

**SAVOLA GROUP COMPANY**  
(A Saudi Joint Stock Company)

UNAUDITED INTERIM CONSOLIDATED FINANCIAL  
STATEMENTS FOR THE THREE-MONTH AND SIX-MONTH PERIODS  
ENDED JUNE 30, 2014  
AND INDEPENDENT ACCOUNTANTS' LIMITED REVIEW REPORT

**SAVOLA GROUP COMPANY**  
**(A Saudi Joint Stock Company)**  
**UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE-MONTH PERIOD ENDED JUNE 30, 2014**

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## **LIMITED REVIEW REPORT**

July 16, 2014

To the Shareholders of Savola Group Company:  
(A Saudi Joint Stock Company)

### **Scope of review**


We have reviewed the accompanying interim consolidated balance sheet of Savola Group Company (A Saudi Joint Stock Company) (the "Company") and its subsidiaries (collectively the "Group") as of June 30, 2014 and the interim consolidated income statement for the three-month and six-month periods ended June 30, 2014, and the interim consolidated statement of cash flows for the six-month period then ended, including the related notes which form an integral part of these interim consolidated financial statements. These interim consolidated financial statements are the responsibility of the Group's management and have been prepared by them and submitted to us together with all the information and explanations which we required.

We conducted our limited review in accordance with the standard of Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants. A limited review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. The scope of such limited review is substantially less than an audit conducted in accordance with auditing standards generally accepted in Saudi Arabia, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

### **Review conclusion**

Based on our limited review, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements for them to be in conformity with accounting standards generally accepted in Saudi Arabia.

### **PricewaterhouseCoopers**

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**SAVOLA GROUP COMPANY**  
**(A Saudi Joint Stock Company)**  
**Interim consolidated balance sheet**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

		As at June 30,	
	Note	2014 (Unaudited)	2013 (Unaudited)
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		1,351,224	1,514,742
Accounts receivable		1,551,552	1,492,694
Inventories		4,513,694	3,787,726
Prepayments and other receivables		2,233,709	2,444,895
Assets classified as held for sale	3	78,207	160,701
		<u>9,728,386</u>	<u>9,400,758</u>
<b>Non-current assets</b>			
Long term receivables	4	24,780	175,335
Investments	4	8,233,167	7,631,327
Property, plant and equipment		6,495,929	5,697,685
Intangible assets		1,334,421	1,340,128
		<u>16,088,297</u>	<u>14,844,475</u>
<b>Total assets</b>		<u>25,816,683</u>	<u>24,245,233</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Short-term borrowings	5	3,994,863	4,145,625
Current maturity of long-term borrowings	6	601,335	702,588
Accounts payable		3,142,918	2,785,738
Accrued and other liabilities		2,263,169	2,222,006
Liabilities classified as held for sale	3	109,849	152,124
		<u>10,112,134</u>	<u>10,008,081</u>
<b>Non-current liabilities</b>			
Long-term borrowings	6	4,190,192	4,140,940
Deferred tax liability		43,914	49,256
Deferred gain		188,265	116,408
Long-term payables		53,750	50,983
Employee termination benefits		363,952	345,410
		<u>4,840,073</u>	<u>4,702,997</u>
<b>Total liabilities</b>		<u>14,952,207</u>	<u>14,711,078</u>
<b>Equity</b>			
Share capital	7	5,339,807	5,000,000
Share premium		342,974	-
Statutory reserve		1,387,678	1,217,231
General reserve		4,000	4,000
Retained earnings		3,473,453	2,722,029
Fair value reserve		232,889	48,618
Effect of acquisition transaction with non-controlling interest without change in control		(184,199)	2,042
Currency translation differences		(707,883)	(889,615)
<b>Equity attributable to shareholders' of the parent company</b>		<u>9,888,719</u>	<u>8,104,305</u>
Non-controlling interest		<u>975,757</u>	<u>1,429,850</u>
<b>Total equity</b>		<u>10,864,476</u>	<u>9,534,155</u>
<b>Total liabilities and equity</b>		<u>25,816,683</u>	<u>24,245,233</u>

**Contingencies and commitments**

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The notes on pages 7 to 19 form an integral part of these interim consolidated financial statements.

**SAVOLA GROUP COMPANY**  
**(A Saudi Joint Stock Company)**  
**Interim consolidated income statement**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	Three-month period ended June 30,		Six-month period ended June 30,	
		2014 (Unaudited)	2013 (Unaudited)	2014 (Unaudited)	2013 (Unaudited)
Revenues		7,629,654	6,723,327	14,121,380	13,913,191
Cost of sales		(6,339,860)	(5,459,721)	(11,715,339)	(11,258,963)
Gross profit		1,289,794	1,263,606	2,406,041	2,654,228
Share in net income of associates and dividend income of available-for-sale investments – net	4	268,516	168,362	502,109	278,395
<b>Total income</b>		<b>1,558,310</b>	<b>1,431,968</b>	<b>2,908,150</b>	<b>2,932,623</b>
<b>Operating expenses</b>					
Selling and marketing		(711,184)	(623,525)	(1,361,097)	(1,253,460)
General and administrative		(152,705)	(160,295)	(312,683)	(319,718)
<b>Total expenses</b>		<b>(863,889)</b>	<b>(783,820)</b>	<b>(1,673,780)</b>	<b>(1,573,178)</b>
Income from operations		694,421	648,148	1,234,370	1,359,445
<b>Other income (expenses)</b>					
Gain on disposal of investments		17,705	-	17,705	-
Financial charges		(116,241)	(51,285)	(169,583)	(179,530)
Income before zakat and foreign taxes		595,885	596,863	1,082,492	1,179,915
Zakat and foreign income tax		(34,491)	(77,246)	(60,307)	(207,583)
Net income for the period		561,394	519,617	1,022,185	972,332
Net income attributable to:					
• Shareholders' of the parent company		513,274	387,761	936,534	682,963
• Non-controlling interest's share of period's net income in subsidiaries		48,120	131,856	85,651	289,369
Net income for the period		561,394	519,617	1,022,185	972,332
<b>Earnings per share:</b>					
Operating income	10	1.30	1.29	2.31	2.72
Net income for the period attributable to the shareholders' of the parent company		0.96	0.78	1.75	1.37
Weighted average number of shares outstanding (in thousand)	10	533,981	500,000	533,981	500,000

The notes on pages 7 to 19 form an integral part of these interim consolidated financial statements.

