

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

CONSOLIDATED
FINANCIAL STATEMENTS

For the year ended December 31, 2017
together with the Independent Auditors' Report

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS - FOR THE YEAR ENDED DECEMBER 31, 2017

INDEX	Page
Independent auditor's report on consolidated financial statements	
Consolidated Statement of Financial Position	1
Consolidated Statement of Profit or Loss and Other Comprehensive Income	2 - 3
Consolidated Statement of Changes in Equity	4 - 5
Consolidated Statement of Cash Flows	6 - 7
Notes to the Consolidated Financial Statements	8 – 91



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Independent auditors' report

To the Shareholders

Savola Group Company - Saudi Joint Stock Company
Jeddah, Kingdom of Saudi Arabia

Opinion

We have audited the consolidated financial statements of Savola Group Company ("the Company") and its subsidiaries ("the Group") which comprise the consolidated statement of financial position as at December 31, 2017, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants (SOCPA).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition

Refer Note 3(m) for the accounting policy relating to revenue recognition and Note 27 for the related disclosures.

Key audit matter

During the year ended December 31, 2017, the Group recognized total revenue of SR 23,831 million (2016: SR 26,331 million).

Almost all of the Group's sales arrangements are considered straightforward, being on a point-in-time basis of recognition and requiring little judgment to be exercised. However, in certain cases the Group recognizes revenue through sales to related parties and certain components provide right of return to customers; which increase level of judgment to revenue recognition at the year end.

Revenue recognition is considered a key audit matter in view of the risk that management may override controls to intentionally misstate revenue transactions in order to achieve financials targets, either through adjusting estimates at the period end or recording fictitious transactions in the business.

How the matter was addressed in our audit

We performed the following procedures in relation to revenue recognition:

- Assessed the appropriateness of the Group's revenue recognition accounting policies by considering the requirements of relevant accounting standards;
- Assessed the design and implementation, and tested the effectiveness of the Group's controls, including anti-fraud controls, over the recognition of revenue as per the Group's policy;
- Evaluated key contractual arrangements including rebates and returns arrangements by considering relevant documentation and agreements with the customers;
- Inspected a sample of sales transactions taking place before and after the year-end to assess whether revenue was recognized in the correct accounting period;
- Developed an expectation of the current year revenue based on trend analysis information, taking into account sales volume, average prices and our understanding of each market segment. We then compared this expectation to actual revenue and, where relevant, completed further inquiries and testing; and
- Tested a sample of manual entries posted to the revenue journal in order to identify unusual or irregular items.
- Considered the adequacy of the disclosure in the Group's consolidated financial statements as per the applicable accounting standard.

Goodwill impairment

Refer Note 3(a)(ii) for the accounting policy relating to goodwill and Note 5 for the goodwill disclosure.

Key audit matter

As at December 31, 2017, the carrying value of goodwill amounted to SAR 450 million (2016: SAR 687 million).

Goodwill is subject to an annual impairment test. For the purpose of the Group's impairment assessment of goodwill, management has used the value in use model, to determine the recoverable amount, under which the future cash flows relating to each Cash Generating Unit (CGU) were discounted and compared to their respective carrying amounts. Value in use model requires input of several key assumptions, including estimates of future sales volumes, prices, operating costs, terminal value, growth rates and discount rates.

How the matter was addressed in our audit

We performed the following audit procedures in relation to goodwill impairment:

- Assessed the design and implementation, and tested the effectiveness of the Group's controls around goodwill impairment assessment;
- Engaged our internal valuations specialist to assess the key assumptions used in the value in use calculation. Further, we assessed the reasonableness of key management assumptions in respect of estimated future cash flows, growth and discount rates;

Goodwill impairment (continued)

Key audit matter

We considered goodwill impairment as a key audit matter due to the significant judgment and key assumptions involved in the impairment assessment process.

How the matter was addressed in our audit

- Compared key assumptions against industry benchmarks, applied our understanding of the future prospects of the business from internal and external sources, and compared forecasts to historical experience;
- Performed a sensitivity analysis, which included assessing the effect of reasonably possible reductions in growth rates and forecast cash flows to evaluate the impact on the currently estimated headroom for the respective CGUs;
- Checked the accuracy and completeness of the information produced by management, which was used for the basis of the impairment assessment; and
- Considered the adequacy of the Group's goodwill disclosures in terms of applicable accounting standards.

Valuation of equity-accounted investees

Refer Note 3(a)(iii) for the accounting policy relating to equity-accounted investees and Note 7 for the related disclosures:

Key audit matter

As at December 31, 2017, the carrying value of equity-accounted investees amounted to SR 7,924 million (2016: SR 7,499 million).

Equity accounted investments are accounted for using the equity method, which is established in accordance with the requirements of International Financial Reporting Standards (IFRS). This has been identified as an area of risk and our attention; given the significance of the amounts involved, the complexities attached to the determination of carrying values at reporting dates, trade and capital transactions with investees and judgment involved in determination of possible impairment loss.

How the matter was addressed in our audit

We performed the following audit procedures in relation to valuation of equity-accounted investees:

- Assessed the appropriateness of the Group's accounting policies for measurement of equity accounted investments in line with the requirements of International Financial Reporting Standards (IFRS);
- Assessed the design and implementation, and tested the operating effectiveness of the Group's control around recognition and subsequent measurement of Equity accounted investees including the impairment assessment process;
- Verified components of equity accounted investments from underlying details and supports;
- Evaluated the process by which the Group's cash flow forecasts for the equity-accounted investees (where there are indicators of impairment) were developed;
- Engaged our internal valuations specialist to assess the key assumptions used in the value in use calculation. Further, we assessed the reasonableness of key management assumptions in respect of estimated future cash flows, growth and discount rates and performed a sensitivity analysis on these key assumptions;

Valuation of equity-accounted investees (continued)

Key audit matter

How the matter was addressed in our audit

- Tested the accuracy and completeness of the information produced by management, which was used for the basis of the impairment assessment; and
- Considered the adequacy of the Group's equity-accounted investees disclosures in terms of applicable accounting standard.

Valuation of Inventories

Refer Note 3(h) for the accounting policy on inventories and Note 9 for the inventories disclosure.

Key audit matter

How the matter was addressed in our audit

As at December 31, 2017, the Group's inventories balance was SR 3,126 million (2016: SR 3,317million) net of allowance for slow moving inventories of SR 87 million (2016: SR 122 million).

Inventories are stated at the lower of cost and net realizable value and an allowance is made by the Group, where necessary, for slow moving inventories. Management determines the level of obsolescence of inventories by considering the nature, ageing profile, their expiry and sales expectations using historic trends and other qualitative factors. At each reporting date, the cost of inventories is reduced where inventories are forecasted to be sold at below cost.

The Group also deals in commodity hedging contracts for its raw sugar inventory. The management accounts for these contracts using the mark-to-market method and reviews the valuation and hedge effectiveness at each reporting period by obtaining broker quotes.

We consider this as a key audit matter due to the significant judgments and key assumptions applied by the management in determining the allowance for slow moving inventories and the level of inventories write down required based on Net Realisable Value (NRV) assessment. Further, the commodity hedging involves the use of complex valuation methods and significant assumptions such as applicable exchange and over-the-counter quotations, parity differences, price volatility, counterparty performance and credit risks.

We performed the following audit procedures in relation to valuation of inventories:

- Assessed the appropriateness of the Group's accounting policies for recognition and measurement of inventories in line with the requirements of relevant accounting standards;
- Assessed the design and implementation, and tested the operating effectiveness of the Group's control around recognition and subsequent measurement of inventories including the monitoring of the allowance for slow moving items;
- Evaluated the appropriateness of the Group's policy for allowance for slow moving inventories by performing retrospective testing, comparing historical estimates with actual losses; and current and future expectations with respect to sales
- Involving our internal IT specialist to test the integrity of inventories' ageing report used by the management in its determination of allowance for slow moving inventories;
- Attended periodical physical count of inventories on selected locations to identify expired, lost or slow-moving items;
- Tested the net realisable value of finished goods inventories by considering actual sales post year-end and the assumptions used by the management to check whether inventories are valued at the lower of cost and net realisable value;
- Tested management's control over the establishment of the hedging relationship, monitoring hedge effectiveness and appropriateness of assumptions used in developing mark to market values of derivatives at the reporting date including the exchange-quoted prices and other direct and indirect observable inputs;
- Considered the adequacy of the disclosure in the Group's consolidated financial statements as per the applicable accounting standard.

Change in financial reporting framework

Refer Note 2 for basis of preparation of consolidated financial statements relating to the first time adoption of IFRS and Note 37 for the related disclosure of effects of adoption.

Key audit matter

For all periods up to and including the year ended December 31, 2016, the Group prepared and presented its statutory consolidated Financial Statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia issued by SOCPA.

For the financial periods commencing January 1, 2017, the applicable regulations require the Group to prepare and present its consolidated Financial Statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by SOCPA (IFRS as endorsed in Kingdom of Saudi Arabia).

Accordingly, the Group has prepared its Consolidated Financial Statements, for the year ended December 31, 2017, under IFRS as endorsed in Kingdom of Saudi Arabia using IFRS 1 - "First time Adoption of International Financial Reporting Standards" (IFRS 1). The standard requires determination of transition adjustments in light of framework differences as well as additional disclosure requirements that have been included in these consolidated financial statements. In this regard, Note 37 is particularly relevant, which summarises the key adjustments made in the comparative periods and rationale for the same.

We considered this disclosure as a key audit matter as the transitional adjustments required additional attention during our audit.

How the matter was addressed in our audit

We performed the following procedures in relation to change in financial reporting framework:

- Obtained an understanding of the analysis performed by management to identify all significant differences between previous reporting framework and IFRS as endorsed in the Kingdom of Saudi Arabia which can impact the Group's financial statements;
- Evaluated the results of management's analysis and key decisions taken in respect of the transition using our knowledge of the relevant requirements of the IFRS as endorsed in the Kingdom of Saudi Arabia and our understanding of the Group's business and its operations;
- Tested the appropriateness and computation of transition adjustments with underlying financial information and relevant supports; and
- Evaluated the disclosures made in relation to the transition to IFRS as endorsed in the Kingdom of Saudi Arabia by considering the relevant requirements of IFRS 1.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements.

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the applicable requirements of the Regulations for Companies and Company's By-laws and for such internal controls as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those Charged with Governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit of Savola Group Company ("the Company") and its subsidiaries ("the Group")

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**For KPMG Al Fozan & Partners
Certified Public Accountants**



Ebrahim Oboud Baeshen
License No: 382

Jeddah, Rajab 10, 1439H
Corresponding to March 27, 2018



SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in thousands of Saudi Riyal unless otherwise stated)

	Note	December 31, <u>2017</u>	December 31, <u>2016</u>	January 1, <u>2016</u>
ASSETS				
Non-current assets				
Property, plant and equipment	4	7,561,675	7,966,622	8,818,711
Goodwill	5	450,155	686,998	1,064,738
Investment property	6	30,613	34,256	30,638
Investment in equity accounted investees	7	7,924,389	7,498,598	7,317,191
Available for sale investments	8	471,507	612,421	709,275
Long term receivables		78,558	10,751	177,207
Derivative	11	10,240	--	--
Deferred tax asset	20	28,296	28,693	69,763
Total non-current assets		16,555,433	16,838,339	18,187,523
Current assets				
Inventories	9	3,125,503	3,317,128	5,009,714
Trade receivables	10	970,618	1,252,122	828,091
Prepayments and other receivables	11	1,219,472	1,342,973	1,710,808
Cash and cash equivalents	12	1,298,117	1,404,808	2,089,982
		6,613,710	7,317,031	9,638,595
Assets classified as held for sale	13	39,677	1,132,026	--
Total current assets		6,653,387	8,449,057	9,638,595
TOTAL ASSETS		23,208,820	25,287,396	27,826,118
EQUITY AND LIABILITIES				
EQUITY				
Share capital	14	5,339,807	5,339,807	5,339,807
Share premium		342,974	342,974	342,974
Statutory reserve	15	1,774,085	1,774,085	1,774,085
General reserve		4,000	4,000	4,000
Fair value reserve	16	(108,649)	(32,023)	(618)
Effect of transactions with non-controlling interests without change in control		(161,598)	(171,375)	(171,375)
Foreign currency translation reserve		(1,260,509)	(926,287)	--
Retained earnings		2,898,756	1,885,843	2,938,282
Equity attributable to equity holders of the Company		8,828,866	8,217,024	10,227,155
Non-controlling interests	17	879,114	1,032,810	1,308,939
TOTAL EQUITY		9,707,980	9,249,834	11,536,094
LIABILITIES				
Non-current liabilities				
Loans and borrowings	18	3,529,434	4,455,956	4,777,846
Employee benefits	19	663,732	609,251	543,115
Deferred tax liability	20	66,568	55,941	116,449
Long-term payables		210,436	215,581	232,497
Long term lease rentals	37 (h)	258,755	202,248	160,307
Derivative	11	159,979	--	--
Provision against asset restoration	37 (k)	98,078	92,326	97,083
Total non-current liabilities		4,986,982	5,631,303	5,927,297
Current liabilities				
Loans and borrowings	18	3,867,428	4,612,080	5,099,443
Trade payables	21	2,471,121	2,495,748	3,213,790
Current maturity of lease rentals		11,289	47,730	26,118
Accrued and other liabilities	22	2,164,020	2,236,536	2,023,376
		8,513,858	9,392,094	10,362,727
Liabilities classified as held for sale	13	--	1,014,165	--
Total current liabilities		8,513,858	10,406,259	10,362,727
TOTAL LIABILITIES		13,500,840	16,037,562	16,290,024
TOTAL LIABILITIES AND EQUITY		23,208,820	25,287,396	27,826,118

The notes on pages from 8 to 91 form an integral part of these consolidated financial statements.

