

# Value Built on Values



Annual Report 2016



## Value Based on Values

Savola has grown and evolved over the years, crossing many national borders and impacting millions of lives across the MENAT (Middle East, North Africa and Turkey) region.

Our values have driven us forward during the good times, and protected us in lean years. We have always believed that the way we conduct business, and the core values we hold dear, are the crucial pillars of our success.

From our strong financial foundations, we strive to create value for shareholders and investors, customers, partners, employees and their families, and for all the communities in which we operate.

## STRATEGIC HIGHLIGHTS

### What were the key challenges in our core markets?

Savola's transition to being a strategic investment holding company continued apace during 2016, consolidating its formidable strengths as a national champion in the industry sectors where it operates.

This year's results were influenced by the challenging regional macro-economic environment in Saudi Arabia and Egypt, losses due to currency devaluation and shortages in Egypt, and an extraordinary inventory impact in our retail business.

Group revenue of SAR 25.3 billion was down slightly from 2015's SAR 25.1 billion, but operating income declined from SAR 1,785 million to SAR 832 million, resulting in an overall net loss of SAR 451 million in 2016, compared to net profit of SAR 1,792 million last year.

From a strategic perspective, 2016 results are indicative of the reconfiguration of Savola's assets in the Retail sector to address underperformance and build an agile platform in the face of a transforming economy through a carefully planned and managed transformation program, with a focus on customer-centricity.

In the Food sector, Savola's strength and stability are evident in the growing or sustaining of market shares by product category in each of the operating geographies, and the resilience of the total volumes sold.

Savola's business fundamentals remain strong, given its access to the large share of consumer wallet in its markets, presence in growth markets with rising household income in the medium to long term. The Group continues to be well positioned to benefit from long-term market trends.

## FINANCIAL HIGHLIGHTS

### Net income

SAR millions



### Revenues

SAR millions



### Gross profit

SAR millions



### Total assets

SAR millions



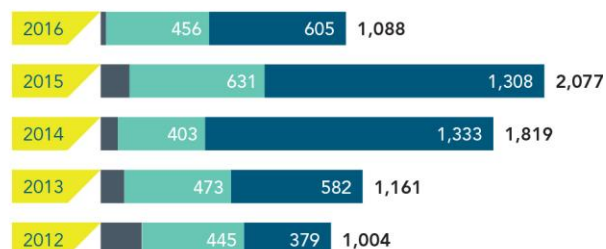
### Shareholders' equity

SAR millions



### Capital expenditure

SAR millions



● Other ● Savola Foods ● Panda Retail

## CHAIRMAN'S STATEMENT

### Why are we confident of creating new growth and opportunity?

On behalf of the Board of Directors, it is my privileged duty to present the Savola Group's 2016 annual report. In 38 years from establishment, we have become a regional leader in consumer businesses. Our growth has enabled us to improve the lives of millions of people through the products and services we provide, and through employment and investment we stimulate economic activity in every country we operate.

At home in Saudi Arabia, our Group's purpose and direction are aligned with the national objectives as encapsulated in the Vision 2030. We share long-term goals and expectations that are based on our respective strengths and capabilities. Our strategy is a reflection of what is happening at the national level, implemented in our core food and retail business.

The past year was one of transition for Savola. In the short-term, that process is challenging, as transformations usually are, but we believe that the changes being implemented – particularly in our retail business – will put us on a path towards a more secure and successful future.

The consumer sector is core to Vision 2030, and as the largest investor in food production and distribution, as well as modern grocery retail, this is equally fundamental to our own future – as a business and as a responsible corporate citizen.

#### Financial results

The Group recorded a net loss of SAR 451million for 2016, compared to a profit of SAR 1,792 million last year. During the year we booked impairment charges totaling SAR 574 million and earnings per share were negative at SAR (0.85).

These results were greatly affected by factors such as declining consumer spending and the steep reduction in the value of the Egyptian pound. Our management has taken steps to mitigate losses and make the changes required to reposition the business. The measures adopted were a pragmatic response to the circumstances and I am confident that the actions we are taking will help to improve the performance of our businesses.

We operate in long-term growth markets that we know and understand, and although there may be short-term volatility and a slow-down in growth, we have the robustness and resilience to address the challenges.

#### Positioned for growth

We are already market leaders by product category in the territories where we operate, possessing intimate knowledge of these markets and the trends that affect consumers. Our task now is to apply and optimize that knowledge, so that we can capture profitable growth opportunities through our businesses.

In March 2016, Rayan Mohammed Fayez joined as the new Chief Executive Officer, and it is my pleasure to welcome him to our team at such an important stage of our development. He brings a wealth of professional experience as we address the transition and future of the Group.

A new Savola Group Board of Directors was elected and Group audit committee appointed by the shareholders in July 2016 in line with the new Companies Law.

Looking ahead, I am confident that we are on the correct path to sustained growth and better results. As the macro-economic environment improves, we are well-positioned to capitalize on growth opportunities.

On behalf of the Board of Directors, I express gratitude and appreciation to our Government, shareholders, and executive management and employees. We look forward to continued excellence and success, and ask Allah to guide us.

Sulaiman A. Al Muhaidib  
Chairman

## BOARD OF DIRECTORS

**Sulaiman A. K. Al-Muhaidib**  
Chairman

**Bader A. Alissa**  
Board member

**Sami M. Baroum**  
Board member

**Abdulaziz I. M. Alissa**  
Board member

**Abdulaziz K. Al-Ghufaily**  
Board member

**Abdullah M. N. Rehaimi**  
Board member

**Essam A. Al-Muhaidib**  
Board member

**Omar H. N. Al-Farisi**  
Board member

**Fahad A. AlKassim**  
Board member

**Mohammad A. Al Fadl**  
Board member

**Mutaz Q. AlAzzawi**  
Board member

## CEO MESSAGE

### How are we capitalizing on our leadership strengths?

**Savola** is on an exciting and challenging journey to become a fully-fledged strategic investment holding company. Like all journeys, ours is marked with reaching and passing milestones. In this sense, we can reflect on 2016 as a definitive year in the evolution of Savola and I am delighted to have come on board and be part of this journey.

Overall, 2016 results were not in keeping with what we have come to expect from the Group. We have a long history of outstanding performance and temporary setbacks in the course of a single year should not be taken as portents for the future. Despite the challenges, we achieved a revenue of SR 25 billion. Our status as a national leader in the food and retail sectors is undiminished and we have every reason for optimism about what lies ahead.

Despite challenging conditions in several key markets, Savola Foods maintained revenue at SAR 11.8 billion on total sales volume of four million tons. Our leading market share in all geographies that we operate in testifies to our capabilities in marketing, sales and distribution.

Our retail business, Panda, experienced significant challenges in 2016. As the largest modern grocery retailer in Saudi Arabia with revenue of SAR 13.8 billion, we have felt the macro-economic challenges more keenly than others, simply because of the scale of the infrastructure we have built. However, we have taken effective remedial action – and continue to do so.

Almarai and Herfy, the Group's two main strategic investments, continue to yield excellent returns, providing exposure to attractive consumer categories in Saudi Arabia and the Gulf region. Together they yielded income of SAR 867 million in 2016.

#### Fit to deliver

Our focus in 2016 was to refine our operating model, in essence to get our organization 'fit to deliver'. We continue to capitalize on existing governance strengths, reinforcing our comprehensive controls and risk management functions as we enter the next phase of growth and expansion.

A full governance, risk, and compliance (GRC) system will be initiated in 2017. GRC combines the critical capabilities that must work together to achieve principled performance – integrating the governance, management, and assurance of performance, risk, and compliance activities. Branding, succession planning, and balance sheet efficiency have also been important considerations as we build a solid organizational base that will underpin our future.

New Companies' Law and related regulatory rules for listed joint stock companies were implemented in 2016. The Group has complied with the new regulations and is in the process of amending its bylaws and procedures, policies, and manuals to ensure continuous future compliance in every respect.

In my brief tenure so far, I have been very impressed by the caliber of the organization, its people, and the whole-hearted commitment to achieving our long-term goals.



I take this opportunity to thank the Group's shareholders for their support during 2016, our Board of Directors for their guidance and direction, and our executive management and employees for their commitment and efforts. Customers, suppliers, and business partners are integral to our continued success and I acknowledge their valued contribution.

**Rayan Mohammed Fayez**  
Chief Executive Officer

## EXECUTIVE MANAGEMENT TEAM

### **Rayan Mohammed Fayez**

Chief Executive Officer

Mr Fayez joined Savola in March 2016. He was previously Managing Director and Senior Country Officer for Saudi Arabia at JP Morgan Chase and has more than 15 years' experience in leading managerial positions with global banks and financial institutions in New York, London, and Saudi Arabia.

Mr Fayez is a board member of Panda Retail, Savola Foods, and several Savola Foods subsidiaries. He is also a board member of Almarai, Herfy, Knowledge Economic City, Tadawul (the Saudi Stock Exchange), Saudi Agricultural and Livestock Investment Company (SALIC), and Hassana Investment Company. He graduated with a Bachelor's degree in Mechanical Engineering from the Massachusetts Institute of Technology.

Mr Fayez is also currently the Acting Chief Executive Officer of Panda Retail.

### **Bader H. Al Aujan**

Chief Executive Officer, Savola Foods

Mr Al Aujan was appointed in 2014. Before this, he held senior management positions in diverse sectors, having been Group Managing Director of Aujan Industries, a Director of United Arab Can Manufacturing Company, and Managing Director of Muhaidib Foods.

Mr Al Aujan is a board member of Savola Foods, Afia International, Alexandria Sugar and Pasta, and United Sugar Company (Saudi Arabia and Egypt). His current directorships outside Savola Foods include KOUT International Catering Company (Kuwait). He graduated from King Saud University with a BSc in Mechanical Engineering.

### **Nouman Farrukh**

Chief Financial Officer

Mr Farrukh was appointed in 2014. He has more than 20 years' experience with the Group, having originally worked with Savola Bahrain in the 1990s, where he was responsible for management accounting. He has since held progressively senior positions, serving as Deputy CFO, Director Group Finance, and Senior General Manager Finance & IT.

Before joining Savola, Mr Farrukh spent five years with a Pakistan-based cement manufacturer as Assistant Manager, Cost & Budget. He holds professional qualifications in cost and management accountancy, and taxation management; is an Associate of the Institute of Cost & Management Accountants; and a Fellow of the Institute of Taxation Management.

**Huda Al Lawati**  
Chief Investment Officer

Ms Al Lawati joined Savola in August 2016. She previously spent 13 years at the Abraaj Group, most recently as Partner and Chief Investment Officer MENA and a member of the Investment Committee. She led its investment strategy and transactions across MENA, developing strong experience in deal sourcing, structuring, execution, portfolio management, and exits across several industries. Her investments included Kudu (Saudi Arabia), Careem (UAE), and Acibadem (Turkey). She began her career in 2001 with Schlumberger in Oman.

Ms Al Lawati is a member of the Young Arab Leaders and serves as a mentor under the Cherie Blair Foundation for Women. She holds a BSc in Neuroscience and a BA (Hons) in Business Economics from Brown University.

**Rania Al-Turki**  
Chief Human Capital Officer

Ms Al-Turki joined Savola from the National Commercial Bank in 2015, where she spent seven years in a number of HR-related roles, latterly as Head of People, Pay and Policy.

After graduating from Indiana State University with a Bachelor of Applied Science degree, she continued her studies in the USA at George Washington University, earning a Master's in Computer Science. In 2008, she undertook PhD studies at George Mason University in the USA. She has since gained further qualifications from the London Business School.

Ms Al-Turki's wide-ranging social engagement activities include volunteering with Helping Hand Foundation, Al Birr Foundation, the American Medical Student Association, the American Red Cross, and membership of the Board of Trustees for the Tawasul Program.

**Tarik M. Ismail**  
Executive Director, Corporate Affairs & Sustainability, and Board Secretary

Mr Ismail was appointed in 2013. He oversees Group Corporate Affairs and Sustainability, including the CSR, marketing and communications, and corporate services functions. He also manages the activities of the Board of Directors and serves as a board member of Panda Retail Company. Mr Ismail has been with the Group for seven years, having joined Panda in 2010.

He is Vice-President of the Jeddah Chamber of Commerce & Industry's Food & Beverage Businessmen Committee, and a committee member of the Corporate Social Responsibility Committee. He is also a board member of Tarahum (National Committee for Prisoners), a board member of the World CSR Congress, and an Advisory Board member of Jeddah University and Injaz-Saudi Arabia.

Mr Ismail has a BA in Management from the University of Dubai, an Honorary Doctorate from the World Federation of United Nations Friends, and a Certificate in Corporate Governance from the INSEAD International Directors Program.

## OUR STRATEGY

### Savola Group

Savola is a strategic investment holding company focused on the food and retail sectors. Our values guide strategic decision-making, particularly in creating financial, professional, and social value for all stakeholders.

Our strategic objectives include capitalizing on proven expertise in certain consumer-related businesses, while developing new categories that show potential for us to swiftly achieve brand leadership. Long-established food and retail presence has enabled a deep understanding of consumer behavior and needs across the region, which the Group looks to leverage for continued growth through existing and new investments.

Key drivers of the Group's strategy are deployment of resources, active ownership of assets, robust performance management, and strong corporate governance. Savola's long-term goal is to generate attractive and sustainable returns on capital employed, allocating capital dynamically, and creating long-term stakeholder value.

### Food investments

Savola Foods is a leader in basic branded consumer packaged goods and will continue to protect and consolidate its position within existing categories. We are also looking to expand and diversify into value added categories. Strategic objectives are to defend leadership in established products and markets, extend existing products into complementary areas, build outstanding new businesses and incubate emergent categories that can yield longer-term potential.

Strong foundations underpin this approach – our edible oil, sugar, and pasta brands are already market leaders in their respective geographies.

### Retail investments

Panda Retail is a leader in modern grocery retail in Saudi Arabia. It is implementing a strategic response to the macro-economic challenges that are changing the retail environment in Saudi Arabia and its need to transform its operations accordingly. This response is centered on a customer-centric approach that builds strong stakeholder partnerships. Our transformation will yield a value proposition by store format, enabling focus on efficiency in all areas: store yield, working capital efficiency, and human resources productivity.

The strategy builds on Panda's proud history, market leadership, and formidable geographic reach. There is great potential to exploit these strengths to enable a turnaround and continued success.

## PERFORMANCE REVIEW

### Food investments

Savola Foods' three core markets – Saudi Arabia, Egypt, and Iran – generated around 80 percent of revenue, with emerging markets – Turkey, Sudan, Algeria, and Morocco – contributing the balance in a very challenging year from a macro-economic perspective. Although net profit was lower than last year, we were able to maintain market share and volumes.

### How are we defending Savola Foods' long-standing market dominance?

#### Savola Foods

Savola Foods operates in seven markets across the MENAT region. It produces a range of high quality branded products including edible oil, vegetable ghee, sugar, pasta, seafood, and baked goods. These are marketed across 30 countries and leadership positions have been built in the main markets of the MENAT region.

Revenue of SAR 11.8 billion generated net reported profit of SAR 14.5 million after impairment charges of SAR 236 million. The strength of our brands was reflected in improved pricing and sales within premium segments, offsetting some of the foreign exchange losses. Total sales volume of 4.0 million tons across all geographies demonstrated the inherent stability of our operations.

A large portion of the negative impact came from the decline in the currency exchange rate and dollar availability issues in Egypt. The dollar value of the Egyptian pound fell from 7.83 at the beginning of the year to 18.7 at year-end, a problem accentuated by dollar denominated imports of 90 percent of Savola Foods' raw materials. The situation was compounded by the shortage of currency from official sources and the over-priced parallel market.

The resulting non-recurring losses in the fourth quarter impacted the value of certain assets and writing off goodwill related to the Egyptian sugar operations. These declines relating to forex losses and one-off impairment charges totaled SAR 575 million.

Nevertheless, we were able to reduce dollar liability in Egypt from \$387 million at the beginning of the year to less than \$90 million at close. One of the success stories is to convert United Sugar, Egypt business model from domestic sales to exports, reducing over-supply in the market and becoming largely self-sufficient in dollar provision by using outside sources for monetizing dollar flows into Egypt.

We entered into an agreement with the European Bank for Reconstruction and Development (EBRD) to make an equity investment of \$100 million in our sugar business in Egypt. The funding will help improve operational efficiency and competitiveness, as well as enhance health and environmental practices to meet international standards. The deal is expected to be closed during the first quarter of 2017.

Despite the challenges, our edible oil products performed well and we maintained leading shares in the difficult markets. In Saudi Arabia, we achieved record volumes and profitability.

Savola Foods has established a dedicated distribution business to fully leverage its product range in GCC, Levant and Yemen. In Egypt, a drop in volume was the result of a deliberate move to retrench from less profitable segments due to currency availability.

In Iran, profitability was lower compared to last year due to devaluation and changing government regulations with regard to product offering. However, market share was maintained and sales volume of 500,000 tons was in line with last year.

Turkey had a record year, despite the political and economic turbulence. Product innovation and relaunches sustained healthy margins compared to previous years. Our new Yudum sunflower frying oil is the first in the country and sunflower oil with Omega 3 was also launched, catering to the needs of the emerging health-conscious segment.

Hyper-inflation in Sudan and lower commodity prices in Algeria affected both countries severely, along with forex sourcing issues.