**SAVOLA GROUP COMPANY**  
**(A Saudi Joint Stock Company)**  
**Interim consolidated cash flow statement**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

		Six month period ended June 30,	
		2014	2013
	Note	(Unaudited)	(Unaudited)
<b>Cash flow from operating activities</b>			
Net income for the period		1,022,185	972,332
<u>Adjustments for non-cash items</u>			
Depreciation, amortisation and impairment		311,160	269,977
Financial charges – net		169,583	179,530
Share in net income of associates		(456,025)	(278,302)
Capital gain		(17,705)	-
Gain on sale of property, plant and equipment		(3,478)	(5,713)
<u>Changes in working capital</u>			
Accounts receivable		(373,038)	(196,741)
Inventories		(208,976)	(370,999)
Prepayments and other receivables		(543,967)	(897,577)
Net change in long term receivable		3,206	(7,436)
Accounts payable		472,963	162,633
Accrued and other liabilities		439,655	919,532
Employee termination benefits		21,406	22,909
Net cash generated from operating activities		836,969	770,145
<b>Cash flow from investing activities</b>			
Net change in deferred tax liability		6,124	19,896
Purchase of property, plant and equipment		(676,179)	(456,563)
Dividends received		275,396	212,242
Proceeds from sale of property, plant and equipment		76,539	43,805
Proceeds from sale of subsidiary		105,754	-
Net change in intangible assets		(12,184)	(37,716)
Net cash utilized in investing activities		(224,550)	(218,336)
<b>Cash flow from financing activities</b>			
Net change in short-term borrowings	5	455,680	748,111
Net change in long term borrowings	6	(41,335)	379,262
Changes in non-controlling interest		(336,693)	(76,788)
Financial charges – net		(169,583)	(179,530)
Dividends paid	7	(531,774)	(492,619)
Net cash generated from (utilized in) financing activities		(623,705)	378,436
<b>Net change in cash and cash equivalents</b>			
		(11,286)	930,245
Effect of currency exchange rates on cash and cash equivalents		(1,214)	(358,762)
Cash and cash equivalents at beginning of period		1,363,724	943,259
Cash and cash equivalents at end of period		1,351,224	1,514,742

(Continued)

**SAVOLA GROUP COMPANY**  
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**Interim consolidated cash flow statement**  
 (All amounts in Saudi Riyals thousands unless otherwise stated)

	Six month period ended June 30,	
Note	2014 (Unaudited)	2013 (Unaudited)
<b>Supplemental schedule of non-cash information</b>		
Fair value reserve	112,907	54,319
Currency translation differences	(52,504)	(418,547)
Directors' remuneration	1,100	1,100

The notes on pages 7 to 19 form an integral part of these interim consolidated financial statements.

**SAVOLA GROUP COMPANY**  
**(A Saudi Joint Stock Company)**

**Notes to the interim consolidated financial statements for the six-month period ended June 30, 2014**  
**(Unaudited)**

(All amounts in Saudi Riyals thousands unless otherwise stated)

**1 General information**

Savola Group Company (the "Company"), a Saudi joint stock company, was formed under the Regulations for Companies in the Kingdom of Saudi Arabia per Royal Decree number M/21 dated Rabi-ul-Awal 29, 1398H (corresponding to March 9, 1978). The Company's commercial registration number 4030019708 was issued in Jeddah on Rajab 21, 1399H (corresponding to June 16, 1979). The objectives of the Company along with its subsidiaries includes the manufacturing and marketing of vegetable oils and to set up related industries, retail outlets, dairy products, fast foods, packing materials, exports and imports, commercial contracting, trade agencies, development of agricultural products and real estate related investment activities.

The accompanying interim consolidated financial statements include the accounts of the Company's and its local and foreign consolidated subsidiaries.

At June 30, the Company has investments in the following subsidiaries (collectively referred to as the "Group"):

**(a) Direct subsidiaries of the Company**

**(i) Operating subsidiaries**

Subsidiary name	Country of incorporation	Principal business Activity	Ownership interest (%) at June 30	
			2014	2013
Savola Foods Company ("SFC")	Saudi Arabia	Foods	100	90
Al-Azizia Panda United Company ("APU")	Saudi Arabia	Retail	92	74.4
Savola Packaging Systems Limited ("SPS")	Saudi Arabia	Manufacturing of Plastic packaging products	100	100
Al Matoun International for Real Estate Investment Holding Company	Saudi Arabia	Real Estate	80	80
United Sugar Company, Egypt ("USCE")	Egypt	Manufacturing of Sugar	19.32	19.32
Giant Stores Trading Company ("Giant")	Saudi Arabia	Retail	10	8