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME**

For the year ended December 31

(Expressed in thousands of Saudi Riyal unless otherwise stated)

	<u>Note</u>	<u>Year ended December 31</u>	
Continuing operations:		<u>2017</u>	<u>2016</u>
Revenues	27	23,830,475	26,330,802
Cost of revenues	28	(19,439,972)	(21,677,838)
Gross profit		<u>4,390,503</u>	<u>4,652,964</u>
Share of results in investment in equity-accounted investees, net of zakat and tax and dividend income	7	752,382	702,011
Administrative expenses	29	(767,673)	(760,656)
Selling and distribution expenses	30	(3,353,554)	(3,547,811)
Impairment losses	31	(222,024)	(573,892)
Results from operating activities		<u>799,634</u>	<u>472,616</u>
Finance income	32	137,631	196,083
Finance cost	32	(522,913)	(754,675)
Net finance cost		<u>(385,282)</u>	<u>(558,592)</u>
Gain on disposal of investment	7	693,943	--
Gain on disposal of leasehold rights	1	68,144	--
Profit / (loss) before zakat and income tax		<u>1,176,439</u>	<u>(85,976)</u>
Zakat and income tax expense	23	(71,925)	(153,022)
Profit / (loss) from continuing operations		<u>1,104,514</u>	<u>(238,998)</u>
Discontinued operation:			
Gain / (loss) from discontinued operation, net of tax	13	15,605	(176,260)
Net profit / (loss) for the year		<u>1,120,119</u>	<u>(415,258)</u>
Other Comprehensive Income			
<i>Items that will not be reclassified to profit or loss</i>			
Re-measurements of the defined benefit liability	19	(13,746)	(25,060)
<i>Items that are or may be reclassified to profit or loss</i>			
Foreign operations – foreign currency translation differences		(434,384)	(1,001,602)
Investment in equity accounted investees - share of Other Comprehensive Income	16	57,018	(122,164)
Cash flow hedges – effective portion of changes in fair value	16	(7,707)	10,027
Available for sale financial assets - net change in fair value	8	(140,914)	87,015
Other comprehensive loss		<u>(539,733)</u>	<u>(1,051,784)</u>
Total comprehensive income / (loss) for the year		<u>580,386</u>	<u>(1,467,042)</u>

The notes on pages from 8 to 91 form an integral part of these consolidated financial statements.

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME (CONTINUED)

For the year ended December 31

(Expressed in thousands of Saudi Riyal unless otherwise stated)

	<u>Note</u>	<u>Year ended</u> <u>December 31</u>	
		<u>2017</u>	<u>2016</u>
Profit / (loss) for the year attributable to:			
Owners of the Company		1,025,618	(363,287)
Non-controlling interests		94,501	(51,971)
Profit/ (loss) for the year		1,120,119	(415,258)
Total comprehensive income / (loss) for			
the year attributable to:			
Owners of the Company		567,469	(1,342,655)
Non-controlling interests		12,917	(124,387)
Total comprehensive income / (loss) for the year		580,386	(1,467,042)
Earnings / (loss) per share attributable to the			
Owners of the Company (in Saudi Riyals):			
Basic and diluted	25	1.92	(0.68)
Earnings/ (loss) per share – Continuing operations			
attributable to the Owners of the Company (in			
Saudi Riyals):			
Basic and diluted	25	1.88	(0.48)

The notes on pages from 8 to 91 form an integral part of these consolidated financial statements.

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

	Equity attributable to the Shareholders of the Parent Company										
	Share capital	Share premium	Statutory reserve	General reserve	Fair value reserve	Effect of transactions with non-controlling interests without change in control	Foreign Currency translation reserve	Retained earnings	Total shareholders' equity	Non- controlling interests	Total equity
Balance at January 1, 2017	5,339,807	342,974	1,774,085	4,000	(32,023)	(171,375)	(926,287)	1,885,843	8,217,024	1,032,810	9,249,834
<u>Total comprehensive income for the year</u>											
Net profit for the year	--	--	--	--	--	--	--	1,025,618	1,025,618	94,501	1,120,119
Other comprehensive loss	--	--	--	--	(85,558)	--	(362,086)	(10,505)	(458,149)	(81,584)	(539,733)
Total comprehensive income / loss	--	--	--	--	(85,558)	--	(362,086)	1,015,113	567,469	12,917	580,386
<u>Transactions with owners of the Company</u>											
Dividends	--	--	--	--	--	--	--	--	--	(112,448)	(112,448)
Transaction with non- controlling interest without change in control	--	--	--	--	--	9,777	--	--	9,777	--	9,777
<u>Other changes / movements</u>											
Deconsolidation of USCE (Note 1 & 6)	--	--	--	--	--	--	27,864	--	27,864	(34,913)	(7,049)
Directors' remuneration	--	--	--	--	--	--	--	(2,200)	(2,200)	--	(2,200)
Other changes in non- controlling interest (Note 16)	--	--	--	--	8,932	--	--	--	8,932	(19,252)	(10,320)
Balance at December 31, 2017	5,339,807	342,974	1,774,085	4,000	(108,649)	(161,598)	(1,260,509)	2,898,756	8,828,866	879,114	9,707,980

The notes on pages from 8 to 91 form an integral part of these consolidated financial statements.

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended December 31, 2016

(Expressed in thousands of Saudi Riyal unless otherwise stated)

	Equity attributable to the Shareholders of the Parent Company										
	Share capital	Share premium	Statutory reserve	General reserve	Fair value reserve	Effect of transactions with non- controlling interests without change in control	Foreign Currency translation reserve	Retained earnings	Total shareholders' equity	Non- controlling interests	Total equity
Balance at January 1, 2016	5,339,807	342,974	1,774,085	4,000	(618)	(171,375)	--	2,938,282	10,227,155	1,308,939	11,536,094
<u>Total comprehensive loss for the year</u>											
Net loss for the year	--	--	--	--	--	--	--	(363,287)	(363,287)	(51,971)	(415,258)
Other comprehensive loss	--	--	--	--	(31,405)	--	(926,287)	(21,676)	(979,368)	(72,416)	(1,051,784)
Total comprehensive loss	--	--	--	--	(31,405)	--	(926,287)	(384,963)	(1,342,655)	(124,387)	(1,467,042)
<u>Transactions with owners of the Company</u>											
Dividends	--	--	--	--	--	--	--	(667,476)	(667,476)	(151,742)	(819,218)
Balance at December 31, 2016	<u>5,339,807</u>	<u>342,974</u>	<u>1,774,085</u>	<u>4,000</u>	<u>(32,023)</u>	<u>(171,375)</u>	<u>(926,287)</u>	<u>1,885,843</u>	<u>8,217,024</u>	<u>1,032,810</u>	<u>9,249,834</u>

The notes on pages from 8 to 91 form an integral part of these consolidated financial statements.

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31

(Expressed in thousands of Saudi Riyal unless otherwise stated)

	<u>Note</u>	<u>2017</u>	<u>2016</u>
Cash flows from operating activities			
Net profit / (loss) for the year		1,120,119	(415,258)
Adjustments for:			
Depreciation	4&6	805,292	719,084
Net finance cost	32	385,282	558,592
Share of results in investment in equity accounted investees, net of zakat and tax and dividend income	7&8	(752,382)	(702,011)
Share of associates' liability		--	20,403
Gain on sale of discontinued operation	13	(30,482)	--
Gain on disposal of investment	7	(693,943)	--
Impairment loss	31	222,024	573,892
Gain on disposal of leasehold rights	1	(68,144)	--
Loss on sale of property, plant and equipment		26,579	15,601
Provision for employee benefits	19	104,656	98,538
Lease rentals charge		20,066	63,554
Zakat and income tax expense	23	71,925	153,022
		1,210,992	1,085,417
Changes in:			
Inventories		49,747	1,048,029
Trade receivables		225,289	(504,906)
Prepayments and other receivables		17,772	56,667
Trade payables		22,292	(266,407)
Accrued and other liabilities		53,879	1,006,622
Cash generated from operating activities		1,579,971	2,425,422
Finance cost paid		(335,636)	(596,685)
Zakat and income tax paid		(42,843)	(87,247)
Employee benefits paid	19	(56,386)	(45,668)
Net cash from operating activities		1,145,106	1,695,822
Cash flows from investing activities			
Acquisition of property, plant and equipment	4&6	(672,839)	(1,264,542)
Proceeds from sale of property, plant and equipment		35,058	14,131
Proceeds from disposal of leasehold rights		80,800	--
Acquisition of investments	7	(70,781)	(41)
Proceeds from sale of investment	7.1	1,120,000	--
Proceeds from asset classified as held for sale		16,076	--
Net change in long term receivable		(67,807)	166,456
Net change in deferred tax asset		876	--
Contribution to settle an associate's liability		--	(20,403)
Dividends received	7	273,499	253,168
Net cash from / (used in) investing activities		714,882	(851,231)
Cash flows from financing activities			
Net change in loans and borrowings - current		(726,092)	(257,860)
Net change in loans and borrowings - non-current		(939,162)	262,308
Change in restricted deposit		--	13,312
Dividends paid		(7,911)	(836,691)
Net change in long-term payables		231	539
Net change in deferred tax liability		8,789	--
Net changes in non-controlling interests		(112,448)	(151,742)
Net cash used in financing activities		(1,776,593)	(970,134)

The notes on pages from 8 to 91 form an integral part of these consolidated financial statements.

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended December 31

(Expressed in thousands of Saudi Riyal unless otherwise stated)

	<u>Note</u>	<u>2017</u>	<u>2016</u>
Net change in cash and cash equivalents		83,395	(125,543)
Effect of movement in exchange rates on cash and cash equivalents		(190,086)	(204,361)
Less: Cash and cash equivalents classified as held for sale		--	(154,458)
Cash and cash equivalents at beginning of the year		1,404,808	1,835,952
Cash and cash equivalents at end of the year - for cash flow purposes		<u>1,298,117</u>	<u>1,351,590</u>
Restricted cash deposit		--	53,218
Cash and cash equivalents	12	<u>1,298,117</u>	<u>1,404,808</u>
Supplemental schedule of non-cash financial information:			
Fair value reserve		(76,626)	(25,121)
Foreign currency translation reserve		(434,384)	(1,001,602)
Effect of transaction with non-controlling interest without change in control		9,777	--
Directors remuneration		(2,200)	--
Actuarial reserve	19	(13,746)	(25,060)

The notes on pages from 8 to 91 form an integral part of these consolidated financial statements.

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

1. GENERAL INFORMATION

Savola Group Company is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 4030019708 issued in Jeddah on Rajab 21, 1399H (corresponding to June 16, 1979). The 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 (March 9, 1978).

The Company's registered office is located at the following address:

Savola Tower,
The Headquarter Business Park,
Prince Faisal Bin Fahad Street,
Jeddah 23511-7333,
Kingdom of Saudi Arabia.

These accompanying consolidated financial statements comprise the financial statements of Savola Group Company (the "Company" (or) the "Parent Company") and its local and foreign subsidiaries (collectively referred as the "Group"), collectively involved in the manufacturing and sale of vegetable oils and to set up related industries, retail outlets, dairy products, fast foods, exports and imports, commercial contracting, trade agencies, development of agricultural products and real estate related investment activities.

At December 31, 2017, the Company had investments in the following subsidiaries (collectively referred to as the "Group"):

(I) Direct subsidiaries of the Company

i) Operating subsidiaries

<u>Subsidiary name</u>	<u>Country of incorporation</u>	<u>Principal business activity</u>	<u>Direct ownership interest (%)</u>	
			<u>December 31, 2017</u>	<u>December 31, 2016</u>
Savola Foods Company ("SFC")	Saudi Arabia	Foods	100	100
Panda Retail Company ("Panda")	Saudi Arabia	Retail	91	91
Al Matoun International for Real Estate Investment Holding Company	Saudi Arabia	Real Estate	80	80
Herfy Food Services Company ("Herfy")	Saudi Arabia	Restaurant & manufacturing bakery products	49	49
United Sugar Company, Egypt ("USCE") (refer note 7 & 13)	Arab Republic of Egypt	Manufacturing of Sugar	--	19.32
Giant Stores Trading Company ("Giant")*	Saudi Arabia	Retail	10	10

* Group holds controlling equity ownership interest in Giant through indirect shareholding of Panda. During December 2017, the Company entered into a Shares Sale/Purchase Agreement with Panda to transfer its 10% ownership interest in Giant at mutually agreed price. As at year end, the legal formalities of the transfer have not been completed.

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

1. GENERAL INFORMATION (continued)

(I) Direct subsidiaries of the Company (continued)

ii) Dormant and Holding subsidiaries

<u>Subsidiary name</u>	<u>Country of incorporation</u>	<u>Principal business activity</u>	<u>Direct ownership interest (%)</u>	
			<u>December 31, 2017</u>	<u>December 31, 2016</u>
Adeem Arabia Company Limited (Adeem)*	Saudi Arabia	Holding company	100	80
Al Utur Arabian Company for Commercial Investment (Formerly Al Utur Arabian Holding Company for Commercial Investment)	Saudi Arabia	Holding company	100	100
Al Mojammat Al Mowahadah Real Estate Company (under liquidation)	Saudi Arabia	Holding company	100	100
Madarek Investment Company	Jordan	Holding company	100	100
United Properties Development Company	Saudi Arabia	Dormant company	100	100
Savola Industrial Investment Company ("SIIC") **	Saudi Arabia	Holding company	5	5
Afia Foods Arabia (Transferred to Savola Foods Company)	Saudi Arabia	Dormant company	--	100

* During December 2017, the Company acquired remaining 20% ownership interest in Adeem for a consideration amounting to SR 52.29 million resulting in the increase in Group's ownership interest to 100%. This has resulted into an acquisition without change in control and the resulting gain amounting to SR 9.77 million has been recorded in equity under "Effect of transactions with non-controlling interests without change in control"

** Group holds controlling equity ownership interest in SIIC through indirect shareholding of SFC. Further, during December 2017, the Company has entered into a Shares Sale/Purchase Agreement with SFC to transfer its 5% ownership in SIIC at a mutually agreed price. As at year end, the legal formalities of the transfer have not been completed.