The sugar segment had a particularly challenging year but total volumes were maintained with Saudi Arabia compensating for Egypt. The pasta business in Egypt continues to record growth, with 292 KMT sold in 2016, up from 240 KMT in 2015.



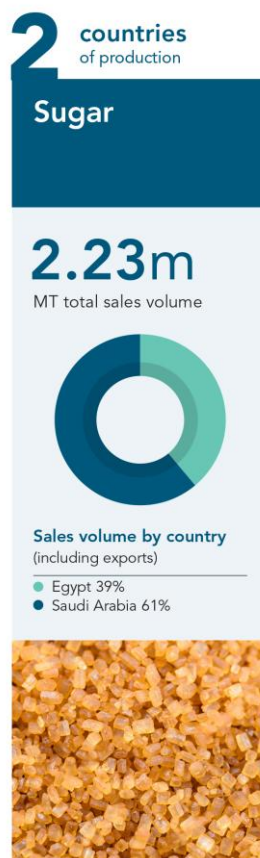
**Revenue by business line**  
(excluding distribution)

● Edible oils 61%  
● Sugar 35%  
● Pasta 4%



**Volume by business line**  
(excluding distribution)

● Edible oils 40%  
● Sugar 53%  
● Pasta 7%

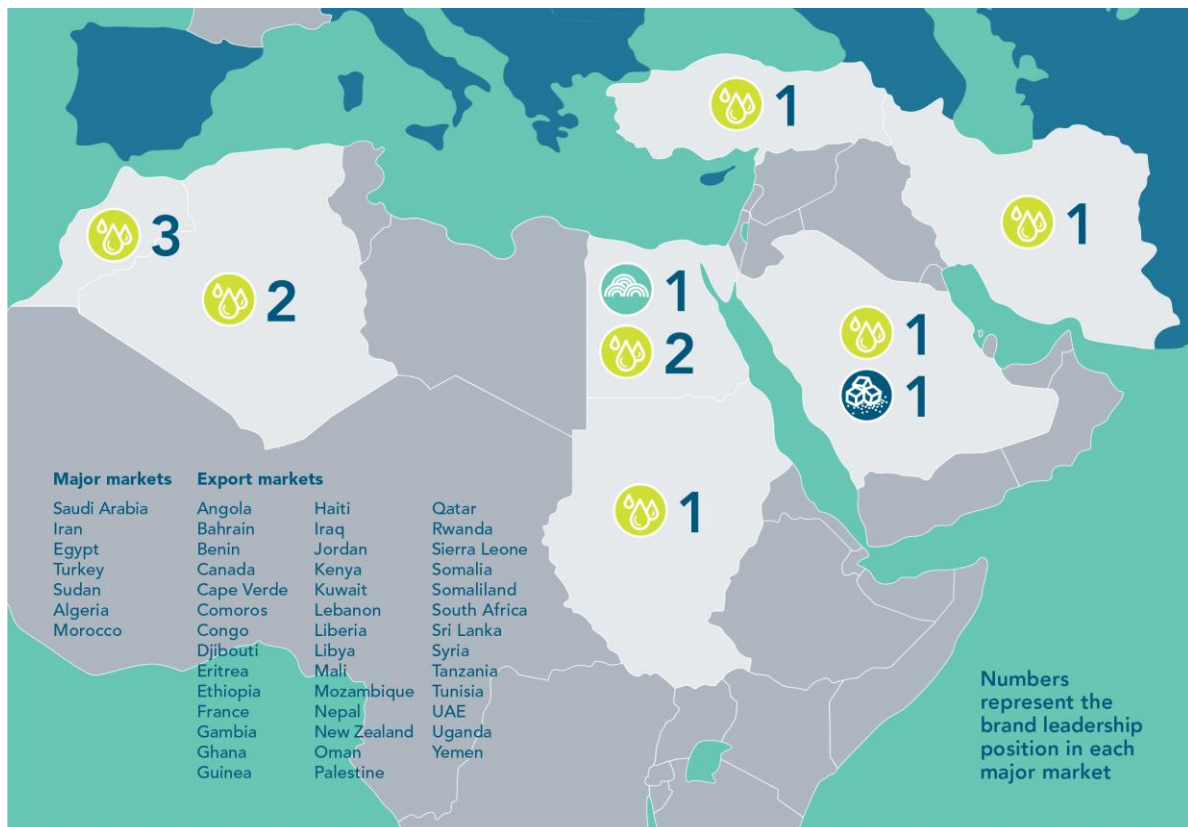
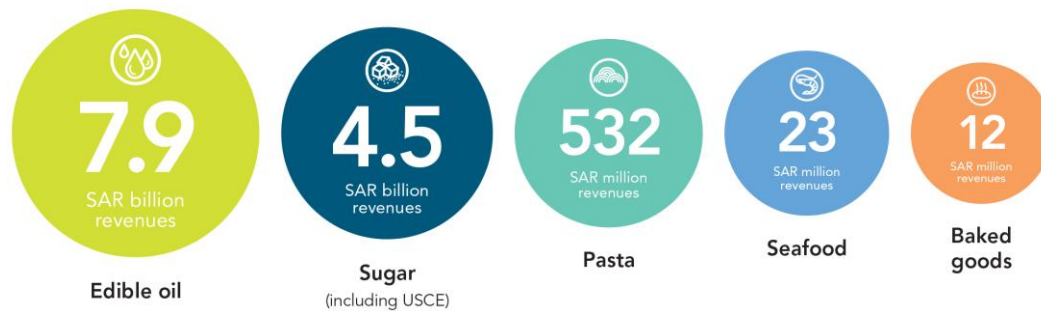


## Building for the future

Our joint venture with Thai Union to launch the John West brand across the region was initiated in 2016. The joint venture is capitalizing on our strengths in distribution and marketing. We have built up a baseline of product variants and have a strong pipeline of innovation.

Looking ahead, our priorities are to defend market leadership positions, building our brands and brand equity, and managing growth to our best advantage. International brands such as ours are supplanting local brands as markets evolve, and we invest significantly to sustain our position.

### What Savola Foods sells and where



## Almarai

With a 36.52% stake, Savola is the largest shareholder in Almarai, the world's largest vertically integrated dairy company and a broadly-based food group with diversified assets in juices, bakery, poultry products, and infant nutrition.

Almarai is the strongest brand in the region, with an outstanding record of achievement for shareholders. In 2016, the company delivered higher market share in most of its product categories while efficiency improvements helped boost net income growth.

Almarai achieved sales of SAR 14,698.7 million for the year, an annual increase of 6.6 percent. Gross profit amounted to SAR 5,833.6 million, up 10.4 percent on 2015's SAR 5,283.3 million. Diluted earnings per share, based on net income attributable to shareholders, rose from SAR 2.33 to SAR 2.52, yielding a contribution of SAR 762 million to Savola's net income.

Almarai's gross profit  
amounted to SAR 5,833.6  
million, 10.4 percent  
higher than 2015.





## PERFORMANCE REVIEW

### Retail investments

During 2016 Panda launched several initiatives focused on customer-centricity, which is at the heart of the company's transformation. About 100 underperforming convenience stores were closed, working capital was reduced, and our new customer loyalty program was launched. The positive impact of these initiatives is expected to be realized over the coming years.

### What immediate benefits have Panda's corrective actions achieved?

#### Panda Retail

Panda is the one of the largest modern retailers in the Middle East, operating three formats – hypermarket, supermarket, and convenience – and serving close to 134 million customers annually. Over the years, Panda invested in building up an extraordinary infrastructure in Saudi Arabia through aggressive expansion of stores and distribution capacity, making it the leader by selling space and market share.

However, the changing macro-economic environment in Saudi Arabia prompted a slow-down in consumer spending during 2015, a trend that gained further momentum in 2016. Due to the sheer scale of Panda's operations and the investment in its infrastructure – with presence in more cities than any other retailer in Saudi Arabia – it was disproportionately affected by market headwinds.

Performance of the store network fell below internal forecasts and the inventory held in anticipation proved high. Declining like-for-like sales, mainly attributable to a reduction in basket size across the supermarket and hypermarket formats, along with accumulation of excess stock, resulted in Panda recording a net loss of SAR 773 million compared to a profit of SAR 146 million a year earlier.

Although full-year revenue of SAR 13.8 billion was slightly ahead of 2015, gross margins were down from 23.8 percent to 19.4 percent.



#### New strategic impetus

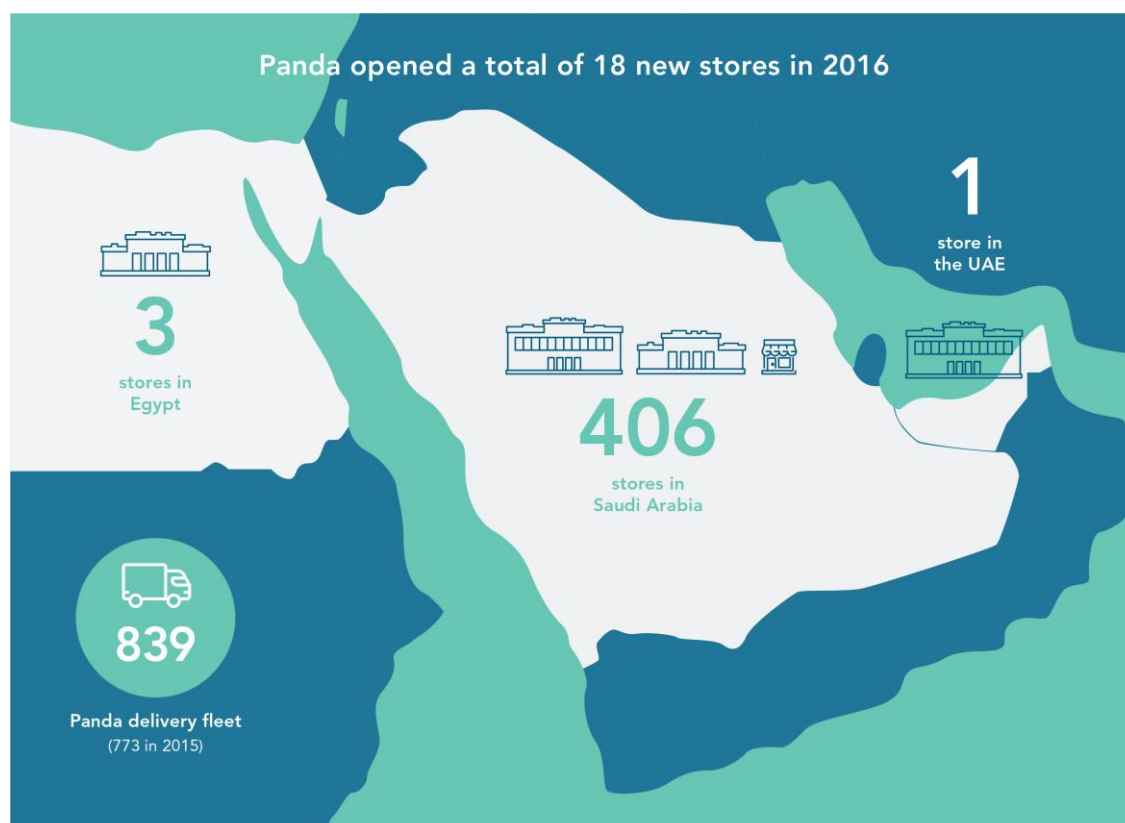
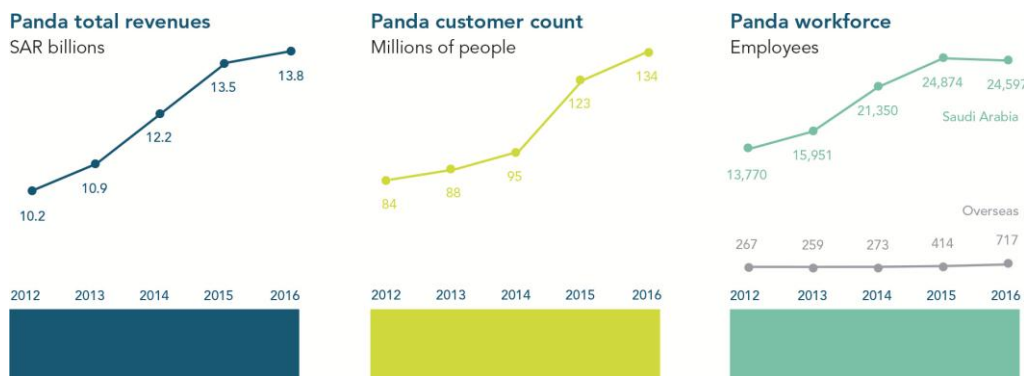
In response, a comprehensive transformation project was initiated during the second half of 2016, led by a new transformation committee that reports to the Panda Board of Directors.

The first initiative sought to reduce working capital by trimming inventory and stock levels. While this involved a one-off cost of SAR 399 million, it reduced inventory by around SAR 900 million within six weeks and generated exceptional customer response and awareness of the Panda brand.

The second initiative was Tawfeer, a new loyalty program that taps into the high penetration of smartphones and social media in Saudi Arabia. Tawfeer was launched on a digital platform with Saudi Arabia's only virtual membership card, part of Panda's mobile app, supported by a social media campaign and in-store activation. Initial response was outstanding.

Thirdly, Panda changed its organizational structure to become more customer-centric, along with streamlining logistics. The overall principles of transformation within Panda are being applied, moving from being centrally-managed to having a devolved plan for each format – hyper, super, and convenience.

The optimum strategy for the Pandati format is still being evaluated. The format is being reconfigured through store closures and layout changes, as well as reviewing and changing the range of product lines within the stores to improve traffic and sales.



## Formidable strengths

Saudi Arabia's grocery retail segment is strong, and will continue to be so, despite the slow-down. The country has a young population whose grocery shopping preference is distinctly aligned with modern retail where Panda is the undisputed leader. Modern retail accounts for a much smaller percentage of Saudi Arabia's grocery sector compared to some more developed economies. By offering superior operations and customer focus, Panda is ideally placed to gain customers progressing to the modern retail segment.

Panda has total market share of around 11.5 percent of total grocery retail in Saudi Arabia, more than double its nearest competitor. As a national operator, its unsurpassed market knowledge and experience is backed by unmatched physical infrastructure and a loyal customer base. The emphasis on customer-centricity, empowerment of people, and accountability are expected to be the catalysts igniting the company's future performance.



Panda market share in Saudi Arabia



New loyalty program members within 1 month



Pando



66 stores

Hypermarkets



55%

of total Panda revenues

HyperPanda



## Herfy

With a 49 percent stake in Herfy Food Services Company, Savola is the largest shareholder. Herfy is one of the largest restaurant, bakery and sweets, and meat processing businesses in Saudi Arabia.

Herfy recorded sales of SAR 1,156.7 million for 2016, a 7.4 percent increase over 2015. Gross profit of SAR 347.6 million was 8.36 percent higher than the previous year. Reported earnings per share rose from SAR 4.39 to SAR 4.71, yielding a contribution of SAR 105 million to Savola's net income. Sustained growth and yields are expected, due to the company's market position as a leader in convenience, menu options, and value.

Herfy recorded sales of SAR  
1,156.7 million for 2016, a 7.4  
percent increase over 2015.

7.4%



## OUR PEOPLE

Savola is committed to creating value for all stakeholders and investing in people is central to its philosophy. Our human resources approach is aligned to the corporate strategy of becoming a leading strategic investment holding company. Our aim is to achieve key business priorities while maintaining a value-driven culture, promoting outstanding performance, and fostering leadership.

Savola Human Resources (HR) functions as a strategic business partner to its internal clients while understanding the needs and wants of employees and channeling their voice. Our values are always the building blocks. We fundamentally believe that people in an organization flourish in the presence of a guiding set of ethical principles, and an environment marked by fair and appropriate governance.

### Employer of choice

We create value by attracting and developing a highly skilled workforce that will learn, lead, and respond to existing and future challenges. The over-riding objective is to be widely recognized as an employer of choice. We are building a talent management framework that is designed to ensure that we have the right supply of talented people who are equipped to accomplish strategic goals.

Our HR programs focus on talent acquisition and optimizing the workforce, employee engagement and retention, and a values-driven culture that is fair and transparent.



### Creating value for our people

Savola's employee value proposition is illustrated by the value creation model – 'Value Built on Values' – which encapsulates our vision and corporate culture. The employee value proposition framework combines four elements to create a positive work-life balance: career development, rewards and recognition, loyalty and affiliation, and work challenges.

#### Career development

Career growth and advancement opportunities start by identifying and addressing organizational and individual skill gaps, enhancing productivity, and encouraging career development.

Consequently, training responds to Savola's overall direction and each business's specific requirements, as well as employees' individual learning and development. Training needs are

identified and matched to our network of training providers, leading to personalized plans for each employee. Continuous post-training evaluation ensures that our exacting quality standards are maintained.

### Rewards and recognition

Savola's performance management system ensures that results are achieved by linking business objectives with individual performance. Performance is measured based on *what* is achieved, and *how* it is achieved. With an increased focus on teamwork, employee development, and customer service, we have put more emphasis on obtaining wide-ranging views on employees from a full spectrum of sources, introducing comprehensive feedback based on our behavioral competency frameworks.

### Loyalty and affiliation

We recognize the value of listening to employees, who are the number one driver of business success. The Group-wide employee engagement survey – Tower – measures topics and issues that affect employees' levels of engagement. Results are benchmarked against industry norms and best practice, and action plans arising from the survey help senior management to create an environment where employees can thrive and perform to their best.