**(ii) Dormant and Holding subsidiaries**

Subsidiary name	Country of incorporation	Principal business Activity	Ownership interest (%) at June 30	
			2014	2013
Kafazat Al Kawniah for Real Estate Limited	Saudi Arabia	Holding Company	100	80
Alwaqat Al Kawniah Limited	Saudi Arabia	Holding Company	100	60
Aalinah Al Kawniah Limited	Saudi Arabia	Holding Company	100	100
Abtkar Al Kawniah Limited	Saudi Arabia	Holding Company	100	80
Adeem Arabia Company Ltd. ("AAC")	Saudi Arabia	Holding Company	100	80
Savola Industrial Investments Co. ("SIIC")	Saudi Arabia	Holding Company	5	4.5
Madarek Investment Company	Saudi Arabia	Holding Company	100	100
Utur Packaging Materials Company Limited ("Utur")	Saudi Arabia	Holding Company	100	100
Al Mojammat Al Mowahadah Real Estate Company ("Mojammat")	Saudi Arabia	Holding Company	100	100
Marasina International Real Estate Investment Ltd.	Saudi Arabia	Holding Company	100	100
Asda'a International Real Estate Investment Ltd.	Saudi Arabia	Holding Company	100	100
Masa'ay International Real Estate Investment Ltd.	Saudi Arabia	Holding Company	100	100



**SAVOLA GROUP COMPANY****(A Saudi Joint Stock Company)****Notes to the interim consolidated financial statements for the six-month period ended June 30, 2014  
(Unaudited)**

(All amounts in Saudi Riyals thousands unless otherwise stated)

**(ii) Dormant and Holding subsidiaries (continued)**

Subsidiary name	Country of incorporation	Principal business Activity	Ownership interest (%) at June 30	
			2014	2013
Saraya International Real Estate Investment Ltd.	Saudi Arabia	Holding Company	100	100
Savola Trading International Limited	British Virgin Island	Dormant Company	100	100
United Properties Development Company ("UPDC")	Saudi Arabia	Dormant Company	100	100
Kamin Al Sharq for Industrial Investments ("Kamin")	Saudi Arabia	Dormant Company	100	100
Arabian Sadouk for telecommunications Co. ("Sadouk")	Saudi Arabia	Dormant Company	100	100
Al Maoun International Holding Company	Saudi Arabia	Dormant Company	100	100
Afia Foods Arabia	Saudi Arabia	Dormant Company	100	100
Al Gharra International for Real Estate Development Company	Saudi Arabia	Holding Company	-	100
<b>(b) Subsidiaries controlled through SFC</b>				
Afia International Company ("AIC")	Saudi Arabia	Manufacturing of Edible oil	95.19	95.19
SIIC	Saudi Arabia	Holding Company	95	95
Savola Foods Emerging Markets Company Limited ("SFEM")	British Virgin Islands	Holding Company	95.43	95.43
Savola Foods for Sugar Company ("SFSC")	Cayman Islands	Holding Company	95	95
El Maleka for Food Industries Company	Egypt	Manufacturing of Pasta	100	100
El Farasha for Food Industries Company	Egypt	Manufacturing of Pasta	100	100
Savola Foods Company International ("SFCI") Limited	UAE	Holding Company	100	100
International Foods Industries Company Limited ("IFI")	Saudi Arabia	Manufacturing of Specialty fats	60	60
Alexandria Sugar Company Egypt ("ASCE")	Egypt	Manufacturing of Sugar	19	19
<u>SIIC</u>				
United Sugar Company ("USC")	Saudi Arabia	Manufacturing of Sugar	74.48	74.48
<u>USC</u>				
USCE	Egypt	Manufacturing of Sugar	56.75	56.75
ASCE	Egypt	Manufacturing of Sugar	62.13	62.13
Beet Sugar Industries	Cayman Islands	Dormant Company	100	100
<u>USCE</u>				
ASCE	Egypt	Manufacturing of Sugar	18.87	18.87
<u>SFEM</u>				
Savola Morocco Company	Morocco	Manufacturing of Edible oils	100	100
Savola Edible Oils (Sudan) Ltd.	Sudan	Manufacturing of Edible oils	100	100
AFIA International Company – Algeria	Algeria	Manufacturing of Edible oils	100	100

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**Notes to the interim consolidated financial statements for the six-month period ended June 30, 2014**  
**(Unaudited)**

(All amounts in Saudi Riyals thousands unless otherwise stated)

**(c) Subsidiaries controlled through AIC**

Subsidiary name	Country of incorporation	Principal business activity	Subsidiary ownership interest (%) at June 30	
			2014	2013
Savola Behshahr Company (SBEC)	Iran	Holding Company	90	80
Malintra Holdings	Luxembourg	Holding Company	100	100
Savola Foods Limited ("SFL")	British Virgin Islands	Holding Company	100	100
Afia International Company - Jordan	Jordan	Manufacturing of Edible oils	97.4	97.4
Inveskz Inc.	British Virgin islands	Holding Company	90	90
Afia Trading International	British Virgin islands	Trading Company	100	100
Savola Foods International	British Virgin Islands	Dormant Company	100	100
KUGU Gida Yatam Ve Ticaret A.S ("KUGU")	Turkey	Holding Company	100	100
<u>SBEC</u>				
Behshahr Industrial Company ("BIC")	Iran	Manufacturing of Edible oils	79.9	79.9
Margarine Manufacturing Company ("MMC")	Iran	Manufacturing of Edible oils	-	79.9
Tolue Pakshe Aftab ("TPA") Company	Iran	Trading and Distribution	100	100
<u>SFL</u>				
Afia International Company, Egypt	Egypt	Manufacturing of Edible oils	99.92	99.92
Latimar International Limited	British Virgin islands	Dormant Company	100	100
Elington International Limited	British Virgin islands	Dormant Company	100	100
<u>Inveskz Inc.</u>				
Savola Foods CIS	Kazakhstan	Manufacturing of Edible oils	-	100
<u>KUGU</u>				
Yudum Gida Sanayi ve Ticaret A.S ("Yudum")	Turkey	Manufacturing of Edible oils	100	100

