                     | (111)               |
| <i>Items that will not be reclassified to profit or loss</i>         |  |                     |   |                     |
| Re-measurement gain on employee benefit obligations                  | -  | -                   | -                                       | -                   |
| <b>Other comprehensive income (loss) for the period</b>              | <b>(16)</b>                              | <b>(192)</b>        | <b>478</b>                              | <b>(111)</b>        |
| <b>Total comprehensive income for the period</b>                     | <b>53,600</b>                            | <b>58,112</b>       | <b>157,953</b>                          | <b>210,166</b>      |
| <b>Total comprehensive income for the period is attributable to:</b> |  |                     |   |                     |
| Owners of SADAFCO  | 54,130                                   | 58,362              | 158,852                                 | 210,675             |
| Non-controlling interests  | (530)                                    | (250)               | (899)                                   | (509)               |
|  | <b>53,600</b>                            | <b>58,112</b>       | <b>157,953</b>                          | <b>210,166</b>      |

The notes from 1 to 17 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**  
**(All amounts in Saudi Riyals thousands unless otherwise stated)**

|   | Note | December<br>31, 2018<br>(Unaudited) | March<br>31, 2018<br>(Audited) |
|---|------|-------------------------------------|--------------------------------|
| <b>Assets</b>   |      |                                     |                                |
| <b>Non-current assets</b>                               |      |                                     |                                |
| Property, plant and equipment                           | 8    | 761,812                             | 663,087                        |
| Goodwill  | 6    | 31,181                              | -                              |
| Other non-current assets                                |      | 4,727                               | 243                            |
|   |      | <u>797,720</u>                      | <u>663,330</u>                 |
| <b>Current assets</b>                                   |      |                                     |                                |
| Inventories   |      | 289,308                             | 347,901                        |
| Trade and other receivables                             |      | 203,995                             | 156,809                        |
| Deposits, prepayments and other assets                  |      | 35,947                              | 36,038                         |
| Cash and cash equivalents                               |      | 509,505                             | 559,099                        |
|   |      | <u>1,038,755</u>                    | <u>1,099,847</u>               |
| <b>Total assets</b>                                     |      | <u>1,836,475</u>                    | <u>1,763,177</u>               |
| <b>Equity and liabilities</b>                           |      |                                     |                                |
| <b>Equity</b>   |      |                                     |                                |
| Issued share and paid up capital                        |      | 325,000                             | 325,000                        |
| Statutory reserve                                       |      | 162,500                             | 162,500                        |
| Other reserves  | 14   | 223,767                             | 207,923                        |
| Foreign currency translation reserves                   |      | (902)                               | (1,315)                        |
| Retained earnings                                       |      | 616,397                             | 627,042                        |
|   |      | <u>1,326,762</u>                    | <u>1,321,150</u>               |
| <b>Equity attributable to owners of SADAFCO</b>         |      | <u>1,326,762</u>                    | <u>1,321,150</u>               |
| Non-controlling interests                               |      | 15,317                              | 222                            |
| <b>Total equity</b>                                     |      | <u>1,342,079</u>                    | <u>1,321,372</u>               |
| <b>Liabilities</b>                                      |      |                                     |                                |
| <b>Non-current liabilities</b>                          |      |                                     |                                |
| Employee benefit obligations                            |      | 112,631                             | 112,672                        |
| Non-controlling interest put option                     | 9    | 23,601                              | -                              |
| Non-current portion of contingent consideration payable | 6    | 3,709                               | -                              |
|   |      | <u>139,941</u>                      | <u>112,672</u>                 |
| <b>Current liabilities</b>                              |      |                                     |                                |
| Trade and other payables                                |      | 142,076                             | 144,562                        |
| Accruals and other liabilities                          |      | 200,516                             | 163,805                        |
| Due to a related party                                  | 11   | 1,231                               | 243                            |
| Accrued zakat   | 10   | 10,632                              | 20,523                         |
|   |      | <u>354,455</u>                      | <u>329,133</u>                 |
| <b>Total liabilities</b>                                |      | <u>494,396</u>                      | <u>441,805</u>                 |
| <b>Total equity and liabilities</b>                     |      | <u>1,836,475</u>                    | <u>1,763,177</u>               |