### Work challenges

Savola's work environment is the result of achieving the optimum balance between professional challenge and human skills. By creating an environment that stimulates interest and enthusiasm, employees are able to perform to their best. And by appropriately matching work challenges to employee skill levels, they become engaged and involved in their daily activities.

## Creating value for the nation

Human resources are a crucial component of Saudi Arabia's Vision 2030, and people are fundamental to our own future – as a business and as a responsible corporate citizen. Areas of particular focus are diversification, women's empowerment, and people with disabilities.

We support female employees in a variety of ways, aiming to improve their work-family balance and empowering women in leadership positions. Savola is widely recognized as a market leader in executive female empowerment. Our priorities for employees with disabilities focus on integration and support – providing challenging opportunities, encouraging them to discover their full potential, and empowering decision-making. In this area too, Savola is acknowledged as a leader in the corporate sector.

### Savola Group total workforce

Employees



**73%**

Savola Headquarters nationalization rose to 73% compared to 60% in 2015



**32%**

Total KSA employees nationalization rose to 32% compared to 31% in 2015



## OUR COMMUNITY

In line with Savola's strategic direction and core values, our community initiatives have undergone rigorous review and analysis, resulting in a well-structured sustainability operation that is built on a sound strategy. The strategy aims to align Savola's sustainability goals with its overall organizational business objectives. Activities are therefore collectively aligned to the creation of social value.

Our goal is to achieve world-class standards of transparency and accountability while reaching out to and serving the communities in which we operate. We are further redefining priorities and ensuring that allocated resources follow this approach, adding value at a social level while contributing to business stimulus.

Savola has developed new initiatives and campaigns addressing key issues that affect our community. We have also revamped existing programs that focus on improving the competitiveness of the sector in which we operate, contributing to its growth and development. The sustainability programs being developed capitalize on Savola's corporate strengths and core competencies, backed by a digital outreach element and more robust communications support. Turning these ambitious plans into reality by early 2017 has entailed in-depth research, forming strategic partnerships and collaborations that would create value for all stakeholders and effect real change in the community.

This will create greater visibility for our programs, improving corporate social image and positioning Savola and its operating companies as 'sustainability game-changers', for whom sustainable development will be the only way of doing business. Measuring and tracking returns will be central to all investments, followed by reporting and communication of the net results.

Four elements underpin the overall goal:

- Establishing Savola's competitive edge in scalable sustainability initiatives
- Communicating Savola's practices and reinforcing its ethical brand positioning
- Measuring social return on investment
- Boosting external relationships with key stakeholders

The overarching theme is to leverage Savola's scale and outreach to address crucial issues across communities, employees, the environment, and the sector. Key issues, causes, and responses have been developed for each quadrant: community, employees, the environment, and society.

Savola's 'People with Disabilities' empowerment program – Makeen – has also undergone a business remodeling phase, with a new portal set for launch in 2017 that works to increase career opportunities for people with disabilities by connecting job seekers and employers through a dynamic and engaging platform. Increasing employability and expanding potential through research, training, and accessibility drives business competitiveness and value on a national level.

### Sustainability reporting

Savola achieved Global Reporting Initiative (GRI) certification at GRI-G4 level during 2015: the first organization in the food and retail sectors globally to do so, and the only one in Saudi Arabia.

GRI is an international and independent standards organization that helps businesses, governments, and other organizations understand and communicate their impacts on issues such as climate change, human rights, and corruption.

Its new G4 reporting level assesses sustainability levels in companies and institutions by performance indicators and social initiatives.

Savola's GRI-G4 accreditation reflects commitment to operating at the highest international level, and its well-established standards of corporate governance and transparency. GRI-G4 reporting enables Savola to disclose financial indicators and results, while communicating non-financial performance such as strategies, expectations, and achievements in terms of social responsibility, the environment, safety issues, and industrial security.

#### Injaz Saudi Arabia

Injaz is the world's largest non-profit organization dedicated to educating students and preparing them for the workplace. The program is based on the US Junior Achievement initiative, which started in 1919 and was adopted in the Arab world in 2004. Today, the program is implemented in a number of Arab countries. Savola has partnered with Injaz Saudi Arabia since 2010, being a board member in the Kingdom and one of its chief supporters. The Group also contributes financially and provides training venues and recognition awards to students.

#### Volunteering

More than 2,200 volunteers from Savola have contributed upwards of 670,000 hours to Injaz activities. Savola volunteers are also trained to deliver the Success Skills program for the visually impaired, where Savola is the sole sponsor. Employees also voluntarily support the Safeer initiative, which helps students enter the job market after graduation.

#### Qaderoon

Savola has become a member of the Ambassadors Group of Qaderoon, the business and disability network. The Ambassadors Group is a voluntary committee comprising people with various disabilities – hearing, vision, mobility, or intellectual – who share their career success stories and experiences to influence and inspire others. The objectives are to create more consideration for the rights and requirements of people with disabilities; inform people with disabilities about events and activities relating to training, employment, and inclusion; and encourage them to take up actual jobs and avoid phantom employment.



# Value Built on Values



## Section II:

Disclosures, Corporate Governance  
and Audit Committee Report, 2016

## FIRST: MAIN ACTIVITIES AND FINANCIAL DISCLOSURES

### A) Main activities of the Group

The Savola Group was established in 1979 as a publicly-listed joint stock company, with the objective of manufacturing and marketing edible oil and vegetable ghee in Saudi Arabia. Its operations are concentrated on food and retail business in the Middle East, North Africa, and Turkey (MENAT) region.

The Group has a broad portfolio of activities. In the foods sector, this is mainly the production and marketing of edible oils, vegetable ghee, sugar, and pasta. The retail sector operates a chain of hypermarkets, supermarkets, and convenience stores. Savola also has significant investments in leading Saudi listed and non-listed companies such as Almarai Co. and Herfy Food Services Co. (which operate in the food and retail sectors, respectively), and real estate development companies such as Knowledge Economic City and Kinan International Real Estate Development Co., as well as holdings in private equity funds.

**Savola's subsidiaries, sister companies, investments, activities, and country of incorporation are:**

No	Company name	Country of incorporation	Core activities	Country presence	Ownership % (direct and indirect)	Capital (nominal share value)	Number of Shares
<b>Foods sector</b>							
1.	Savola Foods Company	KSA	Foods (edible oils, ghee, sugar, and pasta)	Holding company manages the investment in foods sector in KSA and overseas	100%	SAR 2.2 billion	220,000,000
2.	Afia International Company	KSA	Edible oils and ghee	KSA, Gulf, Egypt, Iran, Turkey, Jordan	95.19%	SAR 500 million	50,000,000
3.	United Sugar Company	KSA	Sugar and sweeteners	KSA, Egypt	74.48%	SAR 395 million	395,000
4.	Savola Foods Emerging Markets Company	British Virgin Islands	Holding company	Algeria, Sudan, Morocco	95.43%	SAR 130 million	13,000,000
5.	El-Maleka for Food Industries Company	Egypt	Manufacturing of pasta	Egypt	100%	EGP 268.89 million	437,708
6.	El Farasha for Food Industries Company	Egypt	Manufacturing of pasta	Egypt	100%	EGP 20 million	20,000
7.	International Food Industries Company	KSA	Manufacturing of specialty fats	KSA	75%	SAR 30 million	3,000,000
8.	Afia International Distribution and Marketing Co.	KSA	Trading and Distribution	KSA	99%	SAR 200 thousand	200
9.	Seafood International Two FZCO	UAE	Fish and Seafood Trading	UAE	60%	AED 100 thousand	100
10.	Alexandria Sugar Co. – Egypt	Egypt	Sugar Manufacturing	KSA & Egypt	79.65% (indirectly)	EGP 1.008 billion	1,008,585

No	Company name	Country of incorporation	Core activities	Country presence	Ownership % (direct and indirect)	Capital (nominal share value)	Number of Shares
11.	Savola Foods Co. International	UAE	Holding Company	UAE	100%	AED 500 thousand	500
Retail sector							
12.	Panda Retail Company	KSA	Retail (hypermarkets, supermarkets, and convenience stores)	KSA, UAE (Dubai), and Egypt	91%	SAR 1.452 billion	145,284,000
Investment sector (non-managed)							
13.	Herfy Food Services Company	KSA	Foods and fast-food restaurants	KSA and some GCC countries	49%	SAR 462 million	46,200,000
14.	Almarai Company	KSA	Fresh food products	KSA	36.52%	SAR 8 billion	800,000,000
15.	Kinan International Real Estate Development Company	KSA	Real estate development	KSA	29.9%	SAR 1.694 billion	169,400,000
16.	Knowledge Economic City Company	KSA	Real estate development	KSA	11.5%	SAR 3.39 billion	339,300,000
17.	Taameer Jordan Holding Company	Jordan	Real estate development	Jordan	5%	JOD 86.4 million	4,342,105
18.	Dar Al Tamleek Company	KSA	Real estate development	KSA	5%	SAR 1 billion	100,000,000
Operating subsidiaries (noted in 2016 financial statements clarifications)							
19.	Al Matoun International for Real Estate Investment Holding Co.	KSA	Real estate	Saudi Arabia	80%	SAR 100 million	100,000
20.	United Sugar Company of Egypt (USCE)	Egypt	Sugar manufacturing	Egypt	19.32% direct and 56.75% through United Sugar Company	USD 156 million	15,600,000
21.	Giant Stores Trading Company Ltd.	KSA	Retail	Saudi Arabia	10% direct and 90% through Panda Retail Co	SAR 0.5 million	500
22.	Savola Industrial Investment Company	KSA	Holding company	Saudi Arabia	5% direct and 95% through Savola Foods Co.	SAR 205.9 million	205,907
Non-active subsidiaries and special purpose vehicles							
23.	Adeem Arabia Company Ltd.	KSA	Holding company	Saudi Arabia	100%	SAR 1 million	10,000
24.	Al Utur Arabian Holding Company for Commercial Investment	KSA	Holding company	Saudi Arabia	100%	SAR 1 million	10,000

No	Company name	Country of incorporation	Core activities	Country presence	Ownership % (direct and indirect)	Capital (nominal share value)	Number of Shares
25.	Al Mojammatt Al Mowahadah Real Estate Company	KSA	Holding company	Saudi Arabia	100%	SAR 2 million	200,000
26.	Madarek Investment Company	Jordan	Holding company	Jordan	100%	JOD 1 million	1,000,000
27.	United Properties Development Company	KSA	Dormant company	Saudi Arabia	100%	SAR 4 million	400
28.	Afia Foods Arabia	KSA	Dormant company	Saudi Arabia	100%	SAR 1 million	1,000
29.	Seera City for Real Estate Development	KSA	Real estate development	Saudi Arabia	40%	SAR 20 million	200,000
30.	Knowledge Economic City Development Co.	KSA	Real estate development	Saudi Arabia	20.72%	SAR 830 million	83,000,000
31.	Savola Foods for Sugar Co.	Cayman Islands	Dormant company	-	95%	USD 50 thousand	5,000
Non-active subsidiaries and holding subsidiaries that were transferred to Savola Foods Co (noted in the 2016 financial statements clarifications)							
32.	Al Maoun International Holding Company	KSA	Dormant company	Saudi Arabia	-	SAR 1 million	1,000
33.	Marasina International Real Estate Investment Ltd.	KSA	Holding company	Saudi Arabia	-	SAR 200 thousand	200
Non-active subsidiaries and holding subsidiaries that were liquidated (noted in the 2016 financial statements clarifications)							
34.	Kafazat Al Kawniah for Real Estate Ltd	KSA	Holding company	Saudi Arabia	-	SAR 200 thousand	200
35.	Alwaqat Al Kawniah Ltd	KSA	Holding company	Saudi Arabia	-	SAR 200 thousand	200
36.	Aalinh Al Kawniah Ltd	KSA	Holding company	Saudi Arabia	-	SAR 200 thousand	200
37.	Abtkar Al Kawniah Ltd	KSA	Holding company	Saudi Arabia	-	SAR 200 thousand	200
38.	Asda'a International Real Estate Investment Ltd.	KSA	Holding company	Saudi Arabia	-	SAR 200 thousand	200
39.	Masa'ay International Real Estate Investment Ltd.	KSA	Holding company	Saudi Arabia	-	SAR 200 thousand	200
40.	Saraya International Real Estate	KSA	Holding company	Saudi Arabia	-	SAR 200 thousand	200

No	Company name	Country of incorporation	Core activities	Country presence	Ownership % (direct and indirect)	Capital (nominal share value)	Number of Shares
	Investment Ltd.						
41.	Kamin Al Sharq for Industrial Investments Co.	KSA	Dormant company	Saudi Arabia	-	SAR 500 thousand	5,000
42.	Arabian Sadouk for Telecommunications Company	KSA	Dormant company	Saudi Arabia	-	SAR 500 thousand	5,000
43.	Almustabsheroon International For Real Estate Development	KSA	Dormant company	Saudi Arabia	-	SAR 200 thousand	200
44.	Savola Trading International Ltd.	BVI	Dormant company	BVI	-	SAR 375 thousand	100,000

## B) Consolidated performance of the Group

### B-1) Consolidated 2016 income statement and year-on-year comparisons

No	Income statement	2016 (SAR'ooo)	2015 (SAR'ooo)	Variance + or (-) (SAR'ooo)	Variance %
1	Revenues – net	25,312,384	25,125,596	(186,788)	0.7%
2	Cost of revenue	(20,875,996)	(20,100,206)	(775,790)	3.9%
3	Gross profit	4,436,388	5,025,390	(589,002)	-11.7%
4	Share in net results of associates and dividend income of available-for-sale investments - net	782,576	796,114	(13,538)	-1.7%
5	Total income	5,218,964	5,821,504	(602,540)	-10.4%
6	Selling and marketing expenses	(3,646,970)	(3,454,515)	(142,455)	5.6%
7	General and administrative expenses	(739,584)	(581,619)	(157,965)	27.2%
8	Total expenses	(4,386,554)	(4,036,134)	(350,420)	8.7%
9	Income from operations	832,410	1,785,370	(952,960)	-53.4%
10	Insurance claim reimbursement	-	126,500	(126,500)	-100.0%
11	Gain on disposal of investments	-	265,152	(265,152)	-100.0%
12	Gain on disposal of land	-	38,820	(38,820)	-100.0%
13	Financial charges – net	(549,709)	(167,394)	(382,315)	228.4%
14	Impairment loss	(573,892)	-	(573,892)	100.0%
15	(loss)/income before zakat, tax and non-controlling interest from continuing	(291,191)	2,048,448	(2,339,639)	-114.2%

	operations				
16	(loss)/income from discontinued operations	(176,260)	1,161	(177,421)	-15282%
17	(Loss)/income before zakat, tax and non-controlling interest	(467,451)	2,049,609	(2,517,060)	-122.8%
18	Zakat and foreign income tax	(156,900)	(138,505)	(18,395)	13.3%
19	Net (loss)/income before minority interests	(624,351)	1,911,104	(2,535,455)	-132.7%
20	Net loss/(income) attributable to non-controlling interests	173,043	(119,357)	292,400	-245.0%
21	Net (loss) income	(451,308)	1,791,747	(2,243,055)	-125.2%

Notes: Certain comparative figures in the financial statements have been reclassified to conform to this year's presentation.

## B-2) Reasons for variance (as mentioned in the above table)

The Group recorded a net loss for the year ended 31 December 2016 compared to the profit achieved in the same period last year. The variance in the Group results is attributable to:

- Non-recurring items booked in 2016 comprised impairment of assets and goodwill related to Egypt operations in Savola Foods Company of gross SAR 302mn (net impact to the Group SAR 245mn), inventory reduction costs in Panda Retail Company of gross SAR 377mn (net impact to the Group SAR 343mn), and impairment of non-core investments of SAR 272mn.
- Lower share of net income from an associate.
- Capital gain recorded from disposal of Savola Packaging Systems Co in 2015 (SAR 265mn).
- Gain on sale of land of SAR 38.8 mn and gross insurance proceeds of SAR 126.5mn recorded in 2015.
- Lower gross profit, mainly due to lower margins in Retail sector and one-off charge to reduce inventory.
- Increased financial charges mainly due to currency exchange losses.
- Higher zakat and income tax.
- Higher losses from USCE due to higher currency exchange, lower margins, and increased operating expenses, mainly driven by growth in Retail operations.
- This recorded loss came despite positive impact of reduced minority interests and non-recurring net positive impact for the Group of SAR 26mn for reinstatement from 'held for sale' of the classification of edible oil subsidiary of Savola Foods Company in Morocco.