**(d) Subsidiaries controlled through APU**

<u>APU</u>				
Giant	Saudi Arabia	Retail	90	90
Panda for Operations, Maintenance and Contracting Services	Saudi Arabia	Dormant Company	100	100
<u>Giant</u>				
Lebanese Sweets and Bakeries ("LSB")	Saudi Arabia	Dormant Company	95	95

**(e) Subsidiaries controlled through SPS**

<u>SPS</u>				
New Marina for Plastic Industries	Egypt	Manufacturing of plastic packaging products	100	100
Al Sharq Company for Plastic Industries. Ltd. ("Al-Sharq")	Saudi Arabia	Manufacturing of plastic packaging products	100	100

Effective September 16, 2009, the Group's subsidiary, APU acquired the operations of Saudi Geant Company Limited ("Geant") for a total consideration of Saudi Riyals 469.3 million, including cash consideration of Saudi Riyals 232 million and a deferred equity consideration of Saudi Riyals 237.3 million. The Company had paid the cash consideration on October 12, 2009 whereas the deferred equity component was settled during 2010, through issuance of 45.7 million new shares of APU at a price of Saudi Riyals 51.92 per share. Also as per the agreement, Geant is entitled to acquire 1% share of APU each year at an option value approximate to its fair value for a period of up to 3 years. During 2013, Geant has exercised its right of acquiring 1% ownership interest in APU. Accordingly, as of June 30, 2014, the ownership interest of the Group in APU has reduced to 92% and the Group realized a capital gain of Saudi Riyals 25.87 million, which is recorded in the balance sheet within 'Effect of acquisition transaction with non-controlling interest without change in control'. Geant is entitled to acquire additional 2% ownership interest in APU.

**SAVOLA GROUP COMPANY****(A Saudi Joint Stock Company)****Notes to the interim consolidated financial statements for the six-month period ended June 30, 2014 (Unaudited)****(All amounts in Saudi Riyals thousands unless otherwise stated)**

During second quarter of 2013, the Board of Directors of the Company approved to acquire the non-controlling interest ownership equity of 18.6% in APU and 10% in SFC from Al Muhaidib Holding Company in exchange for the issue of 33.9 million new shares of the Company. The transaction was completed upon shareholders' approval in an Extra Ordinary General Meeting in November 2013 and certain other legal formalities. As a result, as at December 31, 2013, the Company's share capital increased by Saudi Riyals 339.8 million and share premium increased by Saudi Riyals 342.9 million, upon issuance of new shares.

During June 2013, there was a fire incident in the Jeddah raw sugar warehouse of USC. During 2013, the loss adjuster, appointed by the insurance company of USC, completed its initial assessment of the losses incurred and submitted its report to the insurance company. Management believes that no significant loss will arise as a result of the final settlement of the claim.

During May 2014, AIC acquired additional 10% equity ownership interest in SBEC from Behshar Industrial Development Company ("BID"), a non-controlling interest, in exchange of disposing its indirect shareholding of 79.9% equity ownership interest in MMC to BID. Accordingly, the Group recorded an adjustment in 'Effect of acquisition transaction with non-controlling' on this transaction amounting to Saudi Riyals 212 million.

These interim consolidated financial statements were authorized for issue by the Company's Board of Directors on July 16, 2014.

**2 Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these interim consolidated financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

**2.1 Basis of preparation**

The accompanying interim consolidated financial statements have been prepared under the historical cost convention on the accrual basis of accounting, as modified by revaluation of available-for-sale investments and in compliance with accounting standards promulgated by Saudi Organization for Certified Public Accountants.

The interim consolidated financial statements for the three-month period ended June 30, 2014, have been prepared in accordance with SOCPA's Standard of Review of Interim Financial Reporting, on the basis of integrated periods, which views each interim period as an integral part of the financial year. Accordingly, revenues, gains, expenses and losses of the period are recognized during the period. The accompanying interim consolidated financial statements include all adjustments, comprising mainly of normal recurring accruals, considered necessary by the management to present fair statements of financial position, results of operations and cash flows. The interim consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's audited consolidated financial statements for the year ended December 31, 2013.

**2.2 Critical accounting estimates and judgments**

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

**a) Estimated impairment of goodwill**

The Group annually tests whether goodwill has suffered any impairment, as per policy stated in Note 2.3. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

**SAVOLA GROUP COMPANY****(A Saudi Joint Stock Company)****Notes to the interim consolidated financial statements for the six-month period ended June 30, 2014  
(Unaudited)**

(All amounts in Saudi Riyals thousands unless otherwise stated)

**(b) Impairment of available for sale investments**

The Group exercises judgment to calculate the impairment loss of available-for-sale investments as well as their underlying assets. This includes the assessment of objective evidence which causes an other than temporary decline in the value of investments. Any significant and prolonged decline in the fair value of equity investment below its cost is considered as objective evidence for the impairment. The determination of what is 'significant' and 'prolonged' requires judgment. The Group also considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

**(c) Provision for doubtful debts**

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. For significant individual amounts, assessment is made at individual basis. Amounts which are not individually significant, but are overdue, are assessed collectively and a provision is recognized considering the length of time considering the past recovery rates.