The notes from 1 to 17 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 changes in equity**  
**(All amounts in Saudi Riyals thousands unless otherwise stated)**

|  | Attributable to owners of SADAFCO      |                      |                   |  |                      |                                  |
|--|--|----------------------|-------------------|--|----------------------|----------------------------------|
|  | Issued share<br>and paid up<br>capital | Statutory<br>reserve | Other<br>reserves | Foreign<br>currency<br>translation<br>reserves | Retained<br>earnings | Non-<br>controlling<br>interests |
| Balance at April 1, 2017 (audited)                               | 325,000                                | 162,500              | 181,835           | (845)  | 592,710              | 1,568                            |
| Profit (loss) for the period                                     | -                                      | -                    | -                 | -  | 210,749              | (472)                            |
| Other comprehensive Income (loss)                                | -                                      | -                    | -                 | (74)   | -                    | (37)                             |
| <b>Total comprehensive Income (loss) for the period</b>          |  |                      |                   |  | <b>(74)</b>          | <b>(111)</b>                     |
| Balance at April 1, 2017 (audited)                               | 325,000                                | 162,500              | 181,835           | (845)  | 592,710              | 1,568                            |
| Profit (loss) for the period                                     | -                                      | -                    | -                 | -  | 210,749              | (472)                            |
| Other comprehensive Income (loss)                                | -                                      | -                    | -                 | (74)   | -                    | (37)                             |
| <b>Total comprehensive Income (loss) for the period</b>          |  |                      |                   |  | <b>(74)</b>          | <b>(111)</b>                     |
| Dividend declared  | -                                      | -                    | -                 | -  | (195,000)            | (648)                            |
| Transfer to other reserves (Note 14)                             | -                                      | -                    | 21,075            | -  | (21,075)             | -                                |
| Balance at December 31, 2017 (unaudited)                         | 325,000                                | 162,500              | 202,910           | (1,019)  | 587,384              | 412                              |
| Balance at April 1, 2018 (audited)                               | 325,000                                | 162,500              | 207,923           | (1,315)  | 627,042              | 222                              |
| Profit (loss) for the period                                     | -                                      | -                    | -                 | -  | 158,439              | (984)                            |
| Other comprehensive Income                                       | -                                      | -                    | -                 | 413  | -                    | 65                               |
| <b>Total comprehensive Income for the period</b>                 |  |                      |                   |  | <b>158,439</b>       | <b>(919)</b>                     |
| Non-controlling interest on acquisition of a subsidiary (Note 6) | -                                      | -                    | -                 | -  | -                    | 15,994                           |
| Dividend declared (Note 15)                                      | -                                      | -                    | -                 | -  | (130,000)            | -                                |
| Non-controlling interest put option movement (Note 9)            | -                                      | -                    | -                 | -  | (23,240)             | -                                |
| Transfer to other reserves (Note 14)                             | -                                      | -                    | 15,844            | -  | (15,844)             | -                                |
| Balance at December 31, 2018 (unaudited)                         | 325,000                                | 162,500              | 223,767           | (902)  | 616,397              | 15,317                           |

The notes from 1 to 17 form part of this condensed consolidated Interim financial information.



Mussad Abdullah Al Nasser  
Member Board of Directors



Waltharus Cornelis Petrus Matthijs  
Chief Executive Officer



Ian David Gowell  
Chief Financial Officer

**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
**(A Saudi Joint Stock Company)**  
**Condensed consolidated interim statement of cash flows**  
**(All amounts in Saudi Riyals thousands unless otherwise stated)**