### B-3) Consolidated financial statements 2012-2016

#### B-3-1) Consolidated income statement 2012-2016

No	Income	2016 (SAR'ooo)	2015 (SAR'ooo)	2014 (SAR'ooo)	2013 (SAR'ooo)	2012 (SAR'ooo)
1.	Revenues – net	25,312,384	25,125,596	26,587,842	25,280,718	27,391,493
2.	Cost of revenue	(20,875,996)	(20,100,206)	(21,724,122)	(20,507,182)	(22,599,544)
3.	Gross profit	4,436,388	5,025,390	4,863,720	4,773,536	4,791,949
4.	Share in net results of associates and dividend income of available-for-sale investments - net	782,576	796,114	977,588	760,379	578,567
5.	Total income	5,218,964	5,821,504	5,841,308	5,533,915	5,370,516
6.	Selling and marketing expenses	(3,646,970)	(3,454,515)	(2,723,492)	(2,443,192)	(2,323,952)
7.	General and administrative expenses	(739,584)	(581,619)	(663,128)	(600,996)	(590,317)
8.	Total expenses	(4,386,554)	(4,036,134)	(3,386,620)	(3,044,188)	(2,914,269)
9.	Income from operations	832,410	1,785,370	2,454,688	2,489,727	2,456,247
10.	Insurance claim reimbursement	-	126,500	-	-	-
11.	Gain on disposal of investments	-	265,152	209,700	231,411	46,651
12.	Gain on disposal of land	-	38,820	-	-	-
13.	Financial charges – net	(549,709)	(167,394)	(236,553)	(240,167)	(427,381)
14.	Impairment loss	(573,892)	-	(67,400)	(100,000)	-
15.	(loss)/income before zakat, tax and non- controlling interest from continuing operations	(291,191)	2,048,448	2,360,435	2,380,971	2,075,517
16.	(loss)/income from discontinued operations	(176,260)	1,161	50,285	69,519	-
17.	(Loss)/income before zakat, tax and non- controlling interest	(467,451)	2,049,609	2,410,720	2,450,490	2,075,517
18.	Zakat and foreign income tax	(156,900)	(138,505)	(180,426)	(303,321)	(268,148)
19.	Net (loss)/income before minority interests	(624,351)	1,911,104	2,230,294	2,147,169	1,807,369
20.	Net loss/(income) attributable to non-controlling interests	173,043	(119,357)	(157,975)	(442,688)	(405,160)
21.	Net (loss) income	(451,308)	1,791,747	2,072,319	1,704,481	1,402,209

### B-3-2) Consolidated balance sheet 2012-2016

No	Balance Sheet	2016 (SAR'ooo)	2015 (SAR'ooo)	2014 (SAR'ooo)	2013 (SAR'ooo)	2012 (SAR'ooo)
1.	Current assets	8,030,287	9,331,719	10,237,717	9,040,383	8,544,892
2.	Current liabilities	9,924,791	9,967,229	10,161,490	9,102,352	9,302,929
3.	Working capital	(1,894,504)	(635,510)	76,227	(61,969)	(758,037)
4.	Current assets	8,030,287	9,331,719	10,237,717	9,040,383	8,544,892
5.	Other non-current assets	9,228,550	9,790,923	9,408,393	9,339,515	9,016,692
6.	Property, plant, and equipment	6,864,808	7,852,721	6,755,516	6,382,958	5,779,951
7.	Total assets	24,123,645	26,975,354	26,401,626	24,762,856	23,341,535
8.	Current liabilities	9,924,791	9,967,229	10,161,490	9,102,352	9,302,929
9.	Long-term loans	4,217,478	4,579,096	4,602,713	4,126,378	3,612,246
10.	Other liabilities	863,730	922,963	709,371	642,581	544,308
11.	Total liabilities	15,005,999	15,469,288	15,473,574	13,871,311	13,459,483
12.	Paid-up capital	5,339,807	5,339,807	5,339,807	5,339,807	5,000,000
13.	Retained earnings and reserves	3,143,560	5,210,222	4,626,359	4,311,170	3,286,670
14.	Shareholders' equity	8,483,367	10,550,029	9,966,166	9,650,977	8,286,670
15.	Minority interests	634,279	956,037	961,886	1,240,568	1,595,382
16.	Total liabilities and shareholders' equity	24,123,645	26,975,354	26,401,626	24,762,856	23,341,535

Note: Certain comparative figures in the financial statements have been reclassified to conform to this year's presentation.

### B-4) Geographical analysis of 2016 revenues compared to last year

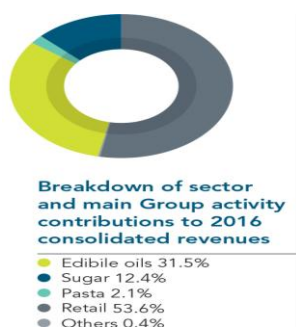
Below is the Group's consolidated revenue for 2016 compared to the previous year, based on the sector and various activities of the Group (edible oils and vegetable ghee, sugar and sweeteners, pasta, and retail sector), including geographical analysis based on brands and the countries where they are available:

No	Business line/country	Products/brands	2016 (SAR'ooo)	2015 (SAR'ooo)
Edible oil and vegetable ghee				
1.	KSA, GCC, and Yemen	Afia, Al-Arabi, Olite, Shams, Sun Glow, Dalal, Canola Afia	2,241,154	2,093,149
2.	Egypt	Rawabi, Afia, Ganna, Slite, Helwa	1,108,264	1,303,857
3.	Iran	Ladan, Aftab, Bahar, Afia	2,755,529	2,701,598
4.	Sudan	Al Tayeb, Sabah, Shams	320,928	717,946
5.	Morocco	Afia, Hala	303,525	275,532



6.	Turkey	Yudum, Sirma	891,376	945,385
7.	Algeria	Afia, Oleor	472,412	467,466
8.	Total edible oil		8,093,188	8,504,933
Sugars and sweeteners				
9.	KSA, GCC, and Yemen	Al Osra, Ziadah, Safaa, Nehar, Halla, Sweeva	2,848,025	2,477,731
10.	Egypt	Al Osra	339,580	324,859
11.	Total sugars and sweeteners		3,187,605	2,802,590
Pasta product – Egypt				
12.	Total pasta product	El Maleka, Macaronto, Italiano	532,142	527,301
Seafood products				
13.	Total seafood products-UAE		22,787	-
14.	Total Afia International Distribution and Marketing Co. - KSA		1,142,507	-
15.	Intercompany elimination		(1,196,615)	(22,620)
16.	Total foods		11,781,614	11,812,204
Retail				
17.	KSA	Hyper Panda, Panda Supermarket, and Pandati	13,349,659	13,209,968
18.	United Arab Emirates/Dubai	Hyper Panda	303,509	312,660
19.	Egypt	Panda Super	35,636	10,103
20.	Total retail		13,778,804	13,532,731
Others				
21.	Real estate, KSA		137,611	144,856
22.	Total other activities		137,611	144,856
23.	Gross revenues		25,698,029	25,489,791
24.	Consolidated intercompany elimination		(385,646)	(364,195)
Total revenues			25,312,384	25,125,596

**Breakdown of sector and main Group activity contributions to 2016 consolidated revenues**



## C) Long- and short-term loans of the Group and subsidiaries

Savola has a long-standing policy to adopt Shariah-compliant financial transactions wherever possible. Accordingly, all Group loans and deposits within Saudi Arabia are Shariah-compliant, as well as some arranged by overseas subsidiaries.

As part of these efforts, the Group issued, three years ago, its first tranche of Sukuk in 2013. However, some loans arranged by overseas subsidiaries are subject to structure and policies adopted in those countries, which may differ from those in Saudi Arabia.

Finance charges for Group loans (short-term and long-term borrowings) from various commercial banks and financial institutions that Savola secured during 2016 (at prevailing market rates ) reached SAR 383.1 million compared to SAR 365.5 million in the previous year. With regards to loan guarantees granted by the Group to its subsidiaries (see table below), the Group usually signs promissory notes as a guarantee to its own loan and a corporate guarantee for some of its subsidiaries' loans, according to the requirements of the lending banks or financial institutions.

Details of long-term and short-term loans of the Group and its subsidiaries obtained in the normal course of business:

### C-1) Long-term loans as of 31 December, 2016 (SAR '000)

	Borrowing company	Lender	Loan period	Date issued	Original amount	Paid amount in 2016	Balance Dec '2016	Balance Dec '2015
1	Savola	Banque Saudi Fransi	5 years	Dec-13	500,000	153,846	153,846	307,692
		Bank Al Jazira	2 years	Dec-14	250,000	250,000	-	250,000
			2 years	Dec-16	250,000	-	250,000	-
			2 years	Dec-14	200,000	200,000	-	200,000
			2 years	Dec-14	200,000	200,000	-	200,000
		Saudi Investment Bank	5 years	Dec-12	250,000	62,500	62,500	125,000
			5 years	Mar-12	500,000	31,250	-	31,250
		National Commercial Bank	5 years	Oct-16	500,000	-	500,000	-
		Sukuk	7 years	Jan-13	1,500,000	-	1,500,000	1,500,000
Savola Group							2,466,346	2,613,942
2	Panda	Banque Saudi Fransi	5 years	Mar-14	500,000	-	500,000	500,000
		Samba Financial Group	2 years	Dec-14	50,000	50,000	-	50,000
		National Commercial Bank	4 years	Jul-15	300,000	-	300,000	300,000
		Saudi British Bank	5 years	Dec-15	300,000	30,000	270,000	300,000
			6 years	Dec-16	400,000	-	400,000	-
		Al Rajhi Bank	4 years	Mar-16	250,000	-	250,000	-
Panda Retail Company							1,720,000	1,150,000

3	Afia-KSA	Saudi British Bank	5 years	Dec-14	350,000	12,500	309,375	321,875
			4 years	Mar-15	100,000	100,000	-	100,000
	Kugu	HSBC	8 years	Jan-11	62,475	10,413	26,031	36,444
	Afia-Egypt	Emirates NBD	5 years	Jan-16	13,656	-	13,656	-
			5 years	Jan-16	11,386	-	11,386	-
Afia International Co							360,448	458,319
	Afia Algeria	Fransabank	5 years	Oct-12	21,113	4,311	-	4,311
			2 years	Aug-15	6,236	-	6,236	6,236
	Savola Edible Oils Sudan	Bank of Khartoum	3 years	May-16	4,268	-	4,268	-
			3 years	May-16	4,371	-	4,371	-
			3 years	May-16	543	-	543	-
			3 years	Jul-16	280	-	280	-
Savola Foods Emerging Co							15,698	10,547
5	El Maleka for Food Industries	Qatar National Bank	5.3 years	Feb-14	9,890	3,036	6,854	9,890
			3.5 years	Dec-15	4,975	4,975	-	4,975
		National Bank of Kuwait	5.5 years	Sep-14	7,587	168	-	168
			4 years	Nov-15	19,247	19,247	-	19,247
			4 years	Mar-16	17,744	11,203	6,541	-
			4 years	Mar-16	3,323	442	2,881	-
Pasta							16,276	34,280
6	USC	Banque Saudi Fransi	2 years	Dec-14	100,000	100,000	-	100,000
	ASC Egypt	Commercial International Bank	7 years (Dec'2016 loan value changed due to devaluation)	Mar-10	529,937	198,016	288,092	487,870
		Egyptian Saudi Finance Bank (Al Baraka Bank)	10 years (New Loan Period)	Jul-09	24,366	422	1,625	2,047
	USC Egypt	Standard Chartered Bank	6 years	Aug-11	187,500	23,841	-	23,841
	Alexandria UCLR	National Bank of Kuwait	5 years (Dec'2016 loan value changed due to devaluation) (New Loan Period)	Jan-15	77,512	-	34,987	57,035
Savola Industrial Investment Co							324,704	670,793
7	IFI	Saudi British Bank	4.75 years	Nov-15	170,000	10,625	159,375	170,000
International Foods Industries Co							159,375	170,000

	Total long-term loans	5,062,847	5,107,881
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## C-2) Short-term loans as of 31 December, 2016 (SAR '000)

No	Borrowing company	Lender	Loan period	Date issued	Balance Dec '2016	Balance Dec '2015
1	Savola	Al Rajhi Bank	6 months	Aug-16	120,000	
			6 months	Nov-16	140,000	
			6 months	Nov-16	90,000	
			6 months	Dec-16	50,000	
			6 months	Dec-16	100,000	
			6 months	Dec-16	90,000	
			6 months	Dec-16	60,000	
		Saudi British Bank	3 months	Nov-16	240,000	
		Saudi Investment Bank	6 months	Nov-16	198,803	
			3 months	Dec-16	60,016	
		Riyad Bank	1 month	Dec-16	130,000	
			1 month	Dec-16	100,000	
		Samba Financial Group	1 month	Dec-16	80,000	
			1 month	Dec-16	70,000	
Savola Group					1,528,819	1,505,000
2	Panda	Saudi British Bank	3 months	Nov-16	140,000	
		Banque Saudi Fransi	3 months	Dec-16	80,000	
		Samba Financial Group	1 month	Dec-16	50,000	
		National Commercial Bank	1 month	Dec-16	150,000	
			1 month	Dec-16	85,000	
Panda Retail Company					505,000	960,000
3	Afia Arabia	Saudi British Bank	3 months	Nov-16	90,000	
			1 month	Dec-16	110,000	
		Samba Financial Group	15 days	Dec-16	190,000	
4	Afia International Egypt	Arab African International Bank	1 year	Sep-16	3,045	
		HSBC	1 year	Aug-16	87,682	
		Emirates NBD	1 year	Aug-16	7,462	
		Al Baraka Bank Egypt	1 year	Nov-16	13,785	
		National Bank of Kuwait	1 year	Jul-16	29,989	
		National Bank of Abu Dhabi	1 year	Oct-16	8	
		Mashreq Bank	1 year	Nov-16	4	
5	Behshahr Industrial Co	Mellat Bank	1 year	Mar-16	23,727	
6	Yudum	Finansbank AS	1 year	Dec-16	12,936	
		European Bank for Reconstruction and Development	1 year	Dec-16	39,876	

Afia International Co					608,514	587,318	
7	Afia International Algeria	Fransabank	6 Months	Oct-16	20,281		
			3 Months	Oct-16	4,224		
		Arab Bank	6 Months	Aug-16	43,413		
		HSBC	6 Months	Aug-16	15,756		
8	Savola Morocco	Attijari Wafa Bank	2 Months	Nov-16	18,716		
		Credit Du Maroc	1 month	De-16	30,068		
9	Savola Sudan	National Bank of Egypt	9 months	May-16	828		
			9 months	Aug-16	2,171		
			9 months	Aug-16	1,546		
		Arab Sudanese Bank	9 months	May-16	78		
			9 months	Jun-16	50		
			9 months	Jul-16	93		
			9 months	Dec-16	1,446		
			9 months	Dec-16	1,671		
			Bank of Khartoum	8 months	Jun-16	3,117	
				8 months	May-16	684	
		8 months		Sep-16	3,488		
		8 months		Oct-16	2,367		
		8 months		Nov-16	3,105		
		8 months	Dec-16	12,826			
		8 months	Dec-16	9,853			
		Qatar National Bank	12 months	Aug-16	7,245		
		Sudanese Islamic Bank	8 months	Dec-16	133		
Savola Foods Emerging Co					183,159	229,510	
10	Elmaleka for Food Industries	Emirates NBD	6 months	Sep-16	6,268		
		National Bank of Kuwait	6 months	Sep-16	45,783		
		Qatar National Bank	6 months	Sep-16	716		
11	AL Farashah for Food Industries	Qatar National Bank	6 months	Sep-16	5,136		
Pasta					57,903	36,238	
12	United Sugar Co	National Commercial Bank	1 month	Dec-16	30,000		
			1 month	Dec-16	200,000		
			1 month	Dec-16	50,000		
		Saudi British Bank	1 month	Dec-16	290,000		
		Samba Financial Group	1 month	Dec-16	90,000		
13	Alexandria Sugar Co	Commercial International Bank	1 year	Oct-16	22,920		
			1 year	Oct-16	22,543		
		Bank of Alexandria	1 year	Nov-16	26,278		
			1 year	Nov-16	17,749		
14	Alexandria UCLR	National Bank of Kuwait	1 year	Sep-16	7,944		
Savola Industrial Investment Co					757,434	1,131,808	

<b>Savola Foods Company</b>	Saudi Investment Bank	2 month	Dec-15	-	<b>31,883</b>
<b>Total short-term borrowing</b>				<b>3,640,829</b>	<b>4,481,757</b>

#### D) Summary of payments made to the Government

No	Item description (payments)	2016 (SAR'ooo)	2015 (SAR'ooo)
1.	Customs duties/fees	324,397	180,194
2.	Zakat, income tax, and withholding tax	143,118	157,575
3.	GOSI (Saudi Arabia) and social insurance (outside Saudi Arabia)	121,530	127,763
4.	Visa and Government fees	80,206	63,576
5.	Other duties and Government levies	2,432	13,475
<b>Total</b>		<b>671,683</b>	<b>542,583</b>

## SECOND: GOVERNANCE REPORT AND RELATED DISCLOSURES

### A) Key developments and decisions in 2016

#### Significant events during 2016, detailed in Tadawul announcements

No	Date	Announcement
1	12/01/2016	Addendum to the announcement from the Savola Group regarding the expected financial impact of the increase in energy products prices and electricity tariffs
2	19/01/2016	Savola Group announces the appointment of a new chief executive officer
3	20/01/2016	Savola Group announces the opening of nominations for the Board of Directors for the new term of office
4	20/01/2016	Savola Group announces interim financial results for the period ending on December 31, 2015 (twelve months)
5	20/01/2016	Savola Group announces distribution of dividends to shareholders for the fourth quarter of 2015
6	11/02/2016	Savola Group announces the resignation of a member of the Board of Directors
7	24/02/2016	Savola Group announces annual financial results for the period ending on December 31, 2015
8	06/03/2016	Savola Group invites attendance at the Extraordinary General Assembly (29)
9	29/03/2016	Savola Group announces the signing of a shareholders' agreement along with the other shareholders of United Sugar Company of Egypt and the European Bank for Reconstruction and Development
10	18/04/2016	Savola Group issues reminder of invitation to attend the Extraordinary General Assembly (29)
11	20/04/2016	Savola Group announces the results of the Extraordinary General Assembly
12	20/04/2016	Savola Group announces interim financial results for the quarter ending on March 31, 2016
13	20/04/2016	Savola Group announces distribution of dividends to shareholders for the first quarter of 2016
14	21/04/2016	Savola Group announces the date of distribution of 2015 Q4 dividends
15	26/06/2016	Savola Group announces the appointment of the Chairman of the Board and forms the new Board's committees for the new term of office
16	29/06/2016	Savola Group makes a follow-up announcement related to the appointment of the Chairman of the Board and the formation of the sub-committees for the new term of office
17	29/06/2016	Savola Group invites attendance at the Ordinary General Assembly (38)
18	25/07/2016	Savola Group issues reminder to attend the Ordinary General Assembly (38)
19	27/07/2016	Savola Group announces the results of the Ordinary General Assembly (38)
20	28/07/2016	Savola Group announces interim financial results for the six months to June 30, 2016
21	28/07/2016	Savola Group announces distribution of dividends to Shareholders for the second quarter of 2016
22	31/08/2016	Savola Group announces its progress on transition to International Financial Reporting

		Standards (IFRS), adhering to Phase I disclosure requirements
23	20/10/2016	Savola Group announces interim financial results for the nine months ending on September 30, 2016
24	20/10/2016	Savola Group announces distribution of dividends to shareholders for the third quarter of 2016
25	26/10/2016	Savola Group announces its progress on transition to International Financial Reporting Standards (IFRS), adhering to Phase II disclosure requirements
26	07/11/2016	Savola Group announces the expected financial impact of the flotation of the Egyptian pound exchange rate against foreign currencies
27	24/11/2016	Savola Group announces resignation of Mr Muwaffaq Mansour Jamal, CEO of Panda Retail Co, and appointment of Eng Rayan Mohammed Fayez as acting CEO of Panda
28	19/01/2017	Savola Group announces interim financial results for the year ending December 31, 2016
29	31/01/2017	Savola Group announces its progress on transition to International Financial Reporting Standards (IFRS), adhering to Phase III disclosure requirements

## B) Potential risks

### B-1) Overview

The Group, like any other economic entity, may be affected by risks through the nature of its commercial activities in basic food commodities, retail, and other investments. These risks may be summarized in the possibility of Group operations being exposed to geopolitical risks that result from its operations outside the Kingdom, as well as fluctuations in raw material prices, currencies, speculation, and unfair price competition in the local and international markets where it operates. There are also economic and political risks in the countries where it operates and risks pertaining to new markets in the region, in line with the Group's geographic expansion strategy.