**(d) Provision for inventory obsolescence**

The Group determines its provision for inventory obsolescence based upon historical experience, expected inventory turnover, inventory aging and current condition, and current and future expectations with respect to sales. Assumptions underlying the provision for inventory obsolescence include future sales trends, and the expected inventory requirements and inventory composition necessary to support these future sales and offerings. The estimate of the Group's provision for inventory obsolescence could materially change from period to period due to changes in product offerings of those products.

**2.3 Investment in subsidiaries****(a) Subsidiaries**

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies to obtain economic benefit generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given or liabilities incurred or assumed at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Goodwill arising from acquisition of subsidiaries is reported under "intangible assets" in the accompanying interim consolidated balance sheet. Goodwill is tested annually for impairment and carried at cost, net of any accumulated amortization and impairment losses, if any. The subsidiaries over which the Group control is temporary are not consolidated and are accounted for as associates.

Inter-company transactions, balances and unrealized gains and losses on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Changes in a group's ownership interest in a subsidiary after acquiring control, is accounted as equity transactions and the carrying amounts of the non-controlling interests is adjusted against the fair value of the consideration paid and any difference is recognized directly in equity under "Effect of acquisition transactions with non-controlling interest without change in control".

**SAVOLA GROUP COMPANY****(A Saudi Joint Stock Company)****Notes to the interim consolidated financial statements for the six-month period ended June 30, 2014 (Unaudited)**

(All amounts in Saudi Riyals thousands unless otherwise stated)

**(b) Associates**

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated amortization and impairment losses, if any.

The Group's share of its associates' post-acquisition income or losses is recognized in the interim consolidated income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in associate companies equals or exceeds its interest in the associate and jointly-controlled company, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Dilution gains and losses arising in investments in associates are recognized in the income statement.

**(c) Investment in available-for sale investments**

Available-for-sale investments principally consist of less than 20% equity investments in certain quoted / unquoted investments. These investments are included in non-current assets unless management intends to sell such investments within twelve months from the balance sheet date. These investments are initially recognized at cost and are subsequently re-measured at fair value at each reporting date as follows:

- (i) Fair values of quoted securities are based on available market prices at the reporting date adjusted for any restriction on the transfer or sale of such investments; and
- (ii) Fair values of unquoted securities are based on a reasonable estimate determined by reference to the current market value of other similar quoted investment securities or are based on the expected discounted cash flows.

Cumulative adjustments arising from revaluation of these investments are reported as a separate component of equity, as fair value reserve until the investment is disposed.

**2.4 Segment reporting****(a) Business segment**

A business segment is group of assets and operations:

- (i) Engaged in revenue producing activities;
- (ii) Results of its operations are continuously analyzed by management in order to make decisions related to resource allocation and performance assessment; and
- (iii) Financial information is separately available.

**(b) Geographical segment**

A geographical segment is group of assets and operations engaged in revenue producing activities within a particular economic environment that are subject to risks and returns different from those operating in other economic environments.

**2.5 Foreign currency translations****(a) Reporting currency**

The interim consolidated financial statements of the Group are presented in Saudi Riyals which is the reporting currency of the Group.

**(b) Transactions and balances**

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the period-end exchange rates of monetary assets and liabilities denominated in foreign currencies, for the periods ended June 30, 2014 and 2013, are recognized in the interim consolidated income statement.

**SAVOLA GROUP COMPANY****(A Saudi Joint Stock Company)****Notes to the interim consolidated financial statements for the six-month period ended June 30, 2014  
(Unaudited)**

(All amounts in Saudi Riyals thousands unless otherwise stated)

**(c) Group companies**

The results and financial position of foreign subsidiaries and associates having reporting currencies other than Saudi Riyals are translated into Saudi Riyals as follows:

- (i) Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
- (ii) Income and expenses for each income statement are translated at average exchange rates; and
- (iii) Components of the equity accounts are translated at the exchange rates in effect at the dates that the related items originated.

Cumulative adjustments resulting from the translations of the financial statements of foreign subsidiaries and associates into Saudi Riyals are reported as a separate component of equity.

Any goodwill arising on acquisition of foreign subsidiaries and any subsequent fair value adjustments to the carrying values of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign subsidiaries and translated at the closing rate and recognized in the equity.

Dividends received from associates are translated at the exchange rate in effect at the transaction date and related currency translation differences are realized in the income statement.

When investments in foreign subsidiaries and associates are partially disposed-off or sold, currency translation differences that were recorded in equity are recognized in income as part of gain or loss on disposal or sale.

**(d) Hyperinflationary economies**

When the economy of a country in which the Group operates is deemed hyper inflationary and the functional currency of a Group entity is the currency of that hyper inflationary economy, the financial statements of such Group entities are adjusted so that they are stated in terms of the measuring unit current at the end of the reporting period. This involves restatement of income and expenses to reflect changes in the general price index from the start of the reporting period and, restatement of non-monetary items in the balance sheet, such as property, plant and equipment and inventories, to reflect current purchasing power as at the period end using a general price index from the date when they were first recognized. The gain or loss on the net monetary position for the period is included in finance costs or income. Comparative amounts are not adjusted.

The Group has operations in Iran and Sudan through its subsidiaries namely SBeC and Savola Sudan (the entities). As per the information provided by International Monetary Fund (IMF), the cumulative three year inflation rate for Iran and Sudan exceeded 100 percent as of December 31, 2013, this, combined with other indicators, resulted Iran and Sudan being declared as hyperinflationary economies during December 2013. As a result the Group has applied the hyperinflationary accounting requirements of IAS 29 to its Iran and Sudan operations with affect from January 1, 2013.