|  | <b>Nine-month period ended<br/>December 31,</b> |                         |
|--|---|-------------------------|
|  | <b>2018</b>                                     | <b>2017</b>             |
|  | <b>(Unaudited)</b>                              | <b>(Unaudited)</b>      |
| <b>Cash flow from operating activities</b>   |   |                         |
| Profit before zakat  | 168,847   | 222,760                 |
| <u>Adjustments for:</u>  |   |                         |
| Depreciation on property, plant and equipment  | 51,003  | 48,875                  |
| Gain (loss) on disposal of property and equipment  | (174)   | 101                     |
| Provision for doubtful accounts  | 1,127   | 2,587                   |
| Provision for slow moving and obsolete inventories   | -   | 3,126                   |
| Finance costs on non-controlling interest put option and<br>contingent consideration payable | 487   | -                       |
| Provision for employee benefit obligations   | 11,213  | 9,039                   |
|  | <u>232,503</u>                                  | <u>286,488</u>          |
| <u>Working capital</u>   |   |                         |
| Inventories  | 69,169  | (92,855)                |
| Trade and other receivables  | (25,840)  | (7,044)                 |
| Deposits, prepayments and other assets   | 2,796   | (1,632)                 |
| Trade and other payables   | (16,524)  | 38,548                  |
| Due to a related party   | 988   | (1,012)                 |
| Accruals and other liabilities   | 33,747  | 27,824                  |
|  | <u>296,839</u>                                  | <u>250,317</u>          |
| Employee benefit obligations paid  | (11,254)  | (10,680)                |
| Zakat paid   | (21,434)  | (20,747)                |
| <b>Net cash inflow from operating activities</b>   | <u><b>264,151</b></u>                           | <u><b>218,890</b></u>   |
| <b>Cash flow from investing activities</b>   |   |                         |
| Sale proceeds from disposal of property and equipment  | 174   | 104                     |
| Acquisition of other non-current assets  | (129)   | -                       |
| Payment for acquisition of subsidiary, net of cash acquired                                  | (73,251)  | -                       |
| Purchases of property, plant and equipment   | (111,017)                                       | (95,312)                |
| <b>Net cash outflow from investing activities</b>  | <u><b>(184,223)</b></u>                         | <u><b>(95,208)</b></u>  |
| <b>Cash flow from financing activities</b>   |   |                         |
| Dividend paid to owners of SADAFCO   | (130,000)                                       | (196,000)               |
| Dividends paid to non-controlling interests in subsidiaries                                  | -   | (648)                   |
| <b>Cash outflow from financing activities</b>  | <u><b>(130,000)</b></u>                         | <u><b>(196,648)</b></u> |
| <b>Net change in cash and cash equivalents</b>   | <u><b>(50,072)</b></u>                          | <u><b>(71,966)</b></u>  |
| Effects of exchange rate fluctuations on cash and cash equivalents                           | 478   | (111)                   |
| Cash and cash equivalents at beginning of the period   | 559,099   | 543,914                 |
| <b>Cash and cash equivalents at end of the period</b>  | <u><b>509,505</b></u>                           | <u><b>471,837</b></u>   |

The notes from 1 to 17 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 Gowllett  
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 nine-month periods ended December 31, 2018**

**(All amounts in Saudi Riyals thousands unless otherwise stated)**

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**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, Poland 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 Interim 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 (SADAFCO)****(A Saudi Joint Stock Company)****Notes to the condensed consolidated interim financial information for the three-month and nine-month periods ended December 31, 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<br>classification<br>Under IAS 39    | New Classification<br>Under IFRS 9      | Original<br>Measurement<br>Under IAS 39 | New<br>Measurement<br>Under IFRS 9 | Original<br>carrying<br>amount<br>Under IAS 39 | New carrying<br>amount<br>Under IFRS 9 |
|--------------------------------|---|---|---|------------------------------------|--|--|
| <b>Financial assets</b>        |   |   |   |                                    |  |  |
| 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                                |
| <b>Financial liabilities</b>   |   |   |   |                                    |  |  |
| 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 0.38 million and Saudi Riyals 1.13 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 nine-month periods ended December 31, 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. The Group's assessment of these new standards and interpretations is set out below:

**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)****(A Saudi Joint Stock Company)****Notes to the condensed consolidated interim financial information for the three-month and nine-month periods ended December 31, 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)**

| <b>Effective for annual periods beginning on or after</b>                                   | <b>Standard, amendment or interpretation</b>  | <b>Summary of requirements</b>   |
|---|---|--|
| 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.   |
| Annual reporting periods beginning on or after January 1, 2021, early adoption is permitted | These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors' | These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs: i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting; ii) clarify the explanation of the definition of material; and iii) incorporate some of the guidance in IAS 1 about immaterial information. Management believes that 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"> <li>• 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</li> <li>• 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.</li> </ul>                       |

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.

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**2. Basis of preparation (continued)**

**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.

**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.

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**3. Significant accounting policies (continued)**

**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.

**(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.

The classification of financial assets under IFRS 9 is based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

**(a) Measurement**

Initial 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



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**3. Significant accounting policies (continued)**

**3.4 Financial instruments (continued)**

**(i) Financial assets (continued)**

**(a) Measurement (continued)**

- (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 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.

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.