Further risks include fluctuation in foreign currency, exchange rates against the Saudi riyal, or other currencies of the countries that the Group operates in, and inflation in the economies of countries where the Group operates; risks related to entering into new investments; and risks that might be associated with the current economic conditions and political situation in countries where the Group operates or exports its products.

The Group faces other risks from its various investment shareholdings in different companies and funds, locally and internationally. The Group and its subsidiaries manage these risks through its Board of Directors, Audit Committees, executive management, and various departments and task forces within the Group. The Group is focused on continuously developing and improving a sound risk management system across the Group.

### B-2) Financial instruments and risk management:

Risk management is carried out by senior management under policies approved by the board of directors. Senior management identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The most important types of risk are credit risk, currency risk and fair value and cash flow interest rate risks.



Financial instruments carried on the consolidated balance sheet include cash and cash equivalents, trade receivable, investments, long-term receivables, short-term and long-term borrowings, trade payable and accrued expenses and other current liabilities.

- A) Credit risk** is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Group has no significant concentration of credit risks. Cash and cash equivalents are placed with national and international banks with sound credit ratings. Trade receivable are stated at their estimated realizable values.
- B) Currency risk** is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's transactions are principally in Saudi Riyals, United States Dollars, Iranian Riyals, Egyptian Pounds, Sudanese Pounds and Turkish Lira. Currency risk is managed on regular basis.
- C) Fair value and cash flow interest rate risks** are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's financial position and cash flows. The Group's interest rate risk arise mainly from short term bank deposits and bank borrowings, which are at floating rates of interest. All deposits and debts are subject to re-pricing on a regular basis. During 2014, the Group entered into Interest Rate Swaps ("IRS") to manage its exposure to interest rate risk. Such IRS is designated as a Cash flow hedge. Management monitors the changes in interest rates and believes that the fair value and cash flow interest rate risks to the Group are not significant.
- D) Liquidity risk** is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet the Group's future commitments.
- E) Price risk** is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Group is exposed to equity securities price risk because Group holds investment in certain listed equities which are classified on the consolidated balance-sheet as available-for-sale investments. The Group diversifies its portfolio to manage its price risk arising from investments in equity securities. USCE and USC uses derivative financial instruments (Commodity future contracts) to hedge its price risk of raw material in the Sugar business.

### **C) Plans to comply with International Financial Reporting Standards (IFRS)**

Savola has finalized the accounting policies necessary for the preparation of the financial statements under IFRS. These accounting policies were approved by the Board of Directors during 2016 and enable a seamless transition to IFRS by the first quarter of 2017 as specified by the regulatory requirements. The Group has also announced its transformation phases to adopt IFRS on the Saudi Stock Exchange website (Tadawul) in accordance with the requirements of the Capital Market Authority. Savola has finalized the management purpose IFRS transition balance sheet (statement of financial position prepared under IFRS for management purposes) as of January 1, 2016 (the date of transition) which forms an integral part of

Savola's IFRS management accounts for the period ended March 31, 2016, being the comparative period, and the first statutory IFRS financial statements for the period ending March 31, 2017. Savola announced the details of the impact of the transformation to IFRS on the Saudi Stock Exchange website (Tadawul) on January 31, 2017.

## D) Corporate Governance Report and major relevant disclosures:

Illustrating Savola's commitment to enhancing its relationship with shareholders, investors, and all stakeholders, and because of the Group's strong beliefs in the importance of corporate governance to protect shareholders' rights and maintain effective internal controls through the activation of the Board and its committees' roles, and commitment to the principles of disclosure and transparency, during 2016, the Group continued to implement and comply with the Corporate Governance Regulations of Saudi Arabia's Capital Market Authority and other relevant regulations.

In addition to the performance and financial results previously outlined, Savola discloses information that is of interest to its investor community in line with relevant regulations and best international practices adopted by the Group in corporate governance and transparency. These are:

### Disclosures required by corporate governance, related regulations, and international best practices in corporate governance:

Based on corporate governance requirements, the Group discloses information that is of interest to its shareholders, investor community, and stakeholders:

#### D-1) Shareholder rights and mechanisms of communication:

Due to the Group's belief, interest, and care in the rights of its shareholders, and in light of applicable regulations, these rights form part of Savola's bylaws and Corporate Governance Manual, which can be viewed on Savola's website. The Group's efforts in that matter are summarized as follows:

##### D-1-1) Shareholder access to information

Savola publishes financial statements, announcements, and key decisions on the Saudi Stock Exchange (Tadawul) website, in daily newspapers, and in the annual Directors' Report. A dedicated department manages and deals with shareholder affairs.

##### D-1-2) Savola Group equity profile as of December 31, 2016

No.	Detail	Value/SAR/Number of shares
1.	Company authorized capital (SAR)	5,339,806,840
2.	Issued shares (all company's shares are ordinary shares)*	533,980,684
3.	Floated issued shares (by Tadawul records)**	397,784,403
4.	Paid-up capital (SAR)	5,339,806,840
5.	Nominal value per share (SAR)	SAR 10
6.	Paid-up value per share (SAR)	SAR 10

#### Declaration:

\*The Group does not have preferred shares or shares with special priority rights of voting, issued to either shareholders, Board of Directors, or employees. All shares of the Group are ordinary shares of equal nominal value and rank equally in voting rights and other rights as specified by regulations.

\*\*The total number of floated shares changes from time to time based on the trading movement of Savola Group shares on the Saudi Stock Market. Please note that the number of floated shares has been taken from Tadawul's records on March 12, 2017.

### D-1-3) Dividend policy

According to article 43 of Savola's bylaws, the dividend distribution policy is characterized by:

1. Allocating 10% of net profits to establish a statutory reserve. The General Assembly has the authority to suspend this allocation when the stated reserve reaches half of the Group's capital.
2. Then, a first payment at 5.0% of paid-up capital is distributed to shareholders.
3. 7.5% of the balance is allocated as remuneration for members of the Board of Directors.
4. The balance can then be distributed to shareholders as additional dividends.

As part of the dividends policy and in light of the Group's bylaws, the Group used to distribute quarterly cash dividends in the range of 50% to 60% of the net profit achieved during each financial year based on the Board of Directors' recommendations. In light of that policy, the Group in 2016 the Group distributed dividends for the first three quarters, which achieved profits. However, there was no recommendation of dividends distribution for Q4 2016, due to the losses recorded by the end of the year.

Regarding 2017, the Group has announced on the Saudi Stock Exchange website (Tadawul) its decision of not distributing cash dividends in 2017. It is noteworthy that the Group reviews its policies and decisions periodically in that regard and in light of laws, regulations, and the results it achieves.

### D-1-4) Dividend distributions in 2016 (actual):

The Group distributed cash dividends for the first three quarters of 2016 based on the Board of Directors' recommendations, which form the full dividends for 2016 and will be ratified by shareholders at the 2016 General Assembly.

No	Period	Dividends per one share (SAR)	Total (SAR million)	Notes
1	1st quarter	0.25	133.5	Already distributed
2	2nd quarter	0.25	133.5	Already distributed
3	3rd quarter	0.25	133.5	Already distributed
4	Total	0.75	400.5	

**Note:** The Group has announced on the Saudi Stock Exchange (Tadawul) that it will not distribute quarterly dividends during the 2017 fiscal year.

### D-2) Major shareholders

Shareholders owning 5% or more of the total shares of the Group, and movements in shareholdings during 2016 (in SAR), are:

No	Name	Nationality	Shares # at the beginning of 2016	Ownership at the beginning of 2016	Shares # at the end of 2016	% at the end of 2016
1.	Assila Investment Company (formerly MASC Holding Co)	Saudi company	60,000,000	11.24%	60,000,000	11.24%
2.	General Organization for Social Insurance (GOSI)	Saudi Government Institution	54,658,575	10.24%	54,658,575	10.24%
3.	Mr Abdullah M.A. Al Rabiah	Saudi	43,892,500	8.22%	43,892,500	8.22%
4.	Abdulkadir Al-Muhaidib	Saudi company	42,551,296	7.97%	43,861,108	8.21%

No	Name	Nationality	Shares # at the beginning of 2016	Ownership at the beginning of 2016	Shares # at the end of 2016	% at the end of 2016
	& Sons Company					
5.	Al-Muhaidib Holding Company	Saudi company	33,980,684	6.36%	33,980,684	6.36%

**Declaration:** Regarding the declaration of movements in major shareholders' ownership in accordance with listing rules, the Group confirms that it has not received any written notification during 2016 from any of its major shareholders indicating any changes or movement in their ownership percentages. The disclosed information is based on the Saudi Stock Exchange (Tadawul) records.

### D-3) Dates of key events for shareholders and investors:

In accordance with international best practice in corporate governance, Savola provides the dates of key and anticipated events during 2017:

No	Dates, 2017	Key events for 2017	Notes on the event
First quarter events			Notes
1.	January 18	Audit Committee meeting to recommend approval of the financial results for the fourth quarter of 2016 to the Board.	To recommend that the Board approve the financial results for the fourth quarter of 2016.
2.	January 18	Board of Directors' meeting.	To approve the financial results for the fourth quarter of 2016 based on the Audit Committee's recommendation.
3.	March 12	Audit Committee meeting to recommend approval of the audited financial results for 2016.	To recommend the approval of the audited financial results, the Board of Directors' annual report, Audit Committee report.
4.	March 12-16	Publishing audited financial results for 2016.	To publish the audited financial results and the Board of Directors' annual report on the Saudi Stock Exchange (Tadawul), the Group's website, and in daily newspapers.
Second quarter events			
5.	April 16	Board of Directors' meeting.	To monitor and review the Group's operations and performance to that date.
6.	April 16 (suggested date, subject to authorities' approval)	EGM.	The date of the General Assembly and its agenda, notified through Tadawul, daily newspapers, and the Group's website, in accordance with the statutory time frame and process and after obtaining the authorities' approval.
7.	May 4	Audit Committee meeting to recommend Board approval of 2017 Q1 results.	Recommend the approval of the financial results for Q1, 2017 in line with IFRS standards.
8.	May 4	Board of Directors' meeting.	Approve the 2017 Q1 financial results, based on the Audit Committee's recommendation, followed by announcing the results on Tadawul's website.

No	Dates, 2017	Key events for 2017	Notes on the event
Third quarter events			
9.	August 6	Audit Committee meeting to recommend approval of 2017 Q2 results.	Recommend the 2017 Q2 financial results to the Board in line with IFRS standards.
10.	August 6-10	Publishing the 2017 Q2 results.	Approve the 2017 Q2 financial results, based on the Audit Committee's recommendation, followed by announcing the results on Tadawul's website.
11.	September 14	Board of Directors' meeting.	Review performance to date.
Fourth quarter events			
12.	November 2	Audit Committee meeting to recommend approval of 2017 Q3 results.	Recommend the 2017 Q3 financial results to the Board in line with IFRS standards..
13.	November 2	Board of Directors' meeting	Approve the 2017 Q3 financial results, based on the Audit Committee's recommendation, followed by announcing the results on Tadawul's website.
14.	December 17-19	Board of Directors' meeting to approve the business plan and budget for 2018.	Approve the business plan and budget for 2018.
<b>Note:</b> Savola would like to point out that the dates above are approximate and may change according to notifications received from official authorities. Although Savola is keen to carry out these events on the planned dates, we assume no obligation from failure to do so.			

#### D-4) Disclosures related to the formation of the Board of Directors

The Board of Directors is the highest authoritative body responsible to shareholders for managing the Company in accordance with its bylaws, laws, and relevant regulations. The main role of the Board of Directors includes setting overall corporate strategies, plans, policies, and main objectives of the Company; establishing and reviewing internal control measures, corporate governance, ensuring proper mechanisms to manage risks, and ensuring the effectiveness of internal controls across the Group. The Board approves financial budgets, oversees and monitors the performance of the Group and executive management's performance.

The Board protects the interests of its shareholders and other relevant parties including approving policies that ensure the application, supervision, and execution of the laws and regulations, and commits to disclose any key information related to the Company and its performance that may assist shareholders in evaluating its assets and liabilities.

The Group follows all requirements stipulated by the Company's bylaws, Corporate Governance Code, and other internal policies. The detailed role of the Board has been articulated in the bylaws and Corporate Governance Manual, which are available on the Company's website ([www.savola.com](http://www.savola.com)).

##### D-4-1) Board composition, qualifications, categorization, and Directors' membership of other companies

Savola's bylaws state that the Board of Directors should consist of 11 members, which complies with the Corporate Governance Regulations issued by the Capital Market Authority. Due to the end of the Board members' office term on June 30, 2016 after completing three years, a new Board was elected for the current three-year term that began on July 1, 2016. All the elected members are either non-executive or

independent. The accompanying table includes the names of current Board members, classification of their memberships in line with the Corporate Governance Regulations issued by the Capital Market Authority, qualifications, and other joint-stock companies where they hold board positions:

**Board members membership classification for 2016, their qualifications, and other companies board memberships**

	Member name	Membership classification	Qualifications	Companies membership (listed and unlisted) where Savola directors currently hold board membership (excluding Savola Group memberships)
<b>Non-executive Board Members (for the term that began on July 1, 2016)</b>				
1.	Mr Sulaiman A. Al Muhaidib (Chairman)	Non-executive	Two years Faculty of Medicines (1985). He has extensive experience in business and contracting. He is also the Chairman of Al-Muhaidib Holding Group as well as being on the boards of a number of other companies.	Listed: Saudi British Bank (SABB), The National Industrialization Company, Almarai Company.  Unlisted: A. Abdulgadir AlMuhaidib & Sons Co, Rafal Real Estate Development Co, Al Oula Real Estate Development, the Arabian Co for Energy and Water Development, International Energy and Water Businesses Co.
2.	Eng Abdullah M. N. Rehaimi (Managing Director up to June 30 2016 and CEO up to February 29, 2016)	Non-executive	Bachelor of Mechanical Engineering, King Fahad University of Petroleum and Minerals Sciences in Dhahran, Saudi Arabia (1975). He was President of the General Authority of Civil Aviation until March, 2010.	Listed: Knowledge Economic City Co, Al Lujain Co, Saudi Cable Company.  Unlisted: Savola Foods Co (representing Savola Group).
3.	Mr Bader A. Al Issa	Non-executive	Master of Business Administration, Rice University, USA (2006); Bachelor of Arts in Economics, University of Virginia, USA (2001); Certified Financial Analyst (CFA).	Listed: Dur Aldeyafa Co, Saudi Fransi Banque, Almarai Co.  Unlisted: Savola Foods Co, Panda Retail Co, Afia International Co (representing Savola Foods), Assila Investment Co.
4.	Mr Abdulaziz K. Al Ghufaily	Non-executive	Master of Economics, USA (1990); Bachelor of Economics, King Saud University (1981).	Listed: Al Rajhi Bank, Herfy Foods Services Co.  Unlisted: Panda Retail Co. (representing Savola Group)
5.	Mr Essam A. Al Muhaidib	Non-executive	Bachelor of Science (Statistics) from King Saud University (1985).	Listed: Herfy Food Services Co, Buwan Co.  Unlisted: A. Abdulgadir AlMuhaidib