The conversion factors used to reflect current values is derived from the consumer price index (CPI), published by the World Bank and the respective Central Banks of the entities to adjust their financial information. Due to the application of IAS 29 the following items in the accompanying interim consolidated financial statement have been materially affected:

	<b>Saudi Riyals in thousands</b>
Total current assets increased by	249,307
Total non-current assets increased by	390,669
Total current liabilities increased by	15,151
Currency translation differences impacted by	284,950

Also, at June 30, 2013 the Group used an average exchange rate of Iranian Rials 6,605 (against 1 Saudi Riyal) to translate the SBeC operations and an average exchange rate of Sudani Pound 1.18 (against 1 Saudi Riyal) to translate the Savola Sudan operations. As mentioned above, during December 2013, the Group adopted hyperinflationary accounting which required the Group to use the closing exchange rate at December 31, 2013 of Iranian Rial 6,640 and Sudan Pound 1.50 to translate both the income statement and balance sheet of SBeC and Savola Sudan respectively. Also, the Group continues to adopt hyperinflationary accounting at June 30, 2014 and has used the closing exchange rate at June 30, 2014 of Iranian Rial 6,863 and Sudani Pound 1.52 to translate both the income statement and balance sheet of SBeC and Savola Sudan.

**SAVOLA GROUP COMPANY****(A Saudi Joint Stock Company)****Notes to the interim consolidated financial statements for the six-month period ended June 30, 2014  
(Unaudited)****(All amounts in Saudi Riyals thousands unless otherwise stated)****2.6 Cash and cash equivalents**

Cash and cash equivalents include cash in hand and with banks and other short-term highly liquid investments with maturities of three months or less from the purchase date, if any.

**2.7 Accounts receivable**

Accounts receivable are carried at original invoice amount less provision for doubtful debts. A provision for doubtful debts is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Such provisions are charged to the income statement and reported under "selling and marketing expenses". When an account receivable is uncollectible, it is written-off against the provision for doubtful debts. Any subsequent recoveries of amounts previously written-off are credited against "selling and marketing expenses" in the income statement.

**2.8 Inventories**

Inventories are carried at the lower of cost or net realizable value. Cost is determined using the weighted average method. The cost of finished products includes the cost of raw materials, labor and production overheads. Stores and spares are valued at cost, less any provision for slow moving items.

Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

**2.9 Property, plant and equipment**

Property, plant and equipment are carried at cost less accumulated depreciation, except construction in progress which is carried at cost. Land is not depreciated. Depreciation is charged to the interim consolidated income statement, using the straight-line method to allocate the costs of the related assets to their residual values over the following estimated useful lives:

	<b>Years</b>
Buildings	12.5 – 33
Leasehold improvements	3 – 33
Plant and equipment	3 - 30
Furniture and office equipment	3 - 16
Vehicles	4 - 10

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in the interim consolidated income statement.

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the interim consolidated income statement as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired.

**2.10 Assets and liabilities classified as held for sale**

Assets held for sale, comprises of assets and liabilities or a disposal group that is expected to be recovered primarily through sale rather than through continuing use. Immediately before classification as held for sale, all assets in a disposal group are measured at the lower of their carrying amount and fair value, less cost to sell. Subsequent to initial recognition, any impairment loss on a disposal group is first allocated to goodwill, (if there is any) and then to the remaining assets and liabilities on pro rata basis. However, no loss is allocated to financial assets, which continue to be measured in accordance with their initial accounting policies. Gains or losses on disposal of such assets or disposal groups are currently recognized in the interim consolidated income statement.

**2.11 Deferred charges**

Costs that are not of benefit beyond the current period are charged to the interim consolidated income statement, while costs that will benefit future periods are capitalized. Deferred charges, reported under "Intangible assets" in the accompanying balance sheet, include certain indirect construction costs incurred by the Group in relation to setting up its retail outlets. Such costs are amortized over periods which do not exceed five years.

**SAVOLA GROUP COMPANY****(A Saudi Joint Stock Company)****Notes to the interim consolidated financial statements for the six-month period ended June 30, 2014  
(Unaudited)****(All amounts in Saudi Riyals thousands unless otherwise stated)****2.12 Impairment of non-current assets**

Non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-current assets other than intangible assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the income statement. Impairment losses recognized on intangible assets are not reversible.

**2.13 Borrowings**

Borrowings are recognized as equivalent to the proceeds received. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of those assets. Other borrowing costs are charged to the interim consolidated income statement.

**2.14 Accounts payable and accruals**

Liabilities are recognized for amounts to be paid for goods and services received, whether or not billed to the Group.

**2.15 Provisions**

Provisions are recognized, when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

**2.16 Zakat and taxes**

The Company is subject to zakat in accordance with the regulations of the Department of Zakat and Income Tax ("DZIT"). Foreign shareholders in consolidated Saudi Arabian subsidiaries are subject to income taxes. Income tax provisions related to foreign shareholders in such subsidiaries are charged to the non-controlling interest in the accompanying interim consolidated financial statements. Provision for zakat for the Company and zakat related to the Company's ownership in the Saudi Arabian subsidiaries is charged to the income statement. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

The Company and its Saudi Arabian subsidiaries withhold taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

Foreign subsidiaries are subject to income taxes in their respective countries of domicile. Such income taxes are charged to interim consolidated income statement.

Deferred income tax assets are recognized on carry-forward tax losses and on all major temporary differences between financial income and taxable income to the extent that it is probable that future taxable profit will be available against which such carry-forward tax losses and the temporary differences can be utilized. Deferred income tax liabilities are recognized on significant temporary differences expected to result in an income tax liability in future periods. Deferred income taxes are determined using tax rates which have been enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

**2.17 Employee termination benefits**

Employee termination benefits required by Saudi Labor and Workman Law are accrued by the Company and its Saudi Arabian subsidiaries and charged to the income statement. The liability is calculated; as the current value of the vested benefits to which the employee is entitled, should the employee leave at the balance sheet date. Termination payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of Saudi Arabia.