**(b) 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.

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**3. Significant accounting policies (continued)**

**3.4 Financial instruments (continued)**

**(b) Impairment of financial assets (continued)**

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

The adoption of IFRS 9 did not have 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.

**(ii) 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. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties.

Revenue is recognized when a customer obtains control of the goods or services (i.e. when it has the ability to direct the use of and obtain benefits from the goods or services). Customers obtain control when goods are delivered to and have been accepted by them as per the applicable delivery terms and, accordingly, revenue is recognised at that point-in-time. Invoices are usually payable within credit period agreed with the customer which may vary from one to another.

For contracts that permit the customer to return an item, 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.

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**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 nine-month period ended |                |                  |                  |
|---|--------------------------|------------|-------------|---------|-----------------------------------|----------------|------------------|------------------|
|   | Drinks                   | Non-Drinks | Unallocated | Total   | Drinks                            | Non-Drinks     | Unallocated      | Total            |
| <b>December 31, 2018</b><br><b>(Unaudited)</b>          |                          |            |             |         |                                   |                |                  |                  |
| Revenue - net   | 280,462                  | 182,204    | -           | 462,666 | 807,037                           | 542,424        | -                | 1,349,461        |
| Profit before zakat                                     | 47,955                   | 9,288      | -           | 57,243  | 120,762                           | 48,085         | -                | 168,847          |
| Depreciation  | 12,965                   | 4,910      | -           | 17,875  | 37,367                            | 13,636         | -                | 51,003           |
| Property, plant and equipment                           |                          |            |             |         | 545,522                           | 216,290        | -                | 761,812          |
| Goodwill  |                          |            |             |         | -                                 | 31,181         | -                | 31,181           |
| Current assets  |                          |            |             |         | -                                 | 45,648         | 993,107          | 1,038,755        |
| Other non-current assets                                |                          |            |             |         | -                                 | 4,484          | 243              | 4,727            |
| <b>Total assets</b>                                     |                          |            |             |         | <b>545,522</b>                    | <b>297,603</b> | <b>993,350</b>   | <b>1,836,475</b> |
| Current liabilities                                     |                          |            |             |         | -                                 | 20,087         | 334,368          | 354,455          |
| Non-controlling interest put option                     |                          |            |             |         | -                                 | 23,601         | -                | 23,601           |
| Non-current portion of contingent consideration payable |                          |            |             |         | -                                 | 3,709          | -                | 3,709            |
| Employee benefit obligations                            |                          |            |             |         | -                                 | 195            | 112,436          | 112,631          |
| <b>Total liabilities</b>                                |                          |            |             |         | <b>-</b>                          | <b>47,592</b>  | <b>446,804</b>   | <b>494,396</b>   |
|   |                          |            |             |         |                                   |                |                  |                  |
|   | Three-month period ended |            |             |         | As of and nine-month period ended |                |                  |                  |
|   | Drinks                   | Non-Drinks | Unallocated | Total   | Drinks                            | Non-Drinks     | Unallocated      | Total            |
| <b>December 31, 2017</b><br><b>(Unaudited)</b>          |                          |            |             |         |                                   |                |                  |                  |
| Revenue - net   | 268,908                  | 151,024    | -           | 419,932 | 858,666                           | 455,403        | -                | 1,314,069        |
| Profit before zakat                                     | 46,342                   | 16,010     | -           | 62,352  | 162,546                           | 60,214         | -                | 222,760          |
| Depreciation  | 12,894                   | 3,480      | -           | 16,374  | 36,602                            | 12,273         | -                | 48,875           |
| Property, plant and equipment (*)                       |                          |            |             |         | 482,462                           | 161,774        | -                | 644,236          |
| Current assets  |                          |            |             |         | -                                 | -              | 1,067,522        | 1,067,522        |
| Other non-current assets                                |                          |            |             |         | -                                 | -              | 243              | 243              |
| <b>Total assets</b>                                     |                          |            |             |         | <b>482,462</b>                    | <b>161,774</b> | <b>1,067,765</b> | <b>1,712,001</b> |
| Current liabilities                                     |                          |            |             |         | -                                 | -              | 328,620          | 328,620          |
| Employee benefit obligation                             |                          |            |             |         | -                                 | -              | 106,194          | 106,194          |
| <b>Total liabilities</b>                                |                          |            |             |         | <b>-</b>                          | <b>-</b>       | <b>434,814</b>   | <b>434,814</b>   |

(\*) Certain reclassifications have been made in property, plant and equipment within segments to conform presentation to the information disclosed for the period ended December 31, 2018.