(II) Savola Foods Company

The Parent Company has a 100% (2016: 100%) ownership interest in Savola Foods Company ("SFC"), which was incorporated as a closed Saudi joint stock company pursuant to Ministerial Resolution No. 236/G dated Dhul Qadah 21, 1435H (September 16, 2014). Prior to its conversion to a closed joint stock company, SFC was operating as a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration number 4030180782 issued in Jeddah on Rajab 5, 1429H (July 8, 2008).

The principle objective of SFC is to deal in wholesale and retail trading of food items. SFC through its direct and indirect subsidiaries is engaged in the manufacturing, marketing and distribution of products including edible oil, pasta, sugar, seafood, confectionery, and agro cultivation, in the local and overseas market.

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

1. GENERAL INFORMATION (continued)

(II) Savola Foods Company (continued)

Subsidiaries controlled through Savola Foods Company:

<u>Subsidiary name</u>	<u>Country of incorporation</u>	<u>Principal business activity</u>	<u>Direct ownership interest (%)</u>	
			<u>December 31, 2017</u>	<u>December 31, 2016</u>
Afia International Company ("AIC")	Saudi Arabia	Manufacturing of edible oils	95.19	95.19
Savola Industrial Investment Company ("SIIC")	Saudi Arabia	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 Emerging Markets Company Limited	British Virgin Islands (BVI)	Holding company	95.43	95.43
Afia International Distribution and Marketing Company	Saudi Arabia	Trading and distribution	99	99
Savola Foods for Sugar Company	Cayman Islands	Holding company	95	95
Savola Foods Company International Limited	United Arab Emirates (UAE)	Holding company	100	100
International Foods Industries Company Limited ("IFI")*	Saudi Arabia	Manufacturing of specialty fats	75	75
Seafood International Two FZCO	UAE	Seafood products trading and distribution	60	60
Afia Foods Arabia (Transferred from Savola Group)	Saudi Arabia	Dormant company	100	--
Al Maoun International Holding Company ("Al Maoun")	Saudi Arabia	Holding company	100	100
Marasina International Real Estate Investment Limited ("Marasina")	Saudi Arabia	Holding company	100	100

* During July 2017, SFC decided to inject additional capital of SR 77 million in its subsidiary, IFI. Consequently, SFC's ownership in IFI would increase from 75% to 93% upon completion of legal formalities.

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

1. GENERAL INFORMATION (continued)

(II) Savola Foods Company (continued)

a) Subsidiaries controlled through Afia International Company:

<u>Subsidiary name</u>	<u>Country of incorporation</u>	<u>Principal business activity</u>	<u>Direct ownership interest (%)</u>	
			<u>December 31, 2017</u>	<u>December 31, 2016</u>
Savola Behshahr Company ("SBeC")	Iran	Holding company	90	90
Malintra Holdings	Luxembourg	Dormant company	100	100
Savola Foods Limited ("SFL")	BVI	Holding company	100	100
Afia International Company – Jordan	Jordan	Dormant company	97.4	97.4
Inveskz Inc.	BVI	Dormant company	90	90
Afia Trading International	BVI	Dormant company	100	100
Savola Foods International	BVI	Dormant company	100	100
KUGU Gıda Yatım Ve Ticaret A.Ş. ("KUGU")	Turkey	Holding company	100	100
Aseel Food – Hold Co. (Note 1(f))	Cayman Island	Holding company	100	--
<u>SBeC</u>				
Behshahr Industrial Company	Iran	Manufacturing of edible oils	79.9	79.9
Tolue Pakshe Aftab Company	Iran	Trading and distribution	100	100
Savola Behshahr Sugar Company	Iran	Trading and distribution	100	100
Notrika Golden Wheat Company	Iran	Manufacturing of Food and confectionery	90	90
<u>SFL</u>				
Afia International Company, Egypt	Egypt	Manufacturing of edible oils	99.95	99.95
Latimar International Limited	BVI	Dormant company	100	100
Elington International Limited	BVI	Dormant company	100	100
<u>KUGU</u>				
Savola Gıda Sanayi Ve Ticaret Anonim Şirketi (Formerly Yudum Gıda Sanayi ve Ticaret A.Ş.)	Turkey	Manufacturing of edible oils	100	100

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

1. GENERAL INFORMATION (continued)

(II) Savola Foods Company (continued)

b) Subsidiaries controlled through Savola Industrial Investment Company:

<u>Subsidiary name</u>	<u>Country of incorporation</u>	<u>Principal business activity</u>	<u>Direct ownership interest (%)</u>	
			<u>December 31, 2017</u>	<u>December 31, 2016</u>
United Sugar Company ("USC")	Saudi Arabia	Manufacturing of sugar	74.48	74.48
<u>USC</u>				
Alexandria Sugar Company, Egypt ("ASCE")*	Egypt	Manufacturing of sugar	62.13	62.13
USCE** (see note 4 & 6)	Egypt	Manufacturing of sugar	--	56.75
Beet Sugar Industries	Cayman Islands	Dormant company	100	100
<u>ASCE</u>				
Alexandria United Company for Land Reclamation	Egypt	Agro cultivation	100	100

c) Subsidiaries controlled through Savola Foods Emerging Markets Company Limited:

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

d) Subsidiaries controlled through Savola Foods Company International Limited:

Modern Behtaam Royan Kaveh Company	Iran	Food and confectionery	100	100
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e) Subsidiaries controlled through Al Maoun and Marasina

Alofog Trading DMMC	UAE	Trading and distribution	100	100
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* The effective ownership interest in ASCE is 68% (December 31, 2016: 72.82%)

** During March 2016 as part of the Group's strategic assessment of its core operations; the Group and other shareholders' of USCE signed a Shareholders' Agreement to increase the paid up share capital of USCE in the form of participation by a new shareholder, European Bank for Reconstruction and Development ("EBRD"). Accordingly, the assets and liabilities of USCE at December 31, 2016, had been classified as 'held for sale' in the consolidated statement of financial position and its results of operations for the year then ended had been disclosed as 'loss from discontinued operations' in the consolidated statement of profit or loss and other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

1. GENERAL INFORMATION (continued)

(II) Savola Foods Company (continued)

On March 28, 2017, consequent to completion of all legal formalities, 12.77 million shares of USCE have been issued to EBRD. The ownership of the Group in USCE has been diluted after issuance of such shares, resulting in the loss of control over USCE and accordingly, deconsolidated from the books of the Group resulting in the recognition of a net gain amounting to SR 30.48 million in the consolidated statement of profit or loss and other comprehensive income. This gain is the net of the put and call options valuing SR 99.73 million, which entitles EBRD to sell USCE shares to the shareholders at the agreed price as per the Put and Call option agreement (“the Agreement”) during the period stipulated in the agreement.

Further, as at year end, the put and call options have been remeasured at fair value using “Black Scholes” model and changes therein have been recognised under finance cost and finance income amounting to SR 60.25 million and SR 10.24 million respectively (Note 32).

The Group continues to have significant influence over the strategic, operational and financial activities of USCE and retained effective ownership interest of 33.82%. USCE has been classified as ‘investment in equity accounted investees’ and measured at the fair value at the date of the transaction. Subsequently, it has been measured using equity basis of accounting (Note 7).

- f) In accordance with the terms and conditions of the Sale and Purchase Agreement signed on March 23, 2017 between SFC and Aves. SFC has agreed to purchase from AVES İÇ VE DIŞ TICARET A.Ş., (“Aves”) (a company incorporated in Turkey), 51% shares of United Edible Oils (company incorporated in Cayman Islands) in exchange for the consideration of USD 18.87 million (SR 70.78 million). The transaction has been effected through its 100% owned subsidiary, Aseel Food, a company incorporated in the Cayman Islands. All the legal formalities were completed upon payment of consideration on April 10, 2017. United Edible Oils owns 100% of Bonus Food Company LLC, which is incorporated in the Republic of Iraq and is engaged in the business of refining and packaging edible oil and vegetable ghee.

(III) Panda Retail Company

The Parent Company has a 91% (2016: 91%) ownership interest in Panda Retail Company (“Panda”), which was incorporated as a closed Saudi joint stock company pursuant to Ministerial Resolution No. 235/G dated Rajab 22, 1431H (July 3, 2010). Prior to its conversion to a closed joint stock company, Panda was operating as a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration number 1010137417 issued in Riyadh on Rabi-ul-Awal 1, 1416H (July 28, 1995).

Panda together with its subsidiaries is principally engaged in wholesale and retail trading in food supplies and consumable materials. Panda Group operates through its network of hypermarkets, supermarkets, and convenience stores.

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

1. GENERAL INFORMATION (continued)

(III) Panda Retail Company (continued)

Subsidiaries controlled through Panda:

<u>Subsidiary name</u>	<u>Country of incorporation</u>	<u>Principal business activity</u>	<u>Direct ownership interest (%)</u>	
			<u>December 31, 2017</u>	<u>December 31, 2016</u>
Giant Stores Trading Company	Saudi Arabia	Retail	90	90
Panda for Operations, Maintenance and Contracting Services	Saudi Arabia	Services and maintenance	100	100
Panda International for Retail Trading	Egypt	Retail	100	100
Panda International Retail Trading*	UAE	Retail	100	100
Panda Bakeries Company	Saudi Arabia	Bakery	100	100

Giant

Lebanese Sweets and Bakeries	Saudi Arabia	Dormant company	95	95
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*Panda, through its subsidiary, has entered into an agreement with Dubai Festival City Real Estate Development Company LLC to sell all its assets at April 15, 2017 including leasehold rights, inventories and fixed assets of its Hyper Panda store ("Store") in Dubai Festival City Mall, UAE for a total consideration of AED 80 million. The disposal has resulted in a gain of SR 68.1 million during the three months ended June 30, 2017.

During September 2017, the shareholders of Panda resolved in the Extraordinary General Assembly Meeting, the reduction of its accumulated losses amounting to SR 824.79 million as at June 30, 2017 against the reduction in the share capital, share premium and statutory reserve amounting to SR 452.84 million, SR 191.60 million and SR 180.35 million respectively.

2. BASIS OF PREPARATION

a) Statement of compliance

The accompanying consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Certified Public Accountants (SOCPA).

For all periods up to and including the year ended December 31, 2016, the Group prepared and presented statutory financial statements in accordance with the generally accepted accounting standards in the Kingdom of Saudi Arabia issued by SOCPA (referred to as the "pre-convergence GAAP"), the requirements of the Saudi Arabian Regulations for Companies and the Company's By-laws in so far as they relate to the preparation and presentation of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

2. BASIS OF PREPARATION (continued)

a) Statement of compliance (continued)

For financial periods commencing January 1, 2017, the applicable regulations require the Group to prepare and present financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by SOCPA ("IFRS"). As part of this requirement, the Group has prepared these consolidated financial statements. In preparing these financial statements, the Group's opening statement of consolidated financial position was prepared as at January 1, 2016; the Group's date of transition, in accordance with IFRS as endorsed in the Kingdom of Saudi Arabia.

As required by the Capital Market Authority ("CMA") through its circular dated October 16, 2016 the Group needs to apply the cost model to measure the property, plant and equipment, investment property, and intangible assets upon adopting the IFRS for three years period starting from the IFRS adoption date.

These consolidated financial statements are prepared in accordance with IFRS 1 First-time Adoption of International Financial Reporting Standards. The Group has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect.

An explanation of how the transition to IFRS has affected the previously reported financial position and equity as at December 31, 2016; and comprehensive income of the Group for the year ended December 31, 2016, including the nature and effect of significant changes in accounting policies from those used in the Group's financial statements for the year ended December 31, 2016 is provided in note 37.

i) Accounting convention / Basis of Measurement

These consolidated financial statements have been prepared using accrual basis of accounting, going concern concept and under the historical cost basis, except for available-for-sale investments, firm commitments and inventory under fair value hedging relationship, derivative financial instruments and employee benefits which are recognised at the present value of future obligation using the Projected Unit Credit Method. Certain comparative amounts have been reclassified to conform to the current year's presentation.

ii) Functional and presentation currency

These consolidated financial statements are presented in Saudi Riyals (SR) which is the Company's functional currency.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

2. BASIS OF PREPARATION (continued)

b) Critical accounting estimates and judgments

The preparation of these consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Judgments

Information about judgments made in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements, is included in the following notes:

- (i) Note 3(a)(i) - whether the Group exercises control over an investee
- (ii) Note 3(a)(iii) - Classification of equity accounted investees
- (iii) Note 3(b)(ii) - application of hedge accounting
- (iv) Note 3(q) - lease classification

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have the most significant effect on the amounts recognized in the consolidated financial statements, are described below:

i) 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 other than temporary decline in the value of investments. Any significant or 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 considers a decline of 20% to be significant and a period of nine months to be prolonged. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

2. BASIS OF PREPARATION (continued)

b) Critical accounting estimates and judgments (continued)

ii) 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.

iii) 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.

iv) Useful lives of property, plant and equipment

The management determines the estimated useful lives of property, plant and equipment for calculating depreciation. This estimate is determined after considering expected usage of the assets or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charges are adjusted where management believes the useful lives differ from previous estimates.

v) Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment property, inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or Cash Generating Units ("CGUs"). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

2. BASIS OF PREPARATION (continued)

b) Critical accounting estimates and judgments (continued)

v) Impairment of non-financial assets (continued)

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

vi) Employee benefits – defined benefit obligation

Certain actuarial assumptions have been adopted as disclosed in note 19 to these financial statements for valuation of present value of defined benefit obligations. Any changes in these assumptions in future years might affect gains and losses in those years.

vii) Going concern

The Group's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

viii) Other assumptions

Information about other assumptions and estimation uncertainties is included in the following notes:

- i) Note 3(h) - allowance for inventory losses
- ii) Note 3(b) & 33- measurement of fair values
- iii) Note 3(j) - impairment in financial and non-financial assets
- iv) Note 3(l) - measurement of defined benefit obligations
- v) Note 3(k) - provision against assets restoration

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS statement of financial position at January 1, 2016 for the purposes of the transition to the IFRSs as explained in note 37, unless otherwise indicated.

a) Business combinations

Business combinations (except for entities under common control) are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the assets given, equity instrument issued and liabilities incurred or assumed at the date of exchange, and includes costs directly attributable to the acquisition. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition. The excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities is classified as goodwill. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The Group elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

As part of its transition to IFRS and in accordance with the exemptions available to a first time adopter of IFRS under IFRS 1, the Group has elected to restate only those business combinations that occurred on or after January 1, 2016.