**SAVOLA GROUP COMPANY****(A Saudi Joint Stock Company)****Notes to the interim consolidated financial statements for the six-month period ended June 30, 2014 (Unaudited)****(All amounts in Saudi Riyals thousands unless otherwise stated)**

Foreign subsidiaries currently provide for employee termination and other benefits as required under the laws of their respective countries of domicile. There are no funded or unfunded benefit plans established by foreign subsidiaries.

**2.18 Revenues**

Revenues are recognized upon delivery of products and customer acceptance, if any, or on the performance of services. Revenues are shown net of discounts and transportation expenses, and after eliminating sales within the Group.

Rental income from operating leases is recognized in the income statement over the lease term. Promotional and display income is comprised of income earned from promotion and display of various products by vendors within the Group's retail stores, and is recognized in the period in which the product is listed.

Dividend income is recognized when the right to receive payment is established.

**2.19 Selling, marketing and general and administrative expenses**

Selling, marketing and general and administrative expenses include direct and indirect costs not specifically part of costs of sales as required under generally accepted accounting principles. Allocations between selling, marketing and general and administrative expenses and cost of sales, when required, are made on a consistent basis.

**2.20 Dividends**

Dividends are recorded in the interim consolidated financial statements in the period in which they are approved by the shareholders of the Company.

**2.21 Operating leases**

Rental expense under operating leases is charged to the interim consolidated income statement over the period of the respective lease.

**2.22 Reclassification**

For better presentation, certain amounts relating to 2013 comparative interim consolidated financial statements have been reclassified to conform to the 2014 presentation.

**3 Assets and liabilities classified as held for sale**

During 2010, as an outcome of review of its foods business pruning strategy, the Group has decided to entrench its position in core markets and assess exiting from certain overseas operations. Accordingly, parts of manufacturing facilities within the edible oil segment of the Group are presented as 'held for sale'. During the period ended June 30, 2014, the Group management finalised an agreement with a third party and sold one part of such business at a gain of Saudi Riyals 16.9 million. The net profit relating to these business disposal groups amounted to Saudi Riyals 8.4 million during 2014 (2013: net loss of Saudi Riyals 0.78 million). At June 30, 2014, the 'held for sale' business comprised assets of Saudi Riyals 78.2 million (2013: Saudi Riyals 160.7 million) after recognition of an impairment loss of Saudi Riyals 115 million during 2010 and liabilities of Saudi Riyals 109.8 million (2013: Saudi Riyals 152.1 million).

**SAVOLA GROUP COMPANY**

(A Saudi Joint Stock Company)

Notes to the interim consolidated financial statements for the six-month period ended June 30, 2014  
(Unaudited)

(All amounts in Saudi Riyals thousands unless otherwise stated)

**4 Investments**

	Note	2014 (Unaudited)	2013 (Unaudited)
Investments in associates	4.1	7,328,965	6,892,222
Available-for-sale (AFS) investments	4.2	896,184	737,938
Other investments mainly representing long term bank deposits of a subsidiary		8,018	1,167
		<b>8,233,167</b>	<b>7,631,327</b>

**4.1 Investment in associates**

	Effective ownership interest (%)		2014 (Unaudited)	2013 (Unaudited)
	2014	2013		
Almarai Company ("Almarai")	36.52	36.52	5,626,252	5,271,856
Kinan International for Real Estate Development Company	29.9	29.9	646,511	513,430
Herfy Foods Services Company	49	49	345,478	306,827
Diyar Al Mashreq	30	30	285,653	261,038
Intaj Capital Limited	49	49	242,044	356,044
Al-Seara City Company For Real Estate Development	40	40	164,578	164,578
Knowledge Economic City Development Company	17	17	17,200	17,200
Others	Various	Various	1,249	1,249
			<b>7,328,965</b>	<b>6,892,222</b>

**4.2 Available for sale (AFS) investments**

AFS investments at June 30, principally comprise the following:

	Effective ownership interest (%)		2014 (Unaudited)	2013 (Unaudited)
	2014	2013		
<u>Quoted investments</u>				
Knowledge Economic City	6.4	6.4	454,382	307,338
Emaar the Economic City ("Emaar")	0.9	0.9	115,076	74,063
Taameer Jordan Holding Company	-	5	-	7,291
<u>Unquoted investments</u>				
Swicorp Joussour Company	14.81	14	186,299	208,819
Swicorp, Saudi Arabia	15	15	115,674	115,674
Others	Various	Various	24,753	24,753
			<b>896,184</b>	<b>737,938</b>

**5 Short-term borrowings**

Short-term borrowings consist of bank overdrafts, short-term loans and Murabaha financing arrangements from various commercial banks and financial institutions. Such debts bear financing charges at the prevailing market rates. Certain short-term borrowings of subsidiaries are secured by corporate guarantees of the Company.