	Member name	Membership classification	Qualifications	Companies membership (listed and unlisted) where Savola directors currently hold board membership (excluding Savola Group memberships)
				& Sons Co, Masdar Building Materials, Rafal Real Estate Development Co, Zohoor Alreef Co, Al Balad Al Ameen Co, Emdad for Labour Co, Al Oula Real Estate Development, Arabian Co for Energy and Water Development, Panda Retail Co (representing Savola Group).
6.	Eng Mutaz Q. Alazawi	Non-executive	Bachelor of Information Technology Engineering from King Saud University of Riyadh, KSA (1995).	Listed: Alriyadh Bank, Arabian Cement Co, Herfy Food Services Co.  Unlisted: Savola Foods Co (representing Savola Group).
Independent Board members (for the term that began on July 1, 2016)				
7.	Mr Mohammad A. Al Fadl	Independent	Bachelor of Economics and Marketing Sciences, University of San Francisco USA, (1977).	Listed: None. Unlisted: Jeddah Holding Co, Kinan International Co (representing Savola Group).
8.	Mr Fahad A. Al Kassim	Independent	Bachelor of Science in Management with a major in accounting, King Saud University, Riyadh (1986); Management and Leadership Program, the University of Oxford.	Listed: Dallah Healthcare Services Co, Jarir Marketing Co, Dur Aldeyafa Co., Albilad Bank.  Unlisted: Fahad A. Al Kassim & Sons Co for Investment & Trade, Saudi Co for Heritage Hospitality, Dr Mohammed Rashed Alfakih and Company Co, Rakeen Najd Co, Naqel Co.
9.	Mr Omar Hadir N. Al-Farisi	Independent	Bachelor in Economics from the University of Notre Dame (1991); JD from Columbia University School of Law (1994).	Listed: None. Unlisted: Gulf International Bank.
10.	Dr Sami M. Baroom	Independent	PhD in Operation Management and Information Technology, Indiana University, USA (1992); Master's in Business Management with Honors, Wharton Management School, Pennsylvania University, USA.	Listed: Arabian Cement Company.  Unlisted: Jeddah International Colleague Co, Arabian Investment Co (Sanabil), Kinan International Real Estate Co.
11.	Abdulaziz I. Alissa	Independent	Bachelor's in Business Management and International	Listed: Saudi Transportation and Investment Co (MOBRD), Aldera

	Member name	Membership classification	Qualifications	Companies membership (listed and unlisted) where Savola directors currently hold board membership (excluding Savola Group memberships)
			Business, Menlo College, USA (2003).	Alarabi Insurance Co.  Unlisted: Saudi Arabian UPS Co.

**Note:** \* The memberships of Mr Ibrahim M. Alissa (Non-executive) and Mr Abdulkareem A. Abu Alnasr (Independent) ended with the previous Board term on June 30, 2016.



#### D-4-2) Board meeting attendance

Eight Board meetings were held in 2016. The attendance records for each meeting are:

	Name	Meetings during 2016								
		Previous Board term (Ended on June 30, 2016)					Current Board term (Began on July 1, 2016)			No of attendance
		19 Jan	20 Jan	21 Feb	19 Apr	23 Jun	1 Sep	19 Oct	28-29-30 Nov	
1.	Mr Sulaiman A. Al Muhaidib	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	8 of 8
2.	Eng Abdullah M. N. Rehaimi	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	8 of 8
3.	Mr Bader A. Al Issa	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	8 of 8
4.	Mr Abdulaziz K. Al Ghufaily	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	8 of 8
5.	Mr Mohammad A. Al Fadl	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	8 of 8
6.	Mr Essam A. Al Muhaidib	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	8 of 8
7.	Mr Fahad A. Al Kassim	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	8 of 8
8.	Mr Omar Hadir N. Al-Farisi	⊙	⊙	⊙	⊙	⊙	⊙	○	⊙	7 of 8
9.	Dr Sami M. Baroom	NA					⊙	⊙	⊙	3 of 3
10.	Mr Abdulaziz I. Alissa	NA					⊙	⊙	⊙	3 of 3
11.	Eng Mutaz Qusai Alazawi	NA					⊙	⊙	⊙	3 of 3
-	Mr Tarik M. Ismail (Board Secretary)	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	8 of 8
Previous Board members (for the term that ended on June 30, 2016)										
-	Mr Ibrahim M. Al Issa	⊙	⊙	⊙	⊙	⊙	NA			5 of 5
-	Mr Abdul Kareem A. Abu Alnasar	⊙	⊙	⊙	⊙	⊙	NA			5 of 5

- Notes:**
- \*The financial results for Q2 2016 were approved by circulation based on the Audit committee recommendation in its meeting held on 26/07/2016.
  - \*\* The Group Board held a three-day workshop during November, 2016 fully dedicated to reviewing and discussing Group strategy, plans, general policies, and monitoring tools for their execution.
  - \*\*\* Mr Amin M. Shakir (independent Board member) did not attend Board meetings held on January 19-20, 2016 and submitted his resignation during February, 2016.

#### D-4-4) Board of Directors' remuneration for 2016

##### a) Annual remuneration and meeting attendance fees:

Regarding the SAR 200,000 annual remuneration for membership of the Board of Directors that Savola used to pay in light of its bylaw and the rules and regulation in this regard, there is no recommendation to the AGM with regards to the annual Board remunerations for 2016 as the Group did not achieve profits for this year. The table below shows the other fees paid to the Board members for the period from 1/1 till 30<sup>th</sup> of October 2016, and other expenses for 2016\*:

Sr.	Name of Board member	Annual remuneration (200,000)	Board meetings attendance fees * (5,000 SAR per meeting)	Additional fee for outside Jeddah members (SAR)	Total (SAR)	Other Expenses (transportation & accommodation)
1.	Mr Sulaiman A. Al Muhaidib (Chairman)	0	35,000	21,000	56,000 0	24,645 **
2.	Eng Abdullah M. N. Rehaime *** (previous CEO and MD). This compensation is for his membership in the Board of Directors)	0	35,000	NA	35,000	9,536
3.	Mr Bader A. Al Issa	0	35,000	21,000	56,000 0	24,961
4.	Mr Abdulaziz K. Al Ghufaily	0	35,000	21,000	56,000 0	29,336
5.	Mr Essam A. Al Muhaidib	0	35,000	21,000	56,000 0	31,598
6.	Mr Mohammad A. Al Fadl	0	35,000	NA	35,000	9,616
7.	Mr Fahad A. Al Kassim	0	35,000	21,000	56,000 0	24,740
8.	Mr Omar Hadir N. Al-Farisi	0	30,000	18,000	48,000	177,910 ***
9.	Dr Sami M. Baroom	0	10,000	NA	10,000	7,470
10.	Eng Mutaz Q. Alazawi	0	10,000	6,000	16,000	12,735
11.	Mr Abdulaziz I. Alissa	0	10,000	6,000	16,000	15,021
<b>Previous Board members for the term that ended on June 30, 2016</b>						
-	Mr Ibrahim M. Al Issa	0	25,000	NA	25,000	-
-	Mr Abdul Kareem A. Abu Alnasar	0	25,000	NA	25,000	-
<b>Total</b>		<b>0</b>	<b>355,000</b>	<b>135,000</b>	<b>490,000</b>	<b>364,568</b>

**Notes:** \* Board members did not receive meeting attendance fees for the meetings held after October 31, 2016 as it was not part of the annual membership remuneration as defined by regulations. However, it was then included as part of the annual remuneration of a Board Member in the definition as stated in the rules and regulations issued pursuant to the Companies' Law relating to publicly-listed companies that became effective on October 31, 2016.

\*\* The Board Chairman donated the meeting attendance fees, the additional fee for outside Jeddah members, and the transportation expenses to support the Savola employees' Takaful Fund.

\*\*\* Also, the former MD of the Group received fees amounted to SAR 3.2 million for his consultancy, administrative, and technical works after the end of his term as the CEO by the end of February 2016.

\*\*\*\* Travel expenses (USA-KSA) and Accommodation Expenses for Board meeting held in 2016.

## D-5) Board members' interests and changes during 2016

No.	Name (All Saudi nationals)	Shares at the beginning of 2016	Shares at the end of 2016	Changes during the year	Cash dividends paid for 2016 (SAR)	Relatives' (wife and minor children) ownership changes during the year
Current Board Members						
1.	Mr Sulaiman A. Al-Muhaidib	1,000	1,000	0	750	None
2.	Eng Abdullah M. N. Rehami	1,762	46,762	45,000	35,071.50	None
3.	Mr Badr A. Alissa	1,025	1,025	0	768.75	None
4.	Mr Abdulaziz K. Al Ghufaily	1,000	1,000	0	750	None
5.	Mr Essam A. Al-Muhaidib	2,500	2,500	0	1,875	None
6.	Mr Mohammad A. Al Fadl	6,304	6,304	0	4,728	144 shares (wife)
7.	Mr Fahad A. Al Kassim	2,000	2,000	0	1,500	None
8.	Eng Mutaz Q. Alazawi	0	1,000	1,000	750	None
9.	Mr Omar H. Al-Farisi	1,000	1,000	0	750	None
10.	Dr Sami Mohsen Baroom	1,000	1,000	0	750	None
11.	Mr Abdulaziz I. Alissa	0	6,000	6,000	4,500	None
Previous Board members for the term that ended on June 30, 2016						
-	Mr Ibrahim M. Al Issa	3,000	3,000	0	2,250	None
-	Mr Abdulkareem A. Abu Alnasar	18,000	2,525	(15,475)	13,500	None

### Notes:

\* Cash dividends for Board members and ex-Board members include 2016 dividends, which have already been paid by the Company.

\*\* All members are Saudi nationals except Mr Omar Hadir Al-Farisi, who holds American nationality.

\*\*\* Mr Amin M. Shaker (resigned Board member) shares at the beginning of 2016 were (15,446,460 shares), and his shares at the end of 2016 were (5,810,082 share); the cash dividends paid for him during 2016 were SAR 6,736,772. Mr. Shaker Relatives (wife and minor children) did not have any ownership during the year.

## **D-6) Board of Directors' sub-committees**

The Savola Group Board has three sub-committees, with membership comprising Board Members, external independent experts, and Savola senior executives. The sub-committees are: Compensation, Nomination, and Corporate Governance; Investment; and Corporate Social Responsibility. All committees have special charters, approved by the Group Board, to govern their scope of work and related procedures, except for the Audit Committee, which was formed, and its charters were approved by the Ordinary General Assembly during 2016 in accordance with the new Companies' Law. The committees are:

### **D-6-1) Board Subcommittees functions and operations during 2016**

#### **D-6-1-1) Compensation, Nominations, and Corporate Governance Committee (CNCG)**

##### **Committee role and meetings**

The Committee consists of five non-executive and independent members, all members of the Group Board, with significant experience in committee work. The Committee held six meetings in 2016. During these meetings the Committee carried out its responsibilities in compensation, nominations, and corporate governance. Below is a summary of the Committee's role, responsibilities, membership, and the number of meetings held during 2016:

##### **Committee role and responsibilities**

To formulate policies regarding the indemnities, remunerations, and succession plan of the Board members and top executives to ensure that such policies meet the Group's performance standards, and follow up the implementation of these policies.

To recommend to the Board of Directors the membership appointments for the Board, Subsidiaries Board, and Committees in accordance with the required Group standards and to review the skills required for Board membership; prepare a description of the capabilities and qualifications required for such membership, and ensure Board independence on an annual basis. It also supervises and monitors corporate governance and compliance matters, thus ensuring that sound corporate governance systems are in place. The Committee is also responsible for investigating and settling employee grievances. For more information on the Committee roles and responsibilities, please refer to the Committee Charter on Savola's website ([www.savola.com](http://www.savola.com)).

## Committee membership and meeting records

No.	Committee member	Role	Meetings during 2016						Total
			Previous Board term (ended on June 30, 2016)				Current Board term (began on July 1, 2016)		
			13 Jan	10 Feb	29 Mar	16 May	31 Aug	19 Oct	
1.	Mr Mohammad A. Al Fadl (Independent Savola Board member)	Chairman	⊙	⊙	⊙	⊙	⊙	⊙	6 of 6
2.	Mr Essam A. Al Muhaidib (Non-executive Savola Board member)	Member	⊙	⊙	⊙	⊙	⊙	⊙	6 of 6
3.	Mr Bader A. Alissa (Non-executive Savola Board member)	Member	NA				⊙	⊙	2 of 2
4.	Eng Abdullah M.N. Rehaimi (Non-executive Savola Board member)	Member	NA				⊙	⊙	2 of 2
5.	Mr Johan Brand (Independent external member)	Member	NA				⊙	⊙	2 of 2
6.	Mr Tarik M. Ismail	Committee Secretary	⊙	⊙	⊙	⊙	⊙	⊙	6 of 6
Previous members whose memberships ended on June 30, 2016									
-	Mr Abdulaziz K. Alghufaily* (Non-executive Savola Board member)	Member	NA			⊙	NA		1of 1
-	Mr Ibrahim M. Al Issa (Non-executive Savola Board member)	Member	⊙	⊙	⊙	⊙	NA		4 of 4

### Notes:

\* Mr. Abdulaziz Alghufaily (non-executive Board member) was appointed from April 19, 2016 until the end of the term that ended on June 30, 2016 in place of resigned member Mr Amin M. Shaker who submitted his resignation from the Board and the Committee during February 2016, also Mr. Shaker didn't attend both meetings held in 19<sup>th</sup> of Jan. and 20<sup>th</sup> of Feb. 2016.

## Board assessment

The Group contracted with an independent specialist consultant to study and evaluate the effectiveness of the Board's performance and operations for 2014 and 2015 in the term that ended on June 30, 2016. A new Board was elected and began carrying out its duties on July 1, 2016. Hence, the Board assessment for the current term will begin after the lapse of the first year of the current term, under the supervision of the Compensation, Nominations, and Governance Committee.

## D-6-1-2) Investment Committee

### Committee role and meetings

The Investment Committee consists of six members, most of whom are non-executives. The Committee held two meetings during 2016 to implement strategic plans in relation to investment opportunities. Below is a summary of the Committee's role, responsibilities, membership, and the number of meetings held during 2016:

### Committee role and responsibilities

Define, study, and evaluate investment opportunities within the Group and core sectors in Saudi Arabia and overseas; recommend findings to the Group's Board of Directors; and continue its implementation in light of the authority given to it by the Board.

### Committee membership and meeting records

No	Committee member	Role	Meetings during 2016		Total
			28 Aug	18 Oct	
1.	Mr Omar Hadir Alfarsi	Chairman	⊙	○	1 of 2
2.	Mr Abdulaziz Khaled Alghufaily	Member	⊙	⊙	2 of 2
3.	Mr Fahad Al-Kassim	Member	⊙	⊙	2 of 2
4.	Dr Sami Mohsen Baroom	Member	⊙	⊙	2 of 2
5.	Eng Mutaz Qusai Alazawi	Member	⊙	⊙	2 of 2
6.	Eng Rayan Mohammed Fayez	Member	⊙	⊙	2 of 2
7.	Mr Tarik Mohammed Ismail	Secretary	⊙	⊙	2 of 2
Members during the previous term*					
-	Eng. Abdullah M.N. Rehami	Previous member	NA		
-	Mr Abdul Kareem A. Abu Alnasar	Previous member	NA		

\* The Committee did not hold any meetings for the period from 01/01/2016 to 30/06/2016.

## D-6-1-3) Corporate Social Responsibility Committee

### Committee role and meetings

The CSR Committee consists of five members, each with relevant experience and mostly non-executive. In fulfilling its roles and responsibilities, the Committee held three meetings in 2016 to review the Group's CSR programs and plans as detailed in the CSR section of this report. Below is a summary of the Committee's role, responsibilities, membership, and the number of meetings held during 2016:

### Committee role and responsibilities

Activate the Group's role in CSR through adoption of CSR initiatives and programs; set criteria and develop plans to develop and serve the community through developing foundations, standards, and plans for CSR programs; and continue their implementation.

## Committee membership and meeting records

Name	Role	Meetings during 2016			Total
		Previous Board term (ended on June 30, 2016)	Current Board term (began on July 1, 2016)		
		1 Feb	28 Aug.	1 Dec	
Mr Abdulaziz I. Alissa	Chairman	NA	⊙	⊙	2 of 2
Eng Rayan M. Fayez	Member	NA	⊙	○	1 of 2
Mr Mahmoud M. Abdulghaffar	Member	○	⊙	○	1 of 2
Dr Mervat A. Tashkandi (External member)	Member	⊙	⊙	⊙	3 of 3
Mr. Saleh A. Alrammah	Member	NA	⊙	⊙	2 of 2
Mr Tarik M. Ismail	Secretary	⊙	⊙	⊙	3 of 3
Members of the previous term					
Eng Abdullah M. N. Rehaimi	Chairman	⊙	NA		1 of 1
Mr Abdulkareem A. Abu Alnasar	Member	⊙	NA		1 of 1

### Notes:

Mr Amin M. Shaker submitted his resignation from the Board and the Committee during February 2016, and he did not attend the meeting held in 1 Feb. 2016.