Acquisitions from entities under common control

Business combinations including entities or businesses under common control are measured and accounted for using book value. The assets and liabilities acquired are recognized at the carrying amounts as transferred from the controlling company's books of accounts. The components of equity of the acquired entities are added to the same components within the Group equity and any gain/loss arising is recognized directly in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Business combinations (continued)

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to or has rights to, variable return from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are consolidated in the financial statements from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

All intra-Group balances, transactions, income and expenses resulting from intra-Group transactions, are eliminated in full. Also, any unrealized gains and losses arising from intra-group transactions are eliminated on consolidation.

When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Changes in a Group's ownership interest in a subsidiary that does not result in a change in control, is accounted as equity transaction 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 transactions with non-controlling interest without change in control".

(ii) Goodwill

Goodwill represents the difference between the cost of businesses acquired and the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities at the date of acquisition. Goodwill arising on acquisitions is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment losses on goodwill are not reversed.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

As part of its transition to IFRS and in accordance with the exemptions available to a first time adopter of IFRS under IFRS 1, goodwill is measured at deemed cost, which represents the amount recorded under pre-convergence GAAP, adjusted for the subsumption of certain intangibles recognized at the time of corresponding business combination transactions (Note 37 (d)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Business combinations (continued)

(iii) Interests in equity accounted investees

The Group's interests in equity accounted investees comprise of interests in associates and joint ventures.

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies, generally accompanying a shareholding between 20% and 50% of the voting rights. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Investments in associates and joint ventures are accounted for using the equity method (equity accounted investees), which are initially recognized at cost including goodwill identified on acquisition. The Company's share in its investees' post-acquisition income and losses is recognized in the profit or loss and its share in post-acquisition movements in reserves is recognized in the Group's Other Comprehensive Income (OCI). When the Group's share of losses exceeds its interest in an equity accounted investee, the investment carrying amount is reduced to nil and recognition of further losses is continued when the Group has incurred legal or constructive obligations or made payments on behalf of an investee.

Unrealised gains arising from transactions with equity accounted investees are eliminated against the underlying assets / liabilities to the extent of the Group's interest in the investee.

Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Dilution gains and losses arising on equity accounted investees are recognized in the profit or loss.

(iv) Non-controlling interests

Non-controlling interest represents the interest in subsidiary companies, not held by the Group which are measured at their proportionate share in the subsidiary's identifiable net assets. Transactions with non-controlling interest parties are treated as transactions with parties external to the Group.

Changes in Group's interest in a subsidiary as a result of transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions, i.e. as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid / received and the relevant share acquired / disposed of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals / acquisition of non-controlling interests are also recorded in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Financial instruments

(i) Non-derivative financial assets

The Group initially recognizes trade receivables and deposits on the date that they are originated. All other financial assets are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

The Group has the following non-derivative financial assets: available-for sale investments, loans and receivables and cash and cash equivalents.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale. Available for sale investments principally consist of less than 20% share in quoted and unquoted equity investments including mutual funds investments, which are not held for trading purposes and where the Group does not have any significant influence or control. The Group's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value (unless the fair value for equity securities can't be reliably measured and they are carried at cost) and changes therein, other than impairment losses and foreign currency differences on available-for sale equity instruments, are recognized in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to consolidated statement of profit or loss.

Loans and receivables

Loans and receivables comprise trade and other receivables which are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method, less any allowance for doubtful debts. Allowance 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 allowances are charged to the profit or loss and reported under "General and administrative expenses". When account receivable is uncollectible, it is written-off against the allowances for doubtful debts. Any subsequent recoveries of amounts previously written-off are credited against "General and administrative expenses" in the consolidated statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Financial instruments (continued)

(i) Non-derivative financial assets (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash at banks in current accounts and other short-term highly liquid investments with original maturities of three month or less, if any, which are available to the Group without any restrictions.

Offsetting

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

(ii) Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments to hedge its inventory price risk, firm commitments and interest rate risk exposures. On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be “highly effective” in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below:

Cash flow hedge

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability i.e. interest rate swaps or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statement of profit or loss within “Finance income or Finance cost”.

Amounts accumulated in equity are reclassified to gain or loss in the periods when the hedged item affects gain or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of commodity value is recognized in the consolidated statement of profit or loss within ‘Cost of revenues’.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Financial instruments (continued)

(ii) Derivative financial instruments, including hedge accounting (continued)

Cash flow hedge (continued)

However, when the forecast transaction that is hedged, results in the recognition of a non-financial asset (for example, inventory), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost. The deferred amounts are ultimately recognized in cost of revenues for inventory.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated statement of profit or loss within "Finance income or Finance cost".

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Group only applies fair value hedge accounting for hedging commodity (raw sugar) value risk. The gain or loss relating to the effective portion of the hedging transaction is recognized in the profit or loss within "cost of revenue". The gain or loss relating to the ineffective portion is recognized in the profit or loss within "Finance income or Finance cost". Changes in the fair value of the hedge futures are recognized in the consolidated statement of profit or loss within 'Cost of revenue'.

Other non-trading derivatives

When a derivative financial instrument is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognized immediately in the consolidated statement of profit or loss within "Finance income or Finance cost".

(iii) Non-derivative financial liabilities

All non-derivative financial liabilities are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. Such financial liabilities are recognized initially net of any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Segment reporting

An operating segment is a component:

- i) engaged in business activities from which it may earn revenue and incur expenses including revenues and expenses that relate to transactions with any of the Group's other components;
- ii) the results of its operations are continuously analyzed by chief operating decision maker in order to make decisions related to resource allocation and performance assessment; and
- iii) for which financial information is discretely available.

Segment results that are reported to the chief operating decision maker and include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

d) Foreign currency translations

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates prevailing at the dates of the respective transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation (see below), or qualifying cash flow hedges, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated at exchange rates at the reporting date. The income and expenses of foreign operations, are translated to Saudi Riyals at exchange rates at the dates of the transactions.

Foreign currency differences arising on foreign operations are recognized in other comprehensive income and accumulated in the translation reserve, except to the extent that the translation difference is allocated to non-controlling interest.

Dividends received from foreign associate are translated at the exchange rate in effect at the transaction date and related currency translation differences are realized in the consolidated statement of profit or loss and other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Foreign currency translations (continued)

(ii) Foreign operations (continued)

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the foreign currency translation reserve.

e) Property, plant and equipment

Property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment loss. Cost includes purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized, on net basis, in statement of profit or loss and other comprehensive income.

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

Depreciation represents the systematic allocation of the depreciable amount of an asset over its estimated useful life. Depreciable amount represents cost of an asset, or other amount substituted for cost, less its residual value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Property, plant and equipment (continued)

Depreciation is charged to the profit or loss on a straight-line basis over the estimated useful lives of individual items of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives of assets is as follow:

	<u>Years</u>
Buildings	12.5 - 50
Leasehold improvements	3 - 33
Plant and equipment	3 - 30
Furniture and office equipment	3 - 16
Vehicles	4 - 10

Depreciation methods, useful lives and residual values are reviewed at least annually and adjusted prospectively if required. For impairment assessment of property, plant and equipment, please refer to policy on impairment of non-financial assets note 3 “j”.

f) Intangible assets

Intangible assets, other than goodwill, that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

Amortization is calculated over the cost of the asset, or other amount substituted for cost, less its residual value and is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use, since it most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

g) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is measured at cost less accumulated depreciation and accumulated impairment loss. When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost subsequently.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Inventories

Inventories are measured at the lower of cost and net realizable value. Cost is determined using the weighted average method. Cost includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Cost may also include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of inventories. Further, inventory may also include gain and losses transferred from marked to market of firm commitment due to fair value hedge accounting and fair valuation impact of inventory price risk being hedged under fair value hedge.

Net realizable value comprises estimated selling price in the ordinary course of business, less any additional production costs for completion and appropriate selling and distribution costs. Provision is made, where necessary, for obsolete, slow moving and defective stocks.

i) Assets and liabilities classified as held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are re-measured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets and investment property, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

A discontinued operation is a component (cash generating unit) of an entity that either has been disposed of or is classified as held for sale and:

- represents a major business line or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major business line or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resell.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held for sale. When an operation is classified as a discontinued operation, the comparative statement of profit or loss and other comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period; whereas, the statement of financial position for the comparative period is not restated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Impairment

(i) Non-financial assets

The carrying amounts of the Group's non-financial assets other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (the "cash-generating unit, or CGU"). Impairment exists when the carrying value of an asset or CGU exceeds the recoverable amount, which is the higher of the fair value less costs to sell and value in use. The value in use is based on a discounted cash flow (DCF) model, whereby the future expected cash flows discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Goodwill that forms part of the carrying amount of an investment in an associate is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

(ii) Financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Impairment (continued)

(ii) Financial assets (continued)

Objective evidence that financial assets (excluding equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Impairment losses on available-for-sale investment securities are recognized by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss.

If, in a subsequent period, the fair value of a financial asset increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income

k) Provisions

A provision is recognized if, as a result of past events, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probably that an outflow of economic benefit, will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Group records provision for decommissioning costs of manufacturing facility and restoration of leasehold improvements. Such costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognized as part of the cost of the particular asset. The cash flows are discounted at a rate that reflects the current market assessments of the time value of money and risks specific to the related liability. The unwinding of the discount is expensed as incurred and recognized in the profit or loss as a finance cost. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Employees' end of service benefits

Defined benefit plan

The Group's obligation under employees' end of service benefit plan is accounted for as an unfunded defined benefit plan and is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods and discounting that amount. The calculation of defined benefit obligations is performed by a qualified actuary using the projected unit credit method. Measurements of the defined benefit liability, which comprise actuarial gains and losses are recognized immediately in other comprehensive income. The Group determines the net interest expense on the defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then defined benefit liability, taking into account any changes in the defined benefit liability during the period as a result of benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in personnel expenses in profit or loss.

Short-term employee benefits

Short-term employee benefits are expensed as the related services are provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit sharing plans, if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

m) Revenues

Revenue is recognized to the extent of the following recognition requirements:

- it is probable that the economic benefits will flow to the Group,
- it can be reliably measured, regardless of when the payment is being made, and
- the cost incurred to date and expected future costs are identifiable and can be measured reliably.

Revenue is measured at the fair value of the consideration received or receivable under contractually defined terms of payment. The specific recognition criteria described below must also be met before the revenue is recognized.

Sale of goods

Revenue from sales is recognized upon delivery or shipment of products by which the significant risks and rewards of ownership of the goods have been transferred to the buyer and the Group has no effective control or continuing managerial involvement to the degree usually associated with ownership over the goods. Sales is recorded net of returns, trade discounts and volume rebates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Revenue (continued)

Rental income

Rental income is recognized on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease.

Promotional and display income

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 it is earned.

Commission income

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognized is the net amount of commission made by the Group

n) Zakat and taxes

The Company and its subsidiaries are subject to zakat and income tax in accordance with the regulations of General Authority of Zakat and Income Tax ("GAZT"). Company's zakat and its share in zakat of subsidiaries are charged to the consolidated statement of profit or loss and other comprehensive income. Zakat and income tax attributable to other Saudi and foreign shareholders of the consolidated subsidiaries are charged to non-controlling interest in the accompanying consolidated statement of financial position. Additional zakat and income tax liability, if any, related to prior years' assessments arising from GAZT are accounted for in the period in which the final assessments are finalized.

The Company and its Saudi Arabian subsidiaries withhold taxes on transactions with non-resident parties and on dividends paid to foreign shareholders in accordance with GAZT regulations.

Foreign subsidiaries are subject to zakat and income taxes in their respective countries of domicile. Such zakat and income taxes are charged to profit or loss under zakat and income tax expense.

Deferred tax is provided for, using the liability method, on all temporary differences between the tax bases of assets and liabilities and their carrying amounts at the reporting date. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on laws that have been enacted in the respective countries at the reporting date. Deferred tax assets are recognized for all deductible temporary differences and carry-forward of unused tax assets and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilized. The carrying amount of deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Current and deferred tax assets and liabilities are offset only if certain criteria are met.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Finance income and finance cost

Finance income comprises gains / (losses) on the disposal of available-for-sale financial assets, and gains on hedging instruments that are recognized in consolidated statement of profit or loss and other comprehensive income. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in consolidated statement of profit or loss and other comprehensive income on the date that the Group's right to receive payment is established.

Finance costs comprise of financial charges on borrowings including sukuks, losses on disposal of available-for-sale financial assets and unwinding of the discount on provisions and losses on hedging instruments that are recognized in consolidated statement of profit or loss and other comprehensive income. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in consolidated statement of profit or loss and other comprehensive income using the effective interest method.

Foreign currency gains and losses are reported on a net basis within finance cost.

p) Dividends

Final dividends are recorded in the financial statements in the period in which they are approved by shareholders of the Group.