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**4. Segment information (continued)****4.1 Operating segment (continued)**

The management has categorized its geographical operations as follows:

|  | Three-month period<br>ended December 31, |                     | As of and nine-month period<br>ended December 31, |                     |
|--|--|---------------------|---|---------------------|
|  | 2018<br>(Unaudited)                      | 2017<br>(Unaudited) | 2018<br>(Unaudited)                               | 2017<br>(Unaudited) |
| <b>Geographic information</b>            |  |                     |   |                     |
| <b>Revenue from external customers</b>   |  |                     |   |                     |
| Kingdom of Saudi Arabia                  | 383,258                                  | 395,061             | 1,174,291   | 1,229,813           |
| Poland                                   | 54,529                                   | -                   | 102,112   | -                   |
| Gulf Cooperation Council (GCC countries) | 15,171                                   | 17,385              | 43,487  | 63,267              |
| Others                                   | 9,708                                    | 7,486               | 29,571  | 20,989              |
| <b>Total</b>                             | <b>462,666</b>                           | <b>419,932</b>      | <b>1,349,461</b>                                  | <b>1,314,069</b>    |

|  | December 31,<br>2018<br>(Unaudited) | December 31,<br>2017<br>(Unaudited) |
|--|-------------------------------------|-------------------------------------|
| <b>Non-current operating assets</b>      |                                     |                                     |
| Kingdom of Saudi Arabia                  | 712,486                             | 634,592                             |
| Poland                                   | 73,166                              | -                                   |
| Gulf Cooperation Council (GCC countries) | 9,732                               | 8,404                               |
| Others                                   | 2,336                               | 1,483                               |
| <b>Total</b>                             | <b>797,720</b>                      | <b>644,479</b>                      |

**4.2 Adjustments**

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

**4.3 Reconciliation of profit**

|                            | Three-month period<br>ended December 31, |                     | Nine-month period<br>ended December 31, |                     |
|----------------------------|--|---------------------|---|---------------------|
|                            | 2018<br>(Unaudited)                      | 2017<br>(Unaudited) | 2018<br>(Unaudited)                     | 2017<br>(Unaudited) |
| <b>Profit before zakat</b> | <b>57,243</b>                            | <b>62,352</b>       | <b>168,847</b>                          | <b>222,760</b>      |
| <b>Zakat</b>               | <b>(3,627)</b>                           | <b>(4,048)</b>      | <b>(11,372)</b>                         | <b>(12,483)</b>     |
| <b>Profit after zakat</b>  | <b>53,616</b>                            | <b>58,304</b>       | <b>157,475</b>                          | <b>210,277</b>      |

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The condensed consolidated interim financial information of the Group includes:

| Name  | Relationship | Principal activities         | Country of incorporation | % equity interest |                |
|---|--------------|------------------------------|--------------------------|-------------------|----------------|
|   |              |                              |                          | December 31, 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. (**) ("SADAFCO Poland") | 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.

**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 102.1 million and net loss of Saudi Riyals 2 million to the Group from July 2, 2018 to December 31, 2018. If the acquisition had taken place at the beginning of the period, the consolidated revenue and net loss for the nine-month period ended December 31, 2018 would have been Saudi Riyals 158.7 million and Saudi Riyals 0.9 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.

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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:

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

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:

|   | <b>Three-month period<br/>ended December 31,</b> |                    | <b>Nine-month period<br/>ended December 31,</b> |                    |
|---|--|--------------------|---|--------------------|
|   | <b>2018</b>                                      | <b>2017</b>        | <b>2018</b>                                     | <b>2017</b>        |
|   | <b>(Unaudited)</b>                               | <b>(Unaudited)</b> | <b>(Unaudited)</b>                              | <b>(Unaudited)</b> |
| Profit attributable to owners of SADAFCO                              | <b>54,147</b>                                    | 58,517             | <b>158,439</b>                                  | 210,749            |
| Weighted average number of ordinary shares outstanding (in thousands) | <b>32,500</b>                                    | 32,500             | <b>32,500</b>                                   | 32,500             |
| Basic and diluted earnings per share (Saudi Riyals)                   | <b>1.67</b>                                      | 1.80               | <b>4.88</b>                                     | 6.48               |

**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**

**(A Saudi Joint Stock Company)**

**Notes to the condensed consolidated interim financial information for the three-month and nine-month periods ended December 31, 2018**

**(All amounts in Saudi Riyals thousands unless otherwise stated)**

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**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 (March 31, 2018: 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 nine-month period ended December 31, 2018 amounting to Saudi Riyals 149 million (December 31, 2017: Saudi Riyals 95.31 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 approximately Saudi Riyals 4.4 million. After correction of material errors, the additional liability is expected to be approximately Saudi Riyals 3.8 million 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 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).