**SAVOLA GROUP COMPANY****(A Saudi Joint Stock Company)****Notes to the interim consolidated financial statements for the six-month period ended June 30, 2014 (Unaudited)**

(All amounts in Saudi Riyals thousands unless otherwise stated)

**6 Long-term borrowings**

	<b>Note</b>	<b>2014 (Unaudited)</b>	<b>2013 (Unaudited)</b>
Saudi Industrial Development Fund (SIDF)	(a)	<b>11,809</b>	17,159
Commercial banks	(a)	<b>3,279,718</b>	3,326,369
		<b>3,291,527</b>	3,343,528
Sukuk	(b)	<b>1,500,000</b>	1,500,000
		<b>4,791,527</b>	4,843,528
Current maturity shown under liabilities		<b>(601,335)</b>	(702,588)
		<b>4,190,192</b>	4,140,940

(a) Borrowings from SIDF, commercial banks and other financial institutions represent financing for the Company and its consolidated subsidiaries. Certain of these borrowings are secured by a charge on the property, plant and equipment of certain subsidiaries. The loan agreements include covenants which, amongst other things, require certain financial ratios to be maintained. Some of the long-term borrowings of subsidiaries are secured by corporate guarantees of the Company.

(b) In an extraordinary general meeting held on December 15, 2012, the Company's shareholders approved the establishment of a Sukuk program pursuant to which the Company can issue Sukuk through one or more tranches for an amount that will not exceed the Company's paid-up capital amounting to Saudi Riyals 5 billion.

As of January 22, 2013, the Group completed its initial offering under this program by issuing Sukuk with a total value of Saudi Riyals 1.5 billion. The Sukuk issued have a tenor of 7 years, and have been offered at nominal value with an expected variable return to the Sukuk-holders of 6 months SIBOR plus 1.10%.

The covenants of the Sukuk require the Group to maintain certain financial and other conditions.

**7 Share capital and dividends declaration**

At June 30, 2014, the Company's share capital of Saudi Riyals 5.3 billion consists of 533.9 million fully paid shares of Saudi Riyals 10 each (June 30, 2013: Saudi Riyals 5 billion consisting of 500 million fully paid shares of Saudi Riyals 10 each). Please also refer to Note 1.

The Board of Directors in its meeting held on April 17, 2014, approved interim dividends of Saudi Riyals 267 million (representing Saudi Riyals 0.50 per share).

The Board of Directors on July 16, 2014, approved interim dividends of Saudi Riyals 267 million (representing Saudi Riyals 0.50 per share).

**8 Seasonal changes**

Some of the Group's activities are affected by seasonal movements related to the holy months of Ramadan, Shawwal and Hajj season, which cause revenue to increase significantly during those periods. The effect of such period for 2014 and 2013 principally fall in second and third quarters of the financial year.

**9 Segment information**

During the six-month periods ended June 30, 2014 and 2013, the principal activities of the Group related to the Food, Retail trading in various types of food and related products, Plastic manufacturing and Investment and other related activities. Selected financial information as of June 30, and for the six-month period ended on those dates, summarized by segment, is as follows:

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**Notes to the interim consolidated financial statements for the six-month period ended June 30, 2014 (Unaudited)**

(All amounts in Saudi Riyals thousands unless otherwise stated)

2014 (unaudited)	Foods	Retail	Plastic	Investments and other activities	Eliminations	Total
Property, plant and equipment – net	3,159,883	2,301,814	534,982	499,250	-	6,495,929
Other non-current assets	877,317	343,528	135,500	8,236,023	-	9,592,368
Revenues – net	7,583,478	6,101,630	566,042	31,694	(161,464)	14,121,380
Net income	368,952	146,027	23,265	415,901	(17,611)	936,534

2013 (unaudited)	Foods	Retail	Plastic	Investments and other activities	Eliminations	Total
Property, plant and equipment – net	2,815,451	1,708,838	534,102	639,294	-	5,697,685
Other non-current assets	904,187	325,785	130,236	7,786,582	-	9,146,790
Revenues – net	8,245,715	5,241,750	553,563	38,588	(166,425)	13,913,191
Net income	399,485	110,873	39,062	206,555	(73,012)	682,963

The Group's operations are conducted in Saudi Arabia, Egypt, Iran and other countries. Selected financial information as of June 30 and for the six-month periods then ended summarized by geographic area, is as follows:

2014 (unaudited)	Saudi Arabia	Egypt	Iran	Other countries	Total
Property, plant and equipment - net	3,952,333	1,598,813	692,581	252,202	6,495,929
Other non-current assets	8,684,269	496,091	94,497	317,511	9,592,368
Revenues – net	8,995,107	1,922,282	1,757,751	1,446,240	14,121,380
Net income	816,570	(22,985)	93,572	49,377	936,534

2013 (unaudited)	Saudi Arabia	Egypt	Iran	Other countries	Total
Property, plant and equipment - net	3,468,892	1,564,682	420,193	243,918	5,697,685
Other non-current assets	8,050,194	551,662	94,696	450,238	9,146,790
Revenues – net	8,169,104	1,592,479	2,554,114	1,597,494	13,913,191
Net income	511,366	3,182	151,450	16,965	682,963

## 10 Earnings per share

Earnings per share for the three-month and six-month periods ended June 30, 2014 and 2013, have been computed by dividing the operating income and net income attributable to shareholders of the Company for such periods by the weighted average number of shares outstanding during such periods. Also, see Note 1 and 7.

## 11 Contingencies and commitments

- (i) At June 30, 2014, the Group had outstanding commitments of Saudi Riyals 156.4 million (2013: Saudi Riyals 105.8 million) for investments.
- (ii) At June 30, 2014, the Department of Zakat and Income Tax (DZIT) has assessed an additional Zakat liability of Saudi Riyals 44.2 million (2013: Saudi Riyals 8.5 million) relating to prior periods against the Company and certain of its consolidated subsidiaries. Management has appealed such assessments and believes that the DZIT will eventually reverse the assessments. Accordingly, no provision for such amount has been made in the accompanying interim consolidated financial statements.