Interim dividends are recorded as liability in the period in which they are approved by the Board of Directors.

q) Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Payments made under operating leases are recognized in statement of profit or loss and other comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

4. PROPERTY, PLANT AND EQUIPMENT

	<u>Land</u>	<u>Buildings</u>	<u>Leasehold improvements</u>	<u>Plant and equipment</u>	<u>Furniture and office equipment</u>	<u>Vehicles</u>	<u>Construction work in progress (CWIP)</u>	<u>Total</u>
Cost or deemed cost								
Balance at January 1, 2016 (Note 37(b))	1,446,243	1,937,488	1,875,636	2,790,136	2,588,840	465,390	1,373,705	12,477,438
Additions	24,189	206,712	31,253	74,687	178,143	67,917	668,782	1,251,683
Disposals	--	(6,073)	(33,474)	(15,545)	(35,813)	(5,908)	(1,687)	(98,500)
Transfer from CWIP	193	271,515	76,210	328,291	139,158	2,721	(818,088)	--
Effect of movement in exchange rate	(38,770)	(192,990)	(10,242)	(650,189)	(28,555)	(32,684)	(154,626)	(1,108,056)
Hyperinflation adjustment	--	150	--	547	150	253	1,909	3,009
Transfer of assets classified as held for sale	(6,626)	(156,038)	(22,856)	(298,697)	(8,535)	(6,914)	(7,885)	(507,551)
Balance at December 31, 2016	<u>1,425,229</u>	<u>2,060,764</u>	<u>1,916,527</u>	<u>2,229,230</u>	<u>2,833,388</u>	<u>490,775</u>	<u>1,062,110</u>	<u>12,018,023</u>
Balance at January 1, 2017	1,425,229	2,060,764	1,916,527	2,229,230	2,833,388	490,775	1,062,110	12,018,023
Additions	45	166,293	13,687	186,732	42,332	6,085	257,587	672,761
Disposals	(65)	(4,749)	(120,677)	(9,410)	(47,408)	(6,833)	(45,846)	(234,988)
Transfer from CWIP	6,134	70,378	29,981	188,462	247,758	13,018	(555,731)	--
Category reclassification	--	91,982	(91,982)	--	--	--	--	--
Effect of movement in exchange rate	(48,030)	(48,012)	4,644	(148,222)	(10,695)	(5,259)	(31,058)	(286,632)
Balance at December 31, 2017	<u>1,383,313</u>	<u>2,336,656</u>	<u>1,752,180</u>	<u>2,446,792</u>	<u>3,065,375</u>	<u>497,786</u>	<u>687,062</u>	<u>12,169,164</u>

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

4. PROPERTY, PLANT AND EQUIPMENT (Continued)

	<u>Land</u>	<u>Buildings</u>	<u>Leasehold improvements</u>	<u>Plant and equipment</u>	<u>Furniture and office equipment</u>	<u>Vehicles</u>	<u>Construction work in progress (CWIP)</u>	<u>Total</u>
Accumulated Depreciation								
Balance at January 1, 2016 (Note 37(b))	--	(528,016)	(618,767)	(783,522)	(1,441,552)	(286,870)	--	(3,658,727)
Depreciation	--	(96,872)	(145,548)	(123,483)	(287,864)	(56,076)	--	(709,843)
Disposals	--	6,018	12,431	15,274	29,175	5,871	--	68,769
Effect of movement in exchange rate	--	28,884	767	140,912	14,476	14,573	--	199,612
Impairment losses	--	(2,748)	(1,237)	(176,548)	(251)	(961)	(3,395)	(185,140)
Hyperinflation adjustment	--	(20)	--	(72)	(12)	(6)	--	(110)
Transfer of assets classified as held for sale	--	52,661	7,488	160,894	7,518	5,477	--	234,038
Balance at December 31, 2016	--	(540,093)	(744,866)	(766,545)	(1,678,510)	(317,992)	(3,395)	(4,051,401)
Balance at January 1, 2017	--	(540,093)	(744,866)	(766,545)	(1,678,510)	(317,992)	(3,395)	(4,051,401)
Depreciation for the year	--	(86,939)	(129,222)	(142,657)	(391,099)	(51,654)	--	(801,571)
Disposals	--	6,071	109,648	2,652	36,221	6,103	--	160,695
Category reclassification	--	(8,653)	8,653	--	--	--	--	--
Effect of movements in exchange rate	--	16,145	1,527	53,172	4,159	9,785	--	84,788
Balance at December 31, 2017	--	(613,469)	(754,260)	(853,378)	(2,029,229)	(353,758)	(3,395)	(4,607,489)
Carrying amounts – December 31, 2017	1,383,313	1,723,187	997,920	1,593,414	1,036,146	144,028	683,667	7,561,675
Carrying amounts – December 31, 2016	1,425,229	1,520,671	1,171,661	1,462,685	1,154,878	172,783	1,058,715	7,966,622
Carrying amounts – January 1, 2016	1,446,243	1,409,472	1,256,869	2,006,614	1,147,288	178,520	1,373,705	8,818,711

a) Construction work in progress relates to the construction of super markets and hyper markets for Panda and upgrading and enhancing the production facilities of certain subsidiaries of SFC.

b) Certain property, plant and equipment of the Group overseas subsidiaries amounting to SR 233.9 million are pledged as collateral with commercial banks (Note 18).

c) Property, plant and equipment classified as held-for-sale relates to United Sugar Company, Egypt (USCE) (Note 13).

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

5. GOODWILL

The carrying values of goodwill, after currency translation reserve adjustment and impairment loss adjustment (Note 31), comprises the following:

	December 31, <u>2017</u>	December 31, <u>2016</u>	January 1, <u>2016</u>
Geant's operations (Note 31)	--	222,024	222,024
Savola Industrial Investment Company	101,004	101,004	140,341
Afia International Company	84,016	84,016	84,016
Giant Stores Trading Company	75,703	75,703	75,703
El Maleka for Food Industries Company	54,178	52,426	267,689
KUGU Gida Yatum Ve Ticaret A.S	38,997	41,121	46,649
Herfy Foods Services Company (Note 37 (a))	25,330	25,330	25,330
Afia International Company, Egypt	25,300	24,482	55,348
Notrika Golden Wheat Company	16,101	20,780	22,702
United Sugar Company	14,912	14,912	14,912
El Farasha for Food Industries Company	7,589	7,344	30,417
Behshahr Industrial Company	7,025	17,856	61,699
Alexandria Sugar Company	--	--	17,908
	<u>450,155</u>	<u>686,998</u>	<u>1,064,738</u>

The Group has reviewed the carrying amounts of goodwill to determine whether the carrying values exceeds the recoverable amounts. For the impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of a non-financial asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows based on 5 year management's approved plan, discounted to their present value using the growth rates, pre-tax discount rates and a terminal value percentages (Note 31 (a)).

6. INVESTMENT PROPERTY

	December 31, <u>2017</u>	December 31, <u>2016</u>
Cost		
Balance at beginning of year	50,766	37,907
Additions	78	12,859
Balance at end of year	<u>50,844</u>	<u>50,766</u>
Accumulated depreciation and impairment		
Balance at beginning of year	(16,510)	(7,269)
Depreciation	(3,721)	(9,241)
Balance at end of year	<u>(20,231)</u>	<u>(16,510)</u>
Carrying amounts		
January 1,	34,256	30,638
December 31,	<u>30,613</u>	<u>34,256</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

7. INVESTMENT IN EQUITY ACCOUNTED INVESTEEES

The details of the Group's investment in equity accounted investees are as follows:

<u>Name</u>	<u>Principal business sector</u>	<u>Country of incorporation</u>	<u>Ownership interest (%)</u>		<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>January 1, 2016</u>
			<u>2017</u>	<u>2016</u>			
Almarai Company ("Almarai") (Note 7.1)	Fresh food products	Saudi Arabia	34.52	36.52	6,942,521	6,768,064	6,350,580
Kinan International for Real Estate Development Company ("Kinan") USCE (Note 7.2)	Real Estate	Saudi Arabia	29.9	29.9	506,513	562,492	617,143
	Sugar						
	Manufacturing	Egypt	33.82	--	246,449	--	--
Al-Seera City Company for Real Estate Development	Real Estate	Saudi Arabia	40	40	147,597	151,607	151,790
Knowledge Economic City Developers Company	Real Estate	Saudi Arabia	2.07	2.07	16,270	16,435	16,435
Intaj Capital Limited ("Intaj") reclassified as held for sale (note 13)	Fund management	Republic of Tunisia	49	49	--	--	179,244
United Edible Oils Holding Limited	Holding Company	Cayman Islands	51	--	65,039	--	--
Others	--	--	--	--	--	--	1,999
					7,924,389	7,498,598	7,317,191

7.1 During 2017, the Group sold its 2% ownership interest in Almarai for SR 1.1 billion and realised gain amounting to SR 693.94 million.

7.2 The direct ownership interest of the Company in USCE is 10.62% (December 31, 2016: 19.32%, Group's effective ownership 61.51%).

Movement in the investment in equity accounted investees is as follows:

	<u>Note</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Balance at beginning of year		7,498,598	7,317,191
Additions		70,781	41
Contribution to settle an associate's liability		--	20,403
Transfer due to loss of control on investee	13	229,021	--
Share in net income		741,839	700,885
Fair value reserve adjustment	16	57,018	(122,164)
Disposals	7.1	(400,370)	--
Dividends		(262,956)	(252,001)
Investment classified as held for sale	13.1	--	(169,244)
Other adjustments		(9,542)	3,487
Balance at end of year		7,924,389	7,498,598

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

7. INVESTMENT IN EQUITY ACCOUNTED INVESTEEES (continued)

The following table summarizes the financial information of significant equity accounted investees included in their own financial statements. The table also reconciles the summarized financial information to the carrying amount of Group's interest in equity accounted investees:

	<u>Almarai</u>		<u>Kinan</u>		<u>USCE</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Percentage ownership interest	34.52	36.52	29.9	29.9	33.82	—
Non-current assets	25,083,073	23,812,600	2,905,190	3,285,914	260,405	—
Current assets	6,812,776	5,381,837	928,480	821,458	516,820	—
Non-current liabilities	11,243,500	10,800,026	941,864	903,287	37,510	—
Current liabilities	5,771,109	4,915,942	364,461	550,909	318,160	—
Net assets attributable to shareholders (100%)	14,484,373	13,057,219	2,232,769	2,285,591	421,555	—
Group's share of net assets	5,000,005	4,768,496	667,598	683,392	142,570	—
Carrying amount of interest in associate	6,942,521	6,768,064	506,513	562,492	246,449	—
	<u>Almarai</u>		<u>Kinan</u>		<u>USCE</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenue	13,935,532	14,338,579	596,064	486,852	1,039,519	--
Profit / (loss) from continuing operations attributable to shareholders (100%)	2,182,286	2,147,786	(59,645)	(306,865)	36,348	--
Other comprehensive income attributable to shareholders (100%)	74,563	(353,523)	--	--	-	--
Total comprehensive income / (loss) attributable to shareholders	2,256,849	1,794,263	(59,645)	(306,865)	36,348	--
Group's share of profit / (loss) and total comprehensive income	779,064	655,265	(17,834)	(91,753)	12,293	--

- 7.3 Group also has interest in number of individually immaterial associates. With an aggregate carrying value of SR 228.9 million (December 31, 2017: SR 168 million). The Company's share of results from these entities amounted to SR 5.2 million (December 31, 2016: SR 0.1 million).

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

8. AVAILABLE FOR SALE INVESTMENTS

Available for sale (AFS) investments comprise the following:

	Principal business sector	Country of incorporation	Ownership interest (%)		December 31, 2017	December 31, 2016	January 1, 2016
<u>Quoted investments</u>							
Knowledge Economic City	Real Estate	Saudi Arabia	6.4	6.4	278,667	392,265	336,660
Emaar the Economic City	Real Estate	Saudi Arabia	0.9	0.9	100,413	127,729	96,319
Taameer Jordan Holding Company	Real Estate	Kingdom of Jordan	5	5	--	--	--
<u>Unquoted investments</u>							
Joussour Holding Company	Holding Company	Saudi Arabia	14.81	14.81	--	--	135,869
Swicorp, Saudi Arabia	Investment Management	Saudi Arabia	15	15	67,674	67,674	115,674
Dar Al Tamleek (Note 8.1)	Real Estate	Saudi Arabia	5	5	24,753	24,753	24,753
					471,507	612,421	709,275

8.1 Subsequent to December 31, 2017, the Company sold its ownership interest in Dar Al Tamleek for SR 28.02 million and realised a gain amounting to SR 3.27 million.

8.2 Movement in the available-for-sale investments was as follows:

	December 31, 2017	December 31, 2016
Balance at beginning of year	612,421	709,275
Impairment (Note 31)	--	(183,869)
Fair value reserves adjustment	(140,914)	80,732
Other adjustment	--	6,283
Balance at end of year	471,507	612,421

8.3 During the year, the Group received dividend income amounting to SR 10.54 million (December 31, 2016: SR 1.17 million) from the investees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

9. INVENTORIES

	December 31, 2017	December 31, 2016	January 1, 2016
Finished products	1,706,036	1,911,111	3,575,268
Raw and packing materials	978,482	963,574	1,162,428
Work in process	96,049	82,186	100,497
Spare parts and supplies	185,329	160,135	200,086
Goods in transit	246,660	322,237	194,847
	3,212,556	3,439,243	5,233,126
Less: Provision for obsolescence / slow moving	(87,053)	(122,115)	(223,412)
	3,125,503	3,317,128	5,009,714

Inventories have been reduced by SR 215 million (December 31, 2016: SR 117 million) as a result of the write-down to net realizable value.

Inventories amounting to SR 40 million (December 31, 2016: SR 0.14 million) are pledged with foreign banks as collateral against bank borrowing facilities of certain consolidated overseas subsidiaries.

Raw materials include raw sugar having cost of SR 85 million (December 31, 2016: SR 231 million) which are held under a fair value hedge relationship. As at December 31, 2017, the fair value of these raw sugar amounts to SR 97 million (December 31, 2016 SR 198 million) (Note 11).