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. SADAFCO has filed an appeal against the assessment, which is awaiting GAZT's review. SADAFCO believes its position to be robust in the areas of interpretations.

The GAZT has not yet raised assessments for the years 2014 through 2018

**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)****(A Saudi Joint Stock Company)****Notes to the condensed consolidated interim financial information for the three-month and nine-month periods ended December 31, 2018****(All amounts in Saudi Riyals thousands unless otherwise stated)****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 December 31 and balances arising there from are described as under:

| Transactions with                               | Nature of transaction | Amount of transactions (Unaudited)   |       |                                     |       | Due to a related party |                |
|---|-----------------------|--------------------------------------|-------|-------------------------------------|-------|------------------------|----------------|
|   |                       | Three-month period ended December 31 |       | Nine-month period ended December 31 |       | December 31, 2018      | March 31, 2018 |
|   |                       | 2018                                 | 2017  | 2018                                | 2017  | (Unaudited)            | (Audited)      |
| Buruj Cooperative Insurance Company (affiliate) | Insurance premium     | 1,624                                | 2,226 | 6,900                               | 8,094 | 1,231                  | 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 11 million for the nine-month period ended December 31, 2018 (December 31, 2017: Saudi Riyals 11.5 million).

**12. Financial Instruments****12.1 Financial assets**

|   | December 31, 2018<br>(Unaudited) | March 31, 2018<br>(Audited) |
|---|----------------------------------|-----------------------------|
| <b>Financial assets at amortised cost</b> |                                  |                             |
| Trade and other receivables – net         | 190,779                          | 146,669                     |
| Cash and cash equivalents                 | 509,505                          | 559,099                     |
| <b>Total financial assets</b>             | <b>700,284</b>                   | <b>705,768</b>              |

**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 nine-month periods ended December 31, 2018****(All amounts in Saudi Riyals thousands unless otherwise stated)****12.2 Financial liabilities**

|   | <b>December 31,<br/>2018<br/>(Unaudited)</b> | <b>March 31,<br/>2018<br/>(Audited)</b> |
|---|--|---|
| <b>Financial liabilities at amortized cost</b>                    |  |   |
| Trade and other payables  | <b>142,076</b>                               | 144,562                                 |
| Accruals and other liabilities                                    | <b>198,604</b>                               | 163,805                                 |
| Due to a related party  | <b>1,231</b>                                 | 243                                     |
|   | <b>341,911</b>                               | 308,610                                 |
| <b>Financial liabilities at fair value through profit or loss</b> |  |   |
| Non-controlling interest put option                               | <b>23,601</b>                                | -                                       |
| Contingent consideration payable                                  | <b>5,621</b>                                 | -                                       |
|   | <b>29,222</b>                                | -                                       |
| <b>Total financial liabilities</b>                                | <b>371,133</b>                               | 308,610                                 |

**13. Commitments and contingencies**

- (a) As at December 31, 2018, the Group has outstanding commitments for future capital expenditures amounting to Saudi Riyals 43.6 million (March 31, 2018: Saudi Riyals 120.6 million).
- (b) As at December 31, 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 and December 18, 2018 the shareholders authorized dividends of Saudi Riyals 2 per share and Saudi Riyals 2 per share amounting to Saudi Riyals 65 million and Saudi Riyals 65 million respectively.

**16. Treasury shares**

In the Extraordinary General Assembly meeting of the Group held on December 18, 2018, the shareholders approved purchase of Company's shares upto 3,250,000 shares from own resources and thereby authorized the Board of Directors ("BOD") of SADAFCO to finalise the purchase transaction in one, or several phases, within a maximum period of 12 months from the date of this meeting. As of December 31, 2018, the Company has not purchased such shares.

**17. Approval and authorization for issue**

On January 23, 2019, these condensed consolidated interim financial information was authorized for issue by the Board of Directors.