## D-6-2) Committee members' compensation

### First: Compensation of Committee members who are Board members

Board members and sub-committee members of the Board qualifying for annual remuneration and attendance fees up to October 30, 2016 (the effective date for new rules and regulations issued pursuant to the Companies' Law applying to listed joint stock Companies being October 31, 2016). The previous Companies' Law did not include the annual remuneration of committees and attendance fees in the annual remuneration of a Board Member, as this was determined by the Board of Directors, which was within their authorities. However, the rules and regulations (effective from 31/10/2016) included these remunerations as part of the annual remuneration of a Board Member (except for the entitlement of Audit Committee members, which was approved and determined by the General Assembly of shareholders).

### Second: Compensation of Committee members who are not Board members

External members of Board sub-committees qualify for full remuneration and attendance fees for the full year, as they are not on the Board of Directors of Savola Group.

Annual remuneration of Board sub-committees and attendance fees for 2016 were (from January 1 2016 to October 30 2016 for Savola Board Members and for the full period for non-Savola Board members):

CNCG Committee					
No.	Committee member name	Committee annual remuneration (100,000 per year)	Committee meetings attendance fees (SAR)	Total (SAR)	Other Expenses (transportation & accommodation)
1.	Mr Mohammad A. Al Fadl (Chairman)	83,333	30,000	113,333	0
2.	Mr Essam A. Al Muhaidib	83,333	30,000	113,333	10,608
3.	Mr Bader A. Alissa	33,333	10,000	43,333	2,435
4.	Eng Abdullah M.N. Rehaimi	33,333	10,000	43,333	0
5.	Mr Johan Brand (Independent external member)	50,000	10,000	60,000	11,809
<b>Members during the previous term:</b>					
-	Mr Abdulaziz K. Alghufaily	25,000	5,000	30,000	2,435
-	Mr Ibrahim M. Al Issa	50,000	20,000	70,000	0
<b>Total</b>		<b>369,721</b>	<b>115,000</b>	<b>484,721</b>	<b>27,287</b>
Note: Mr.Amin Shaker (ex-committee member) received (11,389) as remuneration for period from Jan. till the date of his resignation in Feb. 2016.					

Investment Committee					
No.	Committee member name	Committee annual remuneration (100,000 per year)	Committee meetings attendance fees (SAR)	Total (SAR)	Other Expenses (transportation & accommodation)
1.	Mr Omar Hadir Alfarsi (Chairman)	33,333	5,000	38,333	-
2.	Mr Abdulaziz Khaled Alghufaily	33,333	10,000	43,333	-
3.	Mr Fahad Al-Kassim	83,333	10,000	93,333	2,435
4.	Dr Sami Mohsen Baroom	33,333	10,000	43,333	-



5.	Eng Mutaz Qusai Alazawi	33,333	10,000	43,333	2,435
6.	Eng Rayan Mohammed Fayeze (Executive)	0	10,000	10,000	0
<b>Members during the previous term:</b>					
-	Eng Abdullah M.N. Rehaimi	50,000	0	50,000	0
-	Mr Abdul Kareem A. Abu Alnasar	50,000	0	50,000	0
<b>Total</b>		<b>382,054</b>	<b>55,000</b>	<b>383,054</b>	<b>4,870</b>
Note: Mr.Amin Shaker (ex-committee member) received (11,389) as remuneration for period from Jan. till the date of his resignation in Feb. 2016.					

CSR Committee					
No.	Committee member name	Committee annual remuneration (100,000 per year)	Committee meetings attendance fees (SAR)	Total (SAR)	Other Expenses (transportation & accommodation)
1.	Mr Abdulaziz I. Alissa (Chairman)	33,333	5,000	38,333	7,072
2.	Eng Rayan M. Fayeze (Executive)	0	5,000	5,000	0
3.	Mr Mahmoud M. Abdulghaffar (Non-executive)	0	5,000	5,000	0
4.	Dr Mervat A. Tashkandi (External member)	100,000	15,000	115,000	0
5.	Mr, Ahmed Saleh Alrammah (External member)	50,000	10,000	60,000	7,072
<b>Members during the previous term:</b>					
-	Eng Abdullah M. N. Rehaimi	50,000	5,000	55,000	0
-	Mr Abdulkareem A. Abu Alnasar	50,000	5,000	55,000	0
<b>Total</b>		<b>294,722</b>	<b>50,000</b>	<b>344,722</b>	<b>14,114</b>
Note: Mr.Amin Shaker (ex-committee member) received (11,389) as remuneration for period from Jan. till the date of his resignation in Feb. 2016.					

## E) Disclosures related to the Executive Management team

The role of Savola Group's CEO and Managing Director and the Executive Management team is to implement the strategies, plans, and policies approved by the Board of Directors and the boards of the Group subsidiaries. They also monitor the performance of Group sectors and ensure their adherence to the Group's plans, policies, regulations, and ethical standards. The Executive Board meets regularly to review and monitor progress. Sub-committees and task forces at subsidiary level also assist (each in its specialty) in management, supervision, and control over implementation. The accompanying table shows the Group Executive Board members and qualifications:

## E-1) Senior executives' compensation

Compensation and benefits paid to senior executives including the CEO and CFO of the Group during 2016 were (in thousands of riyals):

No	Description	Senior executives' (seven in total) compensation including the CEO and the CFO (SAR'ooo)
1.	Salaries	13,773
2.	Allowances (including housing, transportation, health insurance, education allowance, etc)	4,709
3.	Exceptional remuneration during 2016	2,500
4.	Regular and annual remuneration (including performance-related bonus for 2016)	4,244
	<b>Total</b>	<b>25,226</b>

Note: The total amount comprises all entitlements of the current (7) executive members for the year 2016 including the Chief Financial Officer and the Chief Executive Officer, excluding the latter's remuneration for the year 2016; also, it includes the amounts paid to the two executive members, who resigned during the year (in proportion to the period engaged by each member during the year 2016). In addition, it includes the amounts paid to the previous Chief Executive Officer during the year 2016 for his tenure besides his salaries for January and February 2016.

It is worth mentioning, that the current Chief Executive Officer requested from the compensation, nomination & governance committee to postpone his annual remuneration payment for the year 2016 until 2017.

## E-2) Senior executives' interests and changes during 2016

No/	Name	Shares at the beginning of 2016	Shares at the end of 2016	Changes during the year	Cash dividends paid for 2016 (SAR)	Shares of immediate relatives
1.	Eng Rayan M. Fayez (Group CEO)	0	45,000	45,000	26,250	None
2.	Mr Bader H. Al Aujan (CEO Foods Sector)	11,000	21,000	10,000	15,750	None
3.	Ms Huda A. Al Luwati (Chief Investment Officer)	0	0	0	0	None
4.	Mr Nouman Farrukh (Chief Financial Officer)	0	0	0	0	None
5.	Mrs Rania S. Al-Turki (Chief Human Capital Officer)	0	0	0	0	None
6.	Mr Tarik M. Ismail (Executive Director, Corporate Affairs & Sustainability, and Board Secretary)	10	10	0	7.50	None
7.	Eng Abdullah M. N. Rehaimi (Previous Group CEO & Managing Director)	As mentioned in the previous table related to Board members' interests. Appointed Group CEO and Managing Director as of January 1, 2016.				

Note: \*Cash dividends for executives mentioned above include 2016 dividends, which have already been paid by the Company.

\*\* Mr Muwaffaq M. Jamal's (Previous CEO of the Retail Sector) Shares at the beginning of 2016 were (1000 shares), and his shares at the end of 2016 were (1000 shares); the cash dividends paid for him during 2016 were SAR 750. Mr. Jamal Relatives (wife and minor children) did not have ownerships during the year.

\*\*\*Mr. Mr Faysal H. Badran (Previous Chief Investment Officer) did not have any shares at the beginning of 2016 and did not have any shares at the end on 2016; therefore,

he did not receive any cash dividends during 2016. Also Mr. Badran Relatives (wife and minor children) did not have ownerships during the year.

## F) Related-party transactions direct or indirect to Board members, major shareholders, senior executives, and first degree relatives

During 2016, the Group carried out transactions with related parties in the ordinary course of business. The Group follows the same conditions and principles, with no preference in dealing with such type of transactions with third parties. Related parties in these transactions include parties linked to the Group, Board members, senior executives, major shareholders and any first-degree relatives and others, according to CMA regulations and relevant MOCI laws and the CG guide. These regulations state that disclosures and the approval of the AGM are necessary in such situations regarding a Board member's relations (direct or indirect) to them. Below is a summary of these transactions, which require the approval of the General Assembly:

No.	Related party	Relationship	Type of transaction
1.	Almarai, a listed company in which Savola Group owns 36.52%. Two Savola Directors are members of Almarai's Board. They are Mr Sulaiman Al-Muhaidib and Mr Bader Alissa., as well as Eng Rayan Fayez (Group's CEO), (Eng. Abdullah Rehaimi was a board member in Almarai until October 5, 2016 and was replaced by Eng. Rayan Fayez)	Board representation and major shareholder owning over 5%	<p>The Group, represented by its subsidiaries (in the Retail and Food sectors), executed transactions and supply contracts of food and consumer goods with Almarai and its subsidiaries during 2016 in the ordinary course of business and general commercial terms worked without any preferential treatment, with a total value of SAR 715.48 million:</p> <ul style="list-style-type: none"> <li>• Panda Retail Company (a Savola subsidiary) purchased consumer foods goods from Almarai with a total value of SAR 514.61 million.</li> <li>• Panda Retail Company (a Savola subsidiary) purchased consumer foods goods from Hail Agricultural Development Company (a subsidiary of Almarai) with a total value of SAR 91.95 million.</li> <li>• United Sugar Company (a Savola Foods subsidiary) sold sugar products to Almarai with a total value of SAR 108.84 million.</li> <li>• Afia International Company (a Savola Foods subsidiary) conducted commercial transactions for sales of edible oil products with a total value of SAR 76 thousand.</li> </ul>

2.	<p>Abdulkader Al-Muhaidib &amp; Sons Co, which owns 8.21% of Savola Group and Al Muhaidib Holding Company, which owns 6.36% of Savola Group both chaired by Mr. Sulaiman A. Al-Muhaidib,. Mr Essam A. Al-Muhaidib is the Company CEO and is also a member of the Savola Group Board.</p>	<p>Board representation and major shareholder owning over 5%</p>	<p>During the fiscal year 2016, the Group through its subsidiaries (in the Retail and Food sectors) executed transactions and entered into commercial contracts with Almuheidib Foods Co. (a subsidiary of Abdulgadir Al-Muhaidib &amp; Sons Co.) in the ordinary course of business. The total value of these transactions amounted to SAR 247.72 million, details of which are:</p> <ul style="list-style-type: none"> <li>• Panda Retail Company had commercial transactions of purchasing food products through supply contracts with Mayar Foods Company, which has a relationship with Abdulqader Al-Muhaidib &amp; Sons Company, with a total value of SAR 233.76 million during 2016.</li> <li>• Panda Retail Company had executed commercial leasing contracts of stores with a total value of SAR 9.17 million with Abdulqader Al-Muhaidib &amp; Sons Company during 2016.</li> <li>• United Sugar Company (a Savola subsidiary), under specific supply contracts, sold sugar commodity to Al-Muhaidib Foods Company during 2016 with a total value of SAR 3.38 million.</li> <li>• Panda Retail Company executed transactions and entered into commercial contracts with Almehbaj Alshamiyah Trading Company, which is a subsidiary of Abdulqader Al-Muhaidib &amp; Sons Company, to rent spaces in shopping centers (Panda) for the sale of its products with a total value of SAR 1.41 million during 2016.</li> </ul>
3.	<p>Herfy Food Services Co, a listed company, in which Savola Group owns 49% (direct and indirect); Savola has four representatives, three of which are board members at Savola Group on Herfy's Board: Mr. Essam A. Al-Muhaidib, who is the chairman of Herfy Board and a board member at Savola Group, Mr Abdulaziz K. Al</p>	<p>Board representation and major shareholder owning over 5%</p>	<p>The Group through its subsidiaries (in the Retail and Food sectors) executed transactions and commercial contracts, in the ordinary course of business, with Herfy Food Services Company with a total value of SAR 37.98 million during 2016. Details of the transactions and contracts are:</p> <ul style="list-style-type: none"> <li>• A contract with a total value of SAR 34.08 million (which represents rental of shops and retail sales of food products) between Herfy Foods Services Company and Panda Retail Company (a Savola</li> </ul>

	Ghufaily, and Eng Mutaz Q. Alazawi (both are also board members of Savola Group), as well as Eng Rayan M. Fayez .		subsidiary). • A contract with a total value of SAR 3.90 million, which represents edible oils products, sold by Afia International Company (a Savola Foods subsidiary) to Herfy Food Services Company.
4.	Kinan International Co, of which Savola Group owns 29.99%; Savola has three members on Kinan's Board of Directors, one of which is also on the Savola Group Board: Mr Mohammad A. Al Fadl, Chairman of Kinan and Savola Group board member; Dr. Sami M. Baroum and Eng. Rayan M. Fayez, the Group CEO.	Board representation and major shareholder owning over 5%	• During 2016, Savola Group and some of its subsidiaries (in the Retail sector) executed commercial leasing contracts of stores with a total value of SAR 41.40 million. These transactions were made in the ordinary course of business.

## G) Related party matters

In addition to previous related-party transactions, the following transactions mainly represent sale and purchase of products and leases of stores in the normal course of business with associates and other entities related to subsidiaries. The terms of such transactions are mutually agreed between the parties, with the same conditions and with no preference over third parties:

No.	Company name	Relationship	Transactions in 2016
1.	Panda Retail Company	A subsidiary of Savola (91% owned)	During 2016 Panda Retail Company (a Savola subsidiary) executed transactions and entered into commercial contracts with some Savola Group subsidiaries with a total value of SAR 388.51 million in the ordinary course of business:
			Purchase of sugar products from the United Sugar Company (a Savola Foods subsidiary), with a total value of SAR 71.03 million.
			Purchase of edible oils products from Afia International Company (a Savola Foods subsidiary) with a total value of SAR 178.67 million.
			Lease of stores and centers from Al Matoun International Holding Company for Real Estate Investment Co (a Savola subsidiary) with a total value of SAR 138.81 million.
2.	United Sugar Company	A subsidiary of SFC (owned by Savola)	Afia International Company (a Savola Foods subsidiary) made commercial transactions that dealt with marketing and distributing sugar products with a total value of SAR 390.07 million.

### G-1) Board declaration, in accordance with CMA Corporate Governance Code

In accordance with the requirements of Article 43 of the Registration and Listing Rules and to ensure the Group Board's commitment to highlight the applicable and non-applicable requirements under this Article in its Board of Directors' Annual Report, in addition to the other requirements of Number 23 under the same Article, the Board confirms that:

#### G-1-1) Declarations related to Article (43) of the Listing Rules

No	Item as per Article (43) of the Listing Rules	Declaration/confirmation
1.	A description of any interest in a class of voting shares held by persons (other than the Group's directors, senior executives and their relatives) that have notified the Group of their holdings pursuant to Article 45 of these Rules, together with any change to such interests during the last financial year.	Not Applicable (NA)
2.	A description of any interest, contractually based securities, and subscription rights of the Group's directors, senior executives and their relatives in the shares or debt instruments of the Group or any of its subsidiaries, together with any change to such interest or rights during the last financial year. Note: The Group declared the interests of Board members, senior executives, and their relatives previously in this report.	NA
3.	A description of the classes and numbers of any convertible debt instruments, any contractually based securities, warrants, or similar rights issued or granted by the Group during the financial year, together with the consideration received by the Group in return.	NA
4.	A description of any conversion or subscription rights under any convertible debt instruments, contractually based securities, warrants, or similar rights issued or granted by the Group.	NA
5.	A description of any redemption or purchase or cancellation by the Group of any redeemable debt instruments and the value of such securities outstanding, distinguishing between those listed securities purchased by the Group and those purchased by its subsidiaries.	NA
6.	A description of waiving any salary or compensation by an arrangement or agreement with:	
	A) A director: The Group Board Chairman donated his meetings attendance fees, additional fees and transportation and accommodation expenses for the fiscal year 2016 to support the Savola Group employees' Takaful Fund, amounting to SAR 77,705.	Exist/applicable
	B) A senior executive of the Group.	NA
7.	A description of any arrangement or agreement under which a shareholder of the issuer has waived any rights to dividends.	NA
8.	The Board confirms that: A) The company's accounting records were properly prepared. B) Savola Group's internal control systems and procedures are properly developed and effectively executed. C) There are no doubts about the Group's ability to continue its business activities.	

Note: The company emphasizes that during January 2013 it issued the first tranche of Sukuk with a total value of SAR 1.5 billion out of the total Sukuk amount that is equal to the company's capital, which will be launched in stages. The shareholders' General Assembly approved the Sukuk issue for an amount not exceeding the company's share capital at its meeting held on December 5, 2012.