10. TRADE RECEIVABLES

	December 31, 2017	December 31, 2016	January 1, 2016
Trade receivables	1,006,781	1,232,065	843,809
Less: Allowance for credit losses (Note 33)	(80,238)	(72,734)	(74,404)
	926,543	1,159,331	769,405
Due from related parties (Note 26)	50,574	103,542	86,933
	977,117	1,262,873	856,338
Less: non- current trade receivables	(6,499)	(10,751)	(28,247)
	970,618	1,252,122	828,091

Following is the movement of allowance for credit losses:

	December 31, 2017	December 31, 2016
At beginning of year	72,734	74,404
Charge for the year	10,225	12,040
Currency translation	(2,721)	(9,926)
Classified as held for sale	--	(548)
Write offs	--	(3,236)
At end of year	80,238	72,734

For credit risk disclosures refer note 33

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

11. PREPAYMENTS AND OTHER RECEIVABLES

	Note	December 31, <u>2017</u>	December 31, <u>2016</u>	January 1, <u>2016</u>
Prepaid rent		306,319	355,339	429,687
Advances to vendors		234,009	278,987	430,181
Receivable from government authorities	11.1	215,514	114,750	109,604
Due from related parties	26	104,703	197,329	151,644
Custom duty refundable	11.2	101,317	84,710	60,764
Positive fair value of derivatives	11.3	54,147	53,879	154,840
Other prepaid expenses		47,382	56,657	58,364
Change in fair value of hedged item (firm commitments)		35,696	79,563	109,118
Unclaimed dividends		33,898	33,365	25,679
Advances to employees		15,197	18,757	22,785
Insurance claim receivable		--	1,001	23,004
Others		71,290	68,636	135,138
		<u>1,219,472</u>	<u>1,342,973</u>	<u>1,710,808</u>

11.1 Receivable from government authorities mainly includes claims of certain foreign subsidiaries on account of value added tax, subsidies and advance taxes.

11.2 Custom duty recoverable mainly represents funds with government authorities paid on import of raw material.

11.3 Derivatives

	December 31, <u>2017</u>	December 31, <u>2016</u>	January 1, <u>2016</u>
Derivatives – current assets			
Future exchange contracts	54,147	50,907	154,594
Interest rate swaps	--	2,972	246
	<u>54,147</u>	<u>53,879</u>	<u>154,840</u>

Derivatives – non-current assets

Call option available for the purchase of USCE (Note 1)	<u>10,240</u>	--	--
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Derivatives – current liabilities

Future exchange contracts	46,962	109,000	207,839
Interest rate swaps	4,735	--	7,301
	<u>51,697</u>	<u>109,000</u>	<u>215,140</u>

Derivatives – non-current liabilities

Put option available to EBRD for the sale of USCE (Note 1)	<u>159,979</u>	--	--
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

11. PREPAYMENTS AND OTHER RECEIVABLES (continued)

In the ordinary course of business, the Group utilizes the following derivative financial instruments for both hedging and other purposes:

(a) Forward and futures

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Foreign currency and special commission rate futures are transacted in standardized amounts on regulated exchanges.

(b) Swaps:

Swaps are commitments to exchange one set of cash flows for another. For interest rate swaps, counterparties generally exchange fixed and floating rate special commission payments in a single currency without exchanging principal. For currency swaps, fixed special commission payments and principal are exchanged in different currencies.

(c) Options

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at a fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.

As described in note 1, Savola Food Company (SFC) has entered into call and put option agreement with EBRD in relation to transaction for disposal of stake in USCE. As per the agreement, the option can be exercised as follows:

Call option: SFC has the right to deliver a call notice to EBRD to purchase all the shares held by EBRD in USCE from the third anniversary of the subscription date and ending 6.5 years after the subscription date; and

Put option: EBRD has the right to deliver a put notice to SFC to sell all the shares held by EBRD in USCE from 6.5 years after the subscription date and ending on the seventh anniversary of the subscription date.

11.4 Derivatives held for other purposes:

Derivatives used for other purposes is for positioning, arbitrage and short term profit making purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

11. PREPAYMENTS AND OTHER RECEIVABLES (continued)

11.5 Derivatives held for hedging purposes:

The Group has adopted a comprehensive system for the measurement and management of risk (see note 33 - credit risk, market risk and liquidity risk). Part of the risk management process involves managing the Group's exposure to fluctuations in inventory prices and interest rates to reduce its exposure to inventory and interest rate risks to acceptable levels as determined by the Board of Directors.

The Board of Directors have established levels of inventory risk by setting limits on counterparty and commodity futures position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure that positions are maintained within the established limits. The Board of Directors has established the level of interest rate risk by setting limits on interest rate gaps for stipulated periods.

The Group uses commodity futures to hedge against inventory price risk on raw sugar and the fair value risk on the firm commitments for sale of refined sugar. In all such cases, the hedging relationship and objective, including details of the hedged items and hedging instrument, are documented and the transactions are accounted for as fair value hedge.

<u>December 31,</u> <u>2017</u>	Positive fair <u>value</u>	Negative fair <u>value</u>	<u>Notional amount by term to maturity</u>				
			<u>Notional</u> <u>amount</u>	<u>Within 3</u> <u>months</u>	<u>3-12</u> <u>months</u>	<u>1-5</u> <u>years</u>	<u>Over 5</u> <u>years</u>
Held as fair vale hedge							
Commodity futures	13,326	(38,988)	833,633	636,553	196,043	1,037	--
Held as cash flow hedge							
Interest rate swaps	--	(4,735)	750,000	--	--	750,000	--
Held for others							
Commodity futures	40,821	(7,974)	1,530,905	923,546	482,094	125,264	--
Call options	10,240	--	--	--	--	10,240	--
Put Option	--	159,979	--	--	--	--	159,979

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

11. PREPAYMENTS AND OTHER RECEIVABLES (continued)

<u>December 31,</u> <u>2016</u>	<u>Positive</u> <u>fair</u> <u>value</u>	<u>Negative</u> <u>fair</u> <u>value</u>	<u>Notional amount by term to maturity</u>				<u>Over 5</u> <u>years</u>
			<u>Notional</u> <u>amount</u>	<u>Within 3</u> <u>months</u>	<u>3-12</u> <u>months</u>	<u>1-5 years</u>	
Held as fair vale hedge							
Commodity futures	50,907	(15,127)	936,523	584,506	331,640	20,377	--
Held as cash flow hedge							
Interest rate swaps	982	(3,954)	750,000	--	--	750,000	--
Held for others							
Commodity futures	--	(93,873)	1,183,384	901,505	281,879	--	--

The table below shows a summary of hedged items and portfolios, the nature of the risk being hedged, the hedging instrument and its fair value.

<u>Description of</u> <u>hedged item</u>	<u>Fair value</u>	<u>Cost</u>	<u>Risk</u>	<u>Hedging</u> <u>instrument</u>	<u>Positive</u> <u>fair value</u>	<u>Negative</u> <u>fair value</u>
Inventory	97,300	85,091	Value of sugar	Commodity Futures	13,326	(38,988)

The losses on the hedging instruments for fair value hedges are SR 8.9 million (2016: SR 34 million). The gains on the hedged items attributable to the hedged risk are SR 10.7 million (2016: SR 35.3 million). Thus, the net fair value is SR 1.8 million (2016: SR 1.3 million).

All of the Group's Commodity derivatives are entered into with the global commodity exchanges and are mainly carried out by SFC's commodity risk control function.

The Group is exposed to variability in future special commission cash flows on sukuks that carries interest at a variable rate. The Group uses interest rate swaps as hedging instruments which has been entered into with certain commercial banks in order to hedge against the special commission rate risks.

Below is the schedule indicating, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss:

<u>December 31, 2017</u>	<u>Within 1</u> <u>year</u>	<u>1-3</u> <u>Years</u>	<u>3-5</u> <u>Years</u>	<u>Over 5</u> <u>years</u>
Cash inflows (assets)	<u>21,413</u>	<u>41,243</u>	<u>--</u>	<u>--</u>
Cash outflows (liabilities)	<u>21,835</u>	<u>32,932</u>	<u>--</u>	<u>--</u>
<u>December 31, 2016</u>	<u>Within 1</u> <u>year</u>	<u>1-3</u> <u>Years</u>	<u>3-5</u> <u>Years</u>	<u>Over 5</u> <u>years</u>
Cash inflows (assets)	<u>17,451</u>	<u>47,694</u>	<u>14,961</u>	<u>--</u>
Cash outflows (liabilities)	<u>21,835</u>	<u>43,730</u>	<u>11,037</u>	<u>--</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

11. PREPAYMENT AND OTHER RECEIVABLES (continued)

Movements in the other reserve of cash flow hedges:

	December 31, <u>2017</u>	December 31, <u>2016</u>
Balance at beginning of year	2,972	(7,055)
(Loss) / gain on changes in fair value recognized directly in equity, net (effective portion)	<u>(7,707)</u>	10,027
Balance at end of year	<u><u>(4,735)</u></u>	<u><u>2,972</u></u>

12. CASH AND CASH EQUIVALENTS

	December 31, <u>2017</u>	December 31, <u>2016</u>	January 1, <u>2016</u>
Cash in hand	32,989	32,914	32,075
Cash at bank- current account	525,454	511,321	1,309,068
Short term deposits (Note 12.1)	<u>739,674</u>	<u>860,573</u>	<u>748,839</u>
	<u><u>1,298,117</u></u>	<u><u>1,404,808</u></u>	<u><u>2,089,982</u></u>

12.1 Short-term deposits are held by commercial banks and yield commission income at prevailing market rates.

13. ASSETS AND LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATION

Assets and liabilities classified as held for sale comprise the following:

	<u>Note</u>	December 31, <u>2017</u>	December 31, <u>2016</u>
Assets classified as held for sale, relating to:			
– Investment in Intaj	13.1	39,677	80,844
– USCE	13.2	<u>--</u>	1,051,182
		<u>39,677</u>	<u>1,132,026</u>
Liabilities classified as held for sale, relating to:			
– USCE	13.2	<u>--</u>	1,014,165

13.1 During the last quarter of 2016, the investment in Intaj has been classified as held for sale pursuant to management's decision for selling the interest in Intaj. Consequently, the investment has been reclassified and written down to its recoverable amount. The determination of fair value less cost to sell was principally based on bid prices from potential buyers but also supported by detailed internal analysis of underlying investments. The Group considered the latest available Net Asset Value (NAV) report from the fund manager, and adjusted the same with the probable exit timing, appropriate EBITDA multiples and current liquidity discount. Consequently, this investment has been written down to its estimated realizable value of SR 80.8 million and an impairment loss of SR 88.4 million was recognized during the year ended December 31, 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

**13. ASSETS AND LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATION
(continued)**

As part of Intaj's investment portfolio dilution process, the fund manager reassessed the exit strategy and divested its significant investments. As a result of divestment, during the period ended December 31, 2017, the fund manager made payment amounting to SR 41.17 million representing Company's share in divestment proceeds. Consequently, the carrying value of investment in Intaj decreased to SR 39.67 million as at year end. Since the recoverable amount from the underlying investments has not significantly declined therefore, no impairment charge has been recorded for the year ended December 31, 2017.

- 13.2 As disclosed in note 1, on March 28, 2017 USCE issued 12.77 million shares to EBRD and it has been deconsolidated from the Group. The following assets and liabilities of USCE classified as held for sale in 2016 have now been deconsolidated.

	December 31, 2016
Assets	
Cash and cash equivalents	341,958
Accounts receivable and other receivables	194,305
Inventories	237,549
Property, plant and equipment	273,513
Other non-current assets	3,857
Disclosed as 'Assets classified as held for sale' in the consolidated statement of financial position	<u>1,051,182</u>
Liabilities	
Loans and borrowings	118,070
Accounts payable and other liabilities	485,333
Non-current liabilities	35,762
Subscription money received from EBRD	375,000
Disclosed as 'Liabilities classified as held for sale' in the consolidated statement of financial position	<u>1,014,165</u>

Details of gain / (loss) from discontinued operations for the period / year ended as follows:

	March 28, 2017	December 31, 2016
Revenues	359,820	1,328,627
Expenses	(373,730)	(1,500,975)
Loss before foreign income taxes	(13,910)	(172,348)
Foreign income tax	(967)	(3,912)
Results from operating activities, net of tax	(14,877)	(176,260)
Gain on sale of discontinued operation, net	30,482	--
Gain / (loss) from discontinued operation, net of tax	<u>15,605</u>	<u>(176,260)</u>
Gain / (loss) from discontinued operation attributable to:		
Owners of the Company	21,320	(108,556)
Non-controlling interests	(5,715)	(67,704)
	<u>15,605</u>	<u>(176,260)</u>
Basic and diluted earnings/(loss) per share (in Saudi Riyals)	<u>0.04</u>	<u>(0.20)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

13. ASSETS AND LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATION
(continued)

The supplemental schedule of non-cash financial information relating to USCE, at the date of deconsolidation, is as follows:

	March 28, 2017
Assets classified as held for sale	867,644
Liabilities classified as held for sale	789,651

14. SHARE CAPITAL

At December 31, 2017, the Group's share capital of SR 5.3 billion consists of 533.981 million fully paid shares of SR 10 each (December 31, 2016, SR 5.3 billion, January 1, 2016: SR 5.3 billion consisting of 533.981 million fully paid shares of SR 10 each).

15. STATUTORY RESERVE

In accordance with the Company's bylaws and the Regulations for Companies in the Kingdom of Saudi Arabia, the Company transfers 10% of the net income for the year to a statutory reserve until such reserve equals 30% of its share capital. Since the Company has reached the required reserve level, therefore, no additional transfers are required to be made as at year end.

The statutory reserve in the consolidated financial statements is the statutory reserve of the Company. This reserve currently is not available for distribution to the shareholders of the Company.

16. FAIR VALUE RESERVE

Fair value reserve includes share of reserve of associates, AFS investments and cash flow hedge. Movement in fair value reserve is as follows:

	<u>Note</u>	December 31, 2017	December 31, 2016
Balance at beginning of year		(32,023)	(618)
Share in changes in other reserve of associates	7	57,018	(122,164)
Fair value adjustment from investments in available-for-sale (AFS) investments		(134,869)	80,732
Other adjustment-			
Fair value adjustment from derivative financial instruments relating to cash flow hedge		(7,707)	10,027
Other adjustment		8,932	--
Balance at end of year		<u>(108,649)</u>	<u>(32,023)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

17. NON-CONTROLLING INTERESTS

As disclosed in note 37, upon transition to IFRS, the Group reassessed its control over its investees based on which the investment in Herfy Foods Services ("Herfy") was concluded to be an 'Investment in Subsidiary' as defined under IFRS 10 and accordingly, assets and liabilities of Herfy have been consolidated in the consolidated financial statements. As a result, the balance as at December 31, 2017 includes the non-controlling interest in Herfy amounting to SR 442.09 million (December 31, 2016: SR 409.38 million, January 1, 2016: SR 370.02 million).

The following table summarizes the information relating to each of the Group's subsidiaries that has material NCI, before any intra group eliminations:

<u>December 31, 2017</u>	<u>SFC</u>	<u>Panda</u>	<u>Herfy</u>	<u>Matoun</u>
Non-current assets	3,083,659	3,681,150	1,085,283	263,948
Current assets	5,146,560	1,745,147	305,394	53,068
Non-current liabilities	(755,961)	(1,558,261)	(254,981)	(16,615)
Current liabilities	(4,250,699)	(3,545,884)	(268,846)	(30,686)
Net assets (100%)	3,223,559	322,152	866,850	269,715
Carrying amount of NCI	368,932	(304)	--	--
Revenue	11,384,220	11,644,147	1,157,793	45,338
Profit / (loss)	689,840	(1,019,184)	200,042	14,252
OCI	(445,755)	(616)	(156)	--
Total comprehensive income (100%)	244,085	(1,019,800)	199,886	14,252
Profit / (loss) allocated to NCI	83,249	(3,083)	--	--
OCI allocated to NCI	(77,582)	(485)	--	--

<u>December 31, 2016</u>	<u>SFC</u>	<u>Panda</u>	<u>Herfy</u>	<u>Matoun</u>
Non-current assets	2,870,249	4,309,366	1,040,120	278,575
Current assets	6,237,762	1,953,297	301,943	18,899
Non-current liabilities	(919,285)	(1,959,284)	(297,753)	(13,368)
Current liabilities	(5,136,617)	(2,961,527)	(241,601)	(28,642)
Net assets (100%)	3,052,109	1,341,852	802,709	255,464
Carrying amount of NCI	456,377	5,497	--	--
Revenue	11,886,722	13,572,374	1,156,683	55,008
(Loss) / profit	(16,134)	(811,396)	217,080	(11,183)
OCI	(956,911)	(69,752)	500	--
Total comprehensive income / (loss) (100%)	(973,045)	(881,148)	217,580	(11,183)
(Loss) / profit allocated to NCI	(142,222)	(766)	--	--
OCI allocated to NCI	(78,112)	(58)	--	--

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

18. LOANS AND BORROWINGS

The following information reflects the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortized cost:

	December 31, <u>2017</u>	December 31, <u>2016</u>	January 1, <u>2016</u>
Non-current liabilities			
Secured bank loans	162,550	300,468	484,930
Unsecured Sukuk (Note 18.4)	1,500,000	1,500,000	1,500,000
Unsecured bank loans	1,866,884	2,655,488	2,792,916
	<u>3,529,434</u>	<u>4,455,956</u>	<u>4,777,846</u>
Current liabilities			
Current portion of secured bank loans	35,322	36,188	25,691
Current portion of unsecured bank loans	843,109	935,063	1,502,052
Secured bank loans	221,585	164,561	91,732
Unsecured bank loans	2,664,825	3,334,731	3,241,632
Bank overdrafts	102,587	141,537	238,336
	<u>3,867,428</u>	<u>4,612,080</u>	<u>5,099,443</u>
	<u>7,396,862</u>	<u>9,068,036</u>	<u>9,877,289</u>

Geographical analysis of loans and borrowings is as follows:

Location	Long term loans		Short term Loan		Total loans & borrowing	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Saudi Arabia	4,176,140	5,019,456	2,294,124	3,083,819	6,470,264	8,103,275
Egypt	211,389	366,022	318,268	297,312	529,657	663,334
Iran	--	--	100,075	23,727	100,075	23,727
Turkey	15,619	26,031	83,769	52,812	99,388	78,843
Sudan	4,717	9,462	40,323	50,701	45,040	60,163
Morocco	--	--	38,812	48,784	38,812	48,784
Algeria	--	6,236	113,626	83,674	113,626	89,910
	<u>4,407,865</u>	<u>5,427,207</u>	<u>2,988,997</u>	<u>3,640,829</u>	<u>7,396,862</u>	<u>9,068,036</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

18. LOANS AND BORROWINGS (continued)

18.1 These represent borrowings obtained from commercial banks and other financial institutions by the Parent Company and its consolidated subsidiaries. These borrowings are in Saudi Riyals, Egyptian Pounds, Iranian Riyals, US Dollars, Algerian Dinar, Turkish Lira and Sudanese Pounds. Secured bank loans represent borrowing which are secured by charge on assets, including property, plant and equipment and inventories of certain overseas subsidiaries and does not include borrowings which are secured by corporate guarantee. 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 covered by corporate guarantees of the Parent Company.

18.2 Property, plant and equipment amounting to SR 435.35 million (December 31, 2016: SR 440 million, January 1, 2016: SR 1,434.7 million) of certain overseas subsidiaries of the Group are pledged as collateral with commercial banks.

18.3 Inventories amounting to SR 43 million (December 31, 2016: SR 0.14 million, January 1, 2016: SR 366.8 million) are pledged with foreign banks as collateral against the bank borrowing facilities of certain overseas subsidiaries.

18.4 On January 22, 2013, the Group completed its initial offering by issuing Sukuk with a total value of SR 1.5 billion with a tenor of 7 years and carrying an expected variable return to the Sukuk-holders of 6 months SIBOR plus 1.10% payable semi-annually. The covenants require certain financial and other conditions to be complied during the tenure.

19. EMPLOYEE BENEFITS

General Description of the plan

The Group operates an approved unfunded employees' end of service benefits scheme / plan for its permanent employees as required by the Saudi Arabian Labour law and in accordance with the local statutory requirements of the foreign subsidiaries.

The amount recognized in the consolidated statement of financial position is determined as follows:

	December 31, <u>2017</u>	December 31, <u>2016</u>	January 1, <u>2016</u>
Present value of defined benefit obligation	<u>663,732</u>	<u>609,251</u>	<u>543,115</u>

An independent actuarial exercise has been conducted as at January 1, 2016, December 31, 2016 and December 31, 2017 to ensure the adequacy of provision for employees' end of service benefits in accordance with the rules stated under the Saudi Arabian Labour Law by using the Projected Unit Credit Method as required under International Accounting Standards 19: Employee Benefits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

19. EMPLOYEE BENEFITS (continued)

Movement in net defined benefit liability

Net defined benefit liability comprises only of defined benefit plans. The movement in the defined benefit obligation during the year is as follows:

	December 31, 2017	December 31, 2016
Balance at beginning of year	609,251	543,115
<i>Included in profit or loss</i>		
Current service cost	81,706	71,513
Interest cost	22,950	27,025
	104,656	98,538
<i>Included in other comprehensive income</i>		
<i>Re-measurement loss:</i>		
Actuarial loss	13,746	25,060
Effect of movement in exchange rates	(8,443)	(9,446)
Benefits paid	(56,386)	(45,668)
Adjustment related to transferred employees	908	2,054
Classified within 'liabilities associated with assets held for sale'	--	(4,402)
Balance at end of year	663,732	609,251

Actuarial assumptions

The following were the principal actuarial assumptions at the reporting date:

	December 31, 2017	December 31, 2016	January 1, 2016
Discount rate	4% - 20.25%	4% - 20.4%	3.95% - 20.3%
Future salary growth / Expected rate of salary increase	6% - 21%	6% - 21%	7% - 21%
Mortality rate	0.1% - 0.5%	0.1% - 0.5%	0.1% - 0.5%
Employee turnover / withdrawal rates	6% - 17%	6% - 17%	5% - 21%
Retirement age	60 years	60 years	60 years

The weighted average duration of the defined benefit obligation ranges between 4.5 to 9.65 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

19. EMPLOYEE BENEFITS (continued)

Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	<u>December 31, 2017</u>		<u>December 31, 2016</u>	
	<u>Increase</u>	<u>Decrease</u>	<u>Increase</u>	<u>Decrease</u>
Discount rate (1% movement)	(47,689)	55,494	(42,994)	49,960
Future salary growth (1% movement)	56,442	(49,477)	47,527	(41,648)
Inflation (1% movement)	(9,773)	12,218	(9,484)	14,485
Withdrawal rates (1% movement)	(6,509)	7,231	(10,518)	186
Future mortality (1 year set back/ forward)	702	(922)	494	(171)

The analysis does not take account of the full distribution of cash flows expected under the plan, and only provides an approximation of the sensitivity of the assumptions considered.

20. DEFERRED TAX

Deferred tax assets and liabilities are attributable to the following:

	<u>Assets</u>		<u>Liabilities</u>		<u>Net</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Property, plant and equipment	--	--	(58,749)	(49,124)	(58,749)	(49,124)
Provisions	1,854	1,413	(1,003)	(1,428)	851	(15)
Other items	6,030	13,734	(6,816)	(5,389)	(786)	8,345
Tax carry-forwards	20,412	13,546	--	--	20,412	13,546
Net tax asset / (liabilities)	28,296	28,693	(66,568)	(55,941)	(38,272)	(27,248)

The movement in deferred tax liability-net, is as follows:

	<u>Balance at</u>	<u>Recognised</u>	<u>Recognised</u>	<u>Balance at</u>	<u>Recognised</u>	<u>Recognised</u>	<u>Balance at</u>
	<u>Jan 1, 2016</u>	<u>in profit or</u>	<u>in OCI –</u>	<u>Dec 31, 2016</u>	<u>in profit of</u>	<u>in OCI –</u>	<u>Dec 31, 2017</u>
		<u>loss</u>	<u>CTR</u>		<u>loss</u>	<u>CTR</u>	
Property, plant and equipment	(99,573)	(15,538)	65,987	(49,124)	(5,959)	(3,666)	(58,749)
Provisions	1,110	(252)	(873)	(15)	777	89	851
Other items	(6,423)	20,779	(6,011)	8,345	(9,595)	464	(786)
Tax carry-forwards	58,200	(17,577)	(27,077)	13,546	6,631	235	20,412
	(46,686)	(12,588)	32,026	(27,248)	(8,146)	(2,878)	(38,272)

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

21. TRADE PAYABLE

	<u>Note</u>	December 31, <u>2017</u>	December 31, <u>2016</u>	January 1, <u>2016</u>
Third parties		2,264,473	2,368,313	3,126,411
Related parties	26	206,648	127,435	87,379
		<u>2,471,121</u>	<u>2,495,748</u>	<u>3,213,790</u>

22. ACCRUED AND OTHER LIABILITIES

	<u>Note</u>	December 31, <u>2017</u>	December 31, <u>2016</u>	January 1, <u>2016</u>
Accrued expenses		440,042	362,746	326,485
Accrued zakat and tax	23	253,265	282,863	265,481
Payable to government authorities	22.1	224,820	251,122	80,310
Employee related accrual		184,482	204,581	168,289
Payable to contractors		174,651	50,370	89,333
Marketing related accruals		167,648	159,096	222,903
Accrued utilities		132,887	158,947	121,115
Negative fair value of derivatives	11.2	51,697	109,000	215,140
Accrued financial charges		51,642	141,342	167,586
Unclaimed dividend	22.2	48,037	51,640	35,232
Payable to Margarine Company	22.3	46,864	63,438	51,592
Accrued rent		39,448	15,003	15,046
Dividend payable to non-controlling interest		36,116	6,349	23,520
Advances from customers		29,516	26,841	50,244
Insurance related liabilities		16,168	30,154	33,399
Change in fair value of hedged item (firm commitments)		15,838	18,660	19,431
Due to related parties	26	10,278	21,242	5,232
Other liabilities		240,621	283,142	133,038
		<u>2,164,020</u>	<u>2,236,536</u>	<u>2,023,376</u>

22.1 Payable to government authorities represents estimated payments to be made to government authorities related to custom duties, subsidies and price differences on edible oil purchases.

22.2 Unclaimed dividends represent dividend declared by the Company in prior years and share fractions, which resulted from split of shares in prior years. Such amounts have not yet been claimed by the respective shareholders. In the opinion of management the unclaimed dividend represents the amount which can be claimed during the next year. However, the amount which have not been claimed for over two years are unlikely to be paid during the next year and accordingly, classified under long term payables.

22.3 Payable to Margarine Company (MMC) represents payable in connection with the price differences on subsidized crude oil consumed by Behshahr Industrial Company for production of free market products.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

23. ZAKAT AND INCOME TAXES

Zakat and taxes included in the consolidated statement of profit or loss comprises of the following:

	December 31, <u>2017</u>	December 31, <u>2016</u>
Current foreign income-tax charge	50,972	110,851
Zakat	12,807	29,583
	63,779	140,434
Deferred foreign income-tax charge: (Note 20)	8,146	12,588
	71,925	153,022

The movement in the accrued zakat and current-income taxes are as follows:

	December 31, <u>2017</u>	December 31, <u>2016</u>
Balance at beginning of year	282,863	265,481
Charge for the year	63,779	140,434
Transferred to 'liabilities classified as held for sale' (Note 13)	--	(5,104)
Currency translation adjustment	(23,241)	(24,013)
Payments / adjustment during the year	(70,136)	(93,935)
Balance at end of year	253,265	282,863

(a) Zakat status

The Company has finalised its Zakat status up to the year 1998. The Company has an ongoing objection against the Zakat assessment issued by the General Authority of Zakat and Income Tax (GAZT) for the years 1999 and 2000 which showed Zakat differences of SR 1.9 million.

The assessments for the years 2001 to 2004 have been finalized. For the years 2005 to 2012, GAZT conducted a field audit on the Company's accounts and claimed additional Zakat difference of SR 87.6 million. The Company has objected the GAZT claim. The Company also filed the Zakat returns for the years 2013 to 2016.

The Company's Saudi subsidiaries received final zakat certificates for certain years and provisional zakat certificates for other years. They have also received queries from the GAZT for the open years, for which replies have been / will be filed by the respective companies. Some Saudi subsidiaries received assessments from the GAZT concerning their zakat declarations for the years 2005 to 2012, in which the GAZT assessed additional zakat liabilities of approximately SR 17.7 million (2016: SR 42.7 million). The subsidiaries have appealed against such additional assessments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

23. ZAKAT AND INCOME TAXES (continued)

(b) Income tax status

The Group's foreign subsidiaries are obliged to pay income tax as per applicable tax laws of their countries of incorporation. Some of the foreign subsidiaries are currently tax exempt. Tax paying foreign subsidiaries determine their liabilities based on applicable corporate rates to the adjusted taxable income for the year. Certain foreign subsidiaries are also obliged to pay quarterly advances tax determined on prior year tax liability bases.

Certain foreign subsidiaries have received final tax assessments for certain years and provisional tax assessments for other years. They have also received queries from departments of income tax after their assessment or inspections for open years, for which replies have been filed.

The Group management believes that there are no significant amounts under protest with departments of income tax in any foreign operation.

24. CONTINGENCIES AND COMMITMENTS

	December 31, 2017	December 31, 2016	January 1, 2016
	Amounts in millions		
Letters of credits	91	258	82
Bank guarantees	239	273	201
Corporate guarantee (note 24.1)	102	102	102
Commitments to buy raw sugar	345	98	313
Commitments to sell refined sugar	694	549	855
Investment commitments	--	49.6	49.6
Capital commitments	257	394	672
	Quantity in Metric tonnes		
Commitments to buy raw sugar	262,300	48,750	284,950
Commitments to sell raw sugar	360,478	243,695	409,851

24.1 The Company has also issued a corporate guarantee, amounting to SR 102 million (December 31, 2016: SR 102 million, January 1, 2016: SR 102 million), to Saudi Industrial Development Fund for their loan to an associated company.

24.2 Also see note 18 with respect to guarantees given for certain loans and note 23 with respect to Zakat contingencies.

24.3 The Group has various operating leases for its offices, warehouses and production facilities. Future rental commitments under these operating leases are as follows:

	December 31, 2017	December 31, 2016	January 1, 2016
Within one year	760,860	760,852	704,351
Between two and five years	2,623,012	2,739,285	2,850,170
More than five years	4,726,507	4,842,851	5,850,076
Total	8,110,379	8,342,988	9,404,597

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

25. EARNINGS PER SHARE

Basic earnings per share for the year ended December 31, 2017 have been computed by dividing the net profit / loss and profit / loss from continuing operations attributable to shareholders of the Parent Company for such periods by the weighted average number of shares outstanding 533.981 million (December 31, 2016: 533.981 million) during such periods.

Diluted earnings per share for the year ended December 31, 2017 and December 31, 2016, have been computed by dividing the net profit / loss and profit / loss from continuing operations attributable to shareholders of the Parent Company for such periods by the weighted average number of shares outstanding adjusted for the effects of all dilutive potential ordinary shares. However, in the absence of any convertible liability, the diluted earnings per share does not differ from the basic earnings per share.

26. RELATED PARTIES

Related parties include the Group's shareholders, associates and affiliated companies, other entities related to certain consolidated subsidiaries and key management personnel of the Group. Terms and conditions of these transactions are approved by the Group's management.

Transactions with key management personnel

Key management personnel compensation

Compensation to the Group's key management personnel includes salaries, non-cash benefits, and post-employment benefits, in relation to which, the Group has recognized an expense of SR 25.07 million for the year ended December 31, 2017 (December 31, 2016: SR 25.23 million).

Board of Directors' remuneration for the year ended December 31, 2017 amounting to SR 2.2 million (December 31, 2016: SR Nil) has been calculated in accordance with the Company's By-laws and is considered as appropriation shown in the consolidated statement of changes in equity. Attendance allowances and other expenses to the directors and members of various board committees amounting to SR 2.77 million (December 31, 2016: SR 2.60 million) are charged to expenses and included under administrative expenses.

Other related party transactions

A number of companies transacted with the Group during the year. The terms and conditions of these transactions were no more favourable than those available, or which might reasonably be expected to be available, in similar transactions with non-key management personnel related companies on arm's length basis.

All outstanding balances with these related parties are priced on an arm's length basis and are to be settled in cash within agreed credit period from the date of transaction. None of the balances are secured. No expense has been recognized in the current year or prior year for bad or doubtful debts in respect of amounts owed by related parties.

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

26. RELATED PARTIES (continued)

The aggregate value of related party transactions and outstanding balances including those related to key management personnel, and entities over which they have control or significant influence are as follows:

<u>Name</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Amount of transactions</u> <u>December 31,</u>		<u>Closing balance</u> December 31,	
			<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
<u>Due from related parties – Trade receivables</u>						
Certain shareholders of USC	Shareholders of a subsidiary	Trade	308,900	207,508	31,054	49,078
Certain shareholders of AIC	Shareholders of a subsidiary	Trade	79,755	131,937	9,129	40,992
Almarai	Associate	Trade	79,432	83,426	5,014	7,855
USCE	Associate	Trade	31,646	--	--	--
Western Bakeries Company Limited	Affiliate	Trade	26,391	25,515	1,852	2,882
Al Mehbaj Al Shamiyah Trading Company	Affiliate	Trade	--	1,407	--	68
Seafood International One	Associate	Trade	8,325	23,467	--	--
Abdul Kader Al Muhaidib & Sons Co.	Shareholder	Trade	1,736	3,506	--	937
Others			77	142	3,525	1,730
					<u>50,574</u>	<u>103,542</u>
<u>Due from related parties – Prepayments and other receivables</u>						
Kinan (Note 26.1)	Associate	Non-trade	53,020	41,403	82,363	149,390
Intaj	Associate	Non-trade	16,076	--	--	27,200
Seafood International One	Associate	Non-trade	12,761	42,810	14,907	19,346
Seafood International Holdco.	Joint venture	Non-trade	6,011	--	6,011	--
Bonus Foods Company Limited	Associate	Non-trade	1,104	--	1,104	--
Joussour Holding Company	Investee	Non-trade	3,750	--	--	--
Abdul Kader Al Muhaidib & Sons Co.	Shareholder	Non-trade	--	9,171	--	1,393
Del Monte Saudi Arabia Limited	Affiliate	Non-trade	3,349	2,500	150	--
USCE	Associate	Non-trade	45,254	--	168	--
					<u>104,703</u>	<u>197,329</u>

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

26. RELATED PARTIES (continued)

<u>Name</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Amount of transactions</u> <u>December 31,</u> <u>2017</u> <u>2016</u>		<u>Closing balance</u> December 31, <u>2017</u> <u>2016</u>	
<u>Due from related parties – Long-term receivables</u>						
Kinan (Note 26.1)	Associate	Non-trade	--	--	69,075	--
Shareholder of USC – Net	Shareholder of a subsidiary	Trade	--	--	--	3,966
					<u>69,075</u>	<u>3,966</u>
<u>Due to related parties – Trade payables</u>						
Almarai	Associate	Trade	541,645	514,611	82,163	55,202
Mayar Food Company	Affiliate	Trade	234,643	233,759	57,080	40,864
Nestle Saudi Arabia Limited	Affiliate	Trade	332,696	324,564	40,453	5,199
Hail Agricultural Development Company	Affiliate	Trade	104,544	91,946	15,373	12,759
Del Monte Saudi Arabia Limited	Affiliate	Trade	100,386	133,989	4,468	6,506
Al Mehbaj Al Shamiyah Trading Company	Affiliate	Trade	11,869	17,126	4,181	3,221
Al Manhal Water Factory Company Limited	Affiliate	Trade	23,382	19,834	2,587	3,684
Others			5,044	--	343	--
					<u>206,648</u>	<u>127,435</u>
<u>Due to related parties – accrued and other liabilities</u>						
Arabian Centers Company	Shareholder of a subsidiary	Non-trade	43,901	44,248	8,221	19,730
Abdul Kader Al Muhaidib & Sons Co.	Shareholder	Non-trade	11,161	--	266	--
Others			10,335	12,423	1,791	1,512
					<u>10,278</u>	<u>21,242</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

26. RELATED PARTIES (continued)

- 26.1 In September 2014, the Parent Company sold its direct and indirect ownership interest in Diyar Al Mashreq (Masharef Project) to its associate Kinan at a total consideration of SR 593.6 million, receivable in four installments until November 2017. During the year ended December 31, 2017, an agreement was signed between the parties whereby the receivable balance of SR 153.97 million was rescheduled and agreed to be settled in 2 installments amounting to SR 79.70 million and SR 74.27 million on December 1, 2018 and June 30, 2019 respectively. The receivable balances as disclosed above are reported at the present values of the installment amounts.

27. OPERATING SEGMENTS

The Group has four reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Group's Chief Executive Officer (Chief Operating Decision Maker) reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

Food processing - includes manufacturing, sale and distribution of Edible oils, Sugar, Pasta and food products.

Retail - includes hyper markets, super markets and convenience stores operations.

Food services - includes food products and fast food restaurants' chain operated by Herfy.

Investments - includes real estate activities, investments in associates, available-for-sale investments and other investments.

The segments which do not meet any of the quantitative thresholds for determining reportable segments in 2017 and 2016, are classified as "Others / Eliminations", which mainly include the eliminations.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit net of income tax, as included in the internal management reports. Management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

27. OPERATING SEGMENTS (continued)

December 31, 2017	Reportable Segments						Total
	Food Processing	Retail	Food services	Investments	Discontinued operations	Others / Eliminations	
External revenues	11,061,961	11,638,833	1,129,681	--	--	--	23,830,475
Inter segment revenue	322,260	4,191	28,112	45,337	--	(399,900)	--
Segment Revenue	11,384,221	11,643,024	1,157,793	45,337	--	(399,900)	23,830,475
Cost of revenues	(9,653,571)	(9,317,363)	(816,048)	--	--	347,010	(19,439,972)
Segment net profit / (loss)	591,065	(1,016,022)	199,921	1,249,446	15,605	(14,397)	1,025,618
Segment assets	8,230,219	5,426,297	1,390,677	13,039,070	--	(4,877,443)	23,208,820
Segment liabilities	5,006,660	5,104,145	523,827	3,841,310	--	(975,102)	13,500,840

December 31, 2016	Reportable Segments						Total
	Food Processing	Retail	Food services	Investments	Discontinued operations	Others / Eliminations	
External revenues	11,634,852	13,567,933	1,128,017	--	--	--	26,330,802
Inter segment revenue	251,871	4,441	28,666	55,008	--	(339,986)	--
Segment Revenue	11,886,723	13,572,374	1,156,683	55,008	--	(339,986)	26,330,802
Cost of revenues	(10,017,294)	(11,219,627)	(809,080)	--	--	368,163	(21,677,838)
Segment net profit / (loss)	302,348	(810,631)	217,579	206,694	(176,260)	(103,017)	(363,287)
Segment assets	8,056,829	6,262,663	1,342,063	13,609,069	1,051,182	(5,034,410)	25,287,396
Segment liabilities	5,041,737	4,920,811	539,354	5,002,496	1,014,165	(481,001)	16,037,562

28. COST OF REVENUES

	December 31, 2017	December 31, 2016
Inventories	17,783,414	20,041,307
Salaries, wages and benefits	615,474	617,609
Overheads	607,499	580,308
Depreciation and amortization	268,991	267,187
Freight & handling	164,594	171,427
	19,439,972	21,677,838

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

29. ADMINISTRATIVE EXPENSES

	December 31, <u>2017</u>	December 31, <u>2016</u>
Salaries, wages and benefits	437,022	481,405
Depreciation and amortization	94,853	60,047
Professional fees	55,314	47,854
IT related cost	37,451	23,637
Insurance	25,210	29,309
Public relations and advertising	20,456	11,193
Rent	17,169	17,379
Utilities, telephone and communication cost	17,559	14,473
Traveling	11,566	9,994
Repairs and maintenance	10,293	5,315
Training	5,387	5,575
Other	35,393	54,475
	<u>767,673</u>	<u>760,656</u>

30. SELLING AND DISTRIBUTION EXPENSES

	December 31, <u>2017</u>	December 31, <u>2016</u>
Salaries, wages and benefits	1,308,745	1,350,119
Rent	715,536	851,171
Advertisement	300,230	385,297
Depreciation and amortization	441,448	391,850
Utilities	297,288	300,686
Maintenance	71,967	87,710
Insurance	53,892	50,861
Commission	43,949	51,778
Communication	17,059	11,535
Others	103,440	66,804
	<u>3,353,554</u>	<u>3,547,811</u>

31. IMPAIRMENT LOSSES

As part of Group's assessment exercise of the Fair values of available for sale securities and recoverable amounts of certain assets, including a disposal group and intangibles at the year end; the Group has recognized a cumulative impairment loss of SR 222.02 million (December 31, 2016 SR: 573.89 million).

The breakup of the amount by class of assets is provided below:

	December 31, <u>2017</u>	December 31, <u>2016</u>
Impairment loss on:		
- recoverable amount of non-financial assets including goodwill (Note 'a' below)	222,024	301,623
- fair valuation of AFS Investment (Note 'b' below)	--	183,869
- re-measurement of an associate held for sale (Note 'c' below)	--	88,400
Total impairment losses	<u>222,024</u>	<u>573,892</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

31. IMPAIRMENT LOSSES (continued)

- a) *Impairment loss on recoverable amount of non-financial assets, including goodwill:*

The Group has reviewed the carrying amounts of its non-financial assets including goodwill to determine whether their carrying values exceed the recoverable amounts. For impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of a non-financial asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is established based on the estimated future cash flows based on 5 year management's approved plan, discounted to their present value using the following growth rates, pre-tax discount rates and a terminal value percentages (disclosed as key assumptions in the table below).

Following is the breakup of impairment loss on goodwill for the year ended:

CGU	Impairment loss		Key assumptions
	December 31, 2017	December 31, 2016	
Geant operations	222,024	--	<ul style="list-style-type: none"> Budgeted EBITDA margin -3.7% to 2.1% Discount rate 13.9% Terminal value growth rate 2.6%
El Maleka for Food Industries Company	--	41,550	<ul style="list-style-type: none"> Budgeted EBITDA growth rate 19.26% (2016: 33.7%) Discount rate 27.01% (2016: 24.86 %) Terminal value