**G-1-2) Board declaration according to Corporate Governance regulations for 2016 in accordance with Form (8) related to compliance with CG Code:**

No.	Declaration/confirmation
1.	The Board of Directors confirms that the external auditors' report for the year 2016 does not contain any reservations on the relevant annual financial statements. The Board is committed to provide the CMA with any additional information as may be required in the event of auditors expressing any reservations on the annual financial statements.
2.	The Board of Directors confirms that the Group's books and records comply with the accounting standards issued by SOCPA.
3.	There was no recommendation by the Board of Directors to replace the external auditors (KPMG), which were appointed for the fiscal year of 2016 to audit the Group's financials and they were not replaced during the year.
4.	The external auditors did not provide consultancy services to the Group during 2016 and did not receive any fees in this regard.
5.	The Group Board did not receive any request from the external auditor to convene a General Assembly.
6.	The Group has not granted any cash loans whatsoever to any of its Board members or rendered guarantees with respect to any loan entered into by a Board member with third parties.
7.	There were no penalties or precautionary attachments imposed on the Company by the Capital Market Authority, or by any other supervisory, regulatory, or judicial body.
8.	The Company has avoided taking any action that might hamper the use of shareholders' voting rights.
9.	The Group Board did not receive any request to convene a General Assembly or a request to add one or more items to the agenda upon its preparation from a number of shareholders whose shareholdings represent at least 5% of the equity share capital.
10.	The company's bylaws do not specify the use of cumulative voting when electing the Board members by the shareholders' General Assembly. Although the Board has twice recommended to the EGM to use this method of voting, it was rejected by the EGM in both meetings. Hence, the cumulative voting system was not adopted to elect Board members and not included in the Company's bylaws.
11.	The Savola Group does not grant employees any stock options and is committed to declaring this whenever applicable.
12.	The Chairman of the Board did not receive a written request to call for an unforeseen meeting from any two or more of the Board members during 2016.
13.	The Board of Directors did not waive any of the company's debts during the year.

## H) Compliance with Corporate Governance regulations issued by the CMA based on 'comply and explain' approach

The Board confirms that during 2016 the Group complied with Corporate Governance regulations issued by CMA, except for the following guiding or (non-mandatory) items where the reasons for non-appliance were clarified:

No.	Article/Clause No in accordance with CG regulations	The question in accordance with Form (8)	Reasons for non or partial compliance
1.	Article 6, Clause (b) (cumulative voting)	Did the company AOA specify cumulative voting as the voting method in the General Assembly for the nomination of Board Members? If so, was the cumulative voting method applied in the nomination of the current Board members?	<p>Explanation: The Company's bylaws do not specify the use of cumulative voting when electing the Board members by General Assembly, as this has been voted against by the General Assembly.</p> <p>Justification: The General Assembly rejected the cumulative voting mechanism. Although the Board has twice recommended to the EGM to use this method of voting, it was rejected by the EGM in both meetings.</p>
2.	Article 6, Clause (d) of CG Regulations	(d) Investors who are judicial persons and who act on behalf of others – eg, investment funds – shall disclose in their annual reports their voting policies, actual voting, and ways of dealing with any material conflict of interests that may affect the practice of the fundamental rights in relation to their investments.	<p>Explanation: Clause (d) of Article 6 of the CG regulations was not implemented because it does not apply to the Company.</p> <p>Justification: This clause relates to legal entities such as investment funds, limited liability companies, closed joint stock companies, or any other non-listed associations that may not publish an annual report. Should they publish their annual report, it may not comply with the expected standards. As none of the considered legal entities mentioned in the section provided the company with their annual reports during 2016, it is difficult for Savola Group to view their voting policies, actual voting, and any essential conflict of interest that may affect the special foundation rights practice.</p> <p>In relation to the Group's policy (as a legal entity), regarding voting on conflict of interest matters and related parties transactions, the Group declares all these matters in its Board of Directors' annual report, as well as observing the rules of the Capital Market Authority and the Ministry of Commerce and Investment, which require a vote on the matter in the general assembly, especially if it had relations to any of the Board members. Also, it must be recorded in the assembly's records, ensuring that any related party may not vote (in the Board or general assembly). If it didn't have any relation to any of the Board members and is related to other parties, this will be declared in the Board's annual report. Its representatives cannot vote on any of the terms that have a beneficial relationship to any other legal personality, according to the laws.</p>
3.	Article 12, Clause (i)	(i) Judicial person who is entitled under the	Explanation: Clause (b) of article 2 of the CG regulations was not implemented because it does not apply to the



	of CG Regulations	company's bylaws to appoint representatives in the Board of Directors, is not entitled to nomination vote for other members of the Board of Directors.	company. Justification: The Group confirms that no legal entity is entitled under the company's bylaws to appoint representatives to the Board of Directors.
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#### **I) Procedure to monitor the effectiveness of Savola's governance code**

The Group has a Corporate Governance (CG) Manual developed and approved for the first time in 2004, and continue updating it in line with the CG regulations issued by the CMA and international best practice in CG and transparency, and has submitted the latest version to the CMA.

The Group, during 2016, contracted a specialized consulting firm to review and update its Corporate Governance Manual in accordance with the new Companies' Law and new regulations that were issued by the relevant authorities; and in accordance with some of the Group structural needs that relate to the holding company operating model, which organizes the relationship between the Group and its subsidiaries. The said project is expected to concluded and be approved by management during 2017.

The Board of Directors formed a Compensation, Nominations, and Governance Committee. Part of its role is to supervise and monitor the implementation of the CG code and transparency practices. A dedicated CG and Compliance Officer has a support team at Group level to monitor CG code implementation and compliance, ensure proper implementation of the Committee's resolution regarding CG, and submit regular reports to the Committee. The Group Board and CEO supervise the overall implementation and development of the governance code in general.

#### **Saafa award for integrity and transparency**

The Group continued, during 2016, to apply corporate governance mechanisms through its Board of Directors, Board of Directors of its subsidiaries, committees, executive management, and sectors. It also continues to implement corporate governance regulations through its own CG own Manual and by adhering to the rules and regulations issued by the Capital Market Authority and the Ministry of Commerce and Investment, as well as observing international best practices in transparency and corporate governance. Consequently, the Group was granted the 2016 Saafa Award for Integrity and Transparency.

## THIRD: AUDIT COMMITTEE REPORT

### Introduction

The Council of Ministers of the Kingdom of Saudi Arabia approved the New Companies' Law on 9 November 2015 and this was published in the Official Gazette (Umm Al Qura) on 22/2/1437H (4 December 2015). The Ministry of Commerce and Investment announced that the new Companies' Law shall come into force 150 days from its publication in the Saudi Official Gazette (2 May 2016).

In line with article (104) of the new Companies' Law which states that, "The audit committee shall review the company's financial statements and the auditor's reports and notes and give its comments thereon, if any. Further, the audit committee must prepare a report including its opinion regarding appropriateness of the company's internal control system as well as the tasks it has carried out to the extent of its powers. The board of directors shall file sufficient copies of such reports with the company's head office at least ten days before the scheduled meeting of the general assembly with a view to deliver a copy of such report to those shareholders who desire to obtain the same. The report shall be recited at the meeting of the assembly."

We are delighted to present to you Savola Group Audit Committee report in line with article (104) of the new Companies' Law and will be glad to answer any questions in this regard after the Chairman of the Audit Committee presents the report.

### Appointment

Savola Group Audit Committee was appointed at the Ordinary General Assembly Meeting No (38), held on July 26, 2016 in line with the new Companies' Law Article No (101), which approved by a majority vote of 322,393,446 (representing 99.99% of attending votes and 60.3% of the Company's issued shares) the formation of the Audit Committee and the charter describing its functions, responsibilities, and guidelines, as well as remuneration of selected members for the new office term, beginning from July 1, 2016 for three years.

The appointment of Mr Fahad Abdullah Al-Kassim, Mr Abdulaziz Al Ghufaily, Mr Abdul Aziz Al-Issa, Dr Abdulraof Suliman Banaja, and Mr Khalid Mohammed Alsolai as Audit Committee members was approved at the Ordinary General Assembly. Subsequent to the Shareholders Assembly, an Audit Committee meeting selected Mr Fahad Al-Kassim (independent member of the Board of Directors) as its Chairman.

### Savola Group Operating Model

The current operating model of the Group, as holding company, shows independence of OpCos operational aspects. Hence, all interactions between committees and internal audit departments of the Group and its subsidiaries are performed through representations of the Group in its subsidiaries Audit Committees. In addition, these interactions are governed by the charters of the Audit Committee and Internal Audit Department, and the Level of Authority Matrix that is in place to govern these interactions.

### Committee roles and responsibilities

The Committee's main duties and responsibilities include oversight of the internal audit function, its roles, and effectiveness – according to the rules, regulations, and norms of business related to it. This includes oversight of the annual and quarterly financial statements before previewing them to the Board of Directors for their input and recommendation, to ensure integrity, fairness, and transparency among other requirements of the rules, regulations, and related business norms.

The Committee also oversees the effectiveness of the systems of internal control and provide periodic reports to the Board of Directors. It also recommends to the Board the appointment of external auditors, exclusion of them, their fees, and their performance assessments. It ensures the independence of the external auditor and the objectivity and effectiveness of auditing, taking into consideration related rules and standards.

It investigates grievances and claims raised by stakeholders to the Group, as well as identifying risks and managing them effectively by continuously formulating policies and plans to ensure their implementation in accordance with best practices. For more information on the Committee's roles and responsibilities please refer to the Committee Charter on the Savola website ([www.savola.com](http://www.savola.com)).

### Committee members' qualifications

The qualifications of the Committee members who are also members of the Savola Group Board of Directors were stated above.

Qualifications of those Committee members who are not also Savola Board members:

- Dr Abdulraoof Banaja holds a PhD in Economics from the University of California, Santa Barbara, USA (1981). He is on the boards and committees of several companies, such as the Audit Committee of Panda Retail Co and Savola Foods Co, and many other joint stock companies. Previously, he was a consultant to the Saudi Arabian Monetary Agency and an economic consultant for the Ministry of Finance. He has held many other roles and positions in local and regional banks.
- Mr Khaled Alsolae holds a Bachelor's degree in Managerial Sciences, Accountancy Department, from King Saud University (1983), and a Diploma of Economics and Accountancy from the Boulder Economic Institute, Colorado, USA. In addition, he is a Certified Public Accountant (CPA) from the USA, and he is a Certified Fraud Examiner (CFE) from the USA. He has more than 30 years' experience in finance, internal audit, financial analysis, and financial accountancy arbitration, and corporate governance.

### Committee membership and meeting records:

	Committee member name	Role	Meetings during 2016							Total
			Previous office term ended July 30, 2016				Current office term began July 1, 2016			
			20 Jan	21 Feb	28 Mar	19 Apr	26 Jul	1 Spt	19 Oct	
1.	Mr Fahad Al-Kassim (Independent, Savola Board member)	Chairman	✓	✓	✓	✓	✓	✓	✓	(7) out of (7)
2.	Mr Abdulaziz K. Al Ghufaily (Non-executive, Savola Board member)	Member	✓	✓	×	✓	×	✓	✓	(5) out of (7)
3.	Abdulaziz I. Alissa (Non-executive, Savola Board member)	Member	NA				×	✓	✓	(2) out of (3)
4.	Dr Abdulraoof Banaja (Independent, external member)	Member	NA				✓	✓	✓	(3) out of (3)
5.	Mr Khalid M. AlSolae (Independent external member)	Member	NA				✓	✓	✓	(3) out of (3)
-	Mr Tarik M. Ismail	Committee secretary	✓	✓	✓	✓	✓	✓	✓	(7) out of (7)
Members during the previous term										

-	Mr. Abdulkareem Abu Alnasr (Previous independent Board member)	Previous Chairman	✓	✓	✓	✓	NA	(4) out of (4)
-	Dr Mohammed Ali Ikhwan (Independent external member)	Previous member	✓	✓	✓	✓	NA	(4) out of (4)
-	Mr Abdulhameed S. Almuhaideb (Independent external member)	Previous member	✓	✓	✓	✓	NA	(4) out of (4)

As part of its role, the audit committee recommended to the Board of Directors the appointment of Al Fozan & Co (KPMG) to be the external auditor of the Group's financials for the 2016 fiscal year, with SAR 500,000 as fees to audit the Company's quarterly, annual, and closing financial statements. The Committee also reviewed the quarterly and closing financial statements for 2016 with the external auditor, and recommended to the Board of Directors the distribution of dividends during the year.

In addition, the Committee reviewed the accuracy of the financial statements and its fulfilment of the requirements of the Generally Accepted Accountancy Reporting in Saudi Arabia that relate to the Group. Its recommendation was passed to the Board of Directors. The Committee has also approved the general framework for the Group's internal audit and risk management strategy.

The Group has an Internal Audit department and other departments in its operating companies. The Internal Auditor reports to the Audit Committee and submits periodic reviews.

#### Audit Committee remuneration:

No	Committee member name	Committee annual remuneration (SAR 100,000 per year)	Committee meetings attendance fees (SAR)	Total (SAR)	Other expenses
1.	Mr Fahad Al-Kassim (Independent, Savola Board member)	100.000	35.000	135.000	4,870
2.	Mr Abdulaziz K. Al Ghufaily (Non-executive, Savola Board member)	100.000	25.000	125.000	0
3.	Mr Abdulaziz I. Alissa (Non-executive, Savola Board member)	50.000	10.000	60.000	0
4.	Dr Abdulraoof Banaja (Independent External member)	50.000	15.000	65.000	0
5.	Mr Khalid M. AlSolae (Independent external member)	50.000	15.000	65.000	7,305
Members during the previous term					
-	Mr Abdulkareem Abu Alnasr (Previous Independent Board member)	50.000	20.000	70.000	0
-	Dr Mohammed Ali Ikhwan (Independent external member)	50.000	20.000	70.000	0
-	Mr Abdulhameed S. Almuhaideb (Independent external member)	50.000	20.000	70.000	9,740
Total		500.000	160.000	660.000	21,915

## Summary of Audit Committee primary duties and responsibilities in 2016

### Financial reporting

- Reviewed and recommended to the group's Board of Directors the approval of the preliminary quarterly results and year-end financial statements, focusing particularly on the reliability of the information disclosed therein, changes in accounting policy, significant and unusual events, reasonableness of accounting estimates for significant issues, and compliance with accounting standards and other legal requirements.
- Closely monitored progress on the transition plan to adopt IFRS over the three phases set by the Capital Market Authority which led to the recommendation of finalizing the accounting policies necessary for the preparation of the financial statements under IFRS to the Board of Directors, which they approved in their meeting on November 29, 2016. In addition, monitor the readiness for a seamless transition to IFRS by the end of the quarter ending 31<sup>st</sup> March, 2017 as specified in the applicable regulatory requirements.

### Internal audit

- Reviewed and approved the Group's internal audit function services, scope, enablers, methodology, outputs, plan, and whether it has the necessary authority and resources to carry out its work while maintaining its independence.
- Reviewed and monitored the effectiveness of the governance mechanism that guides internal audit function activities and interaction between the group and its subsidiaries.
- Reviewed and assessed the internal audit reports, and monitored the tracking and follow-up process determining whether or not appropriate action is taken on the recommendations of the Group's internal audit function.

### External audit

- Reviewed the process of appointing the external auditors for 2016, including sending invitations to five external auditors and ensuring their independence in line with Ministry of Commerce and Investment regulations, reviewing analysis of quotations received, and making recommendations to the group's Board of Directors on their appointment.
- Reviewed the external auditor's service delivery plan, scope of work, the results of the audits, the relevant audit reports and management letter, and management responses or comments to the audit findings.
- Reviewed and ensured that appropriate assistance was given by the Group's executive management team to the external auditors and that no difficulties were encountered in the course of the audit work, including any restrictions on the scope of activities or access to required information.

### Enterprise risk management (ERM) process

Monitored the progress made during the year to launch Savola's ERM process that will promote active involvement from the Board of Directors and Executive Management in the risk management process to ensure a uniform view of risk across the Group.

### Related-party transactions

Reviewed the results of external auditor's limited review of Savola related party transactions, carried out in the ordinary course of business and with no preference when dealing with third parties.

### Audit Committee report

The Committee has developed its Report, and recommend to distribute to shareholders, in line with the new Companies' Law Article No (104), including inclusion of this report as a separate part of the Group's Annual Board of Directors' Report.

### Annual review of the effectiveness of internal control producers and results of the Group

The Executive Management of the Group and its subsidiaries certifies on an annual basis their responsibility for establishing and maintaining internal control procedures designed to provide reasonable assurance regarding the effectiveness and efficiency of operations, the reliability of financial reporting, and compliance with applicable laws and regulations. The internal control certificates for 2016 were handed over and filed with the Group's legal counsel.

The internal audit function at the Group and its subsidiaries execute the annual audit plan approved by the Audit Committee at the Group and its subsidiaries to evaluate the existing condition of internal control procedures focusing on the assessment of the control environment; risks, policies, and procedures; segregation of duties; information systems; and a randomly selected sample of activities within the planned audit area with the objective of testing the effectiveness and efficiency of internal control procedures' design and operation to ensure and obtain reasonable assurance regarding their effectiveness and efficiency during the year.

The Group's external auditors conducted their audit in accordance with auditing standards generally accepted in Saudi Arabia which require that they plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. This resulted in providing an unqualified opinion on the group's consolidated financial statements during 2016.

Based on the annual review of internal control procedures selected for testing during 2016 by the audit committee, the external auditors and the internal audit functions at the Group and its subsidiaries, the results of internal control procedures provided reasonable assurance regarding the effectiveness and efficiency of operations, the reliability of financial reporting, and compliance with applicable laws and regulations.

However, we emphasize that due to the geographical spread of the Group's operations locally and regionally we cannot conclude exclusively on the comprehensiveness of the internal control procedures, as these producers in substance, rely on selecting random samples as abovementioned.

Accordingly, the Audit Committees at the Group and its subsidiaries' efforts are focused continuously to develop and improve the effectiveness and efficiency of the internal control procedures review mechanism in place across the Group and its subsidiaries.

### Board of Directors

March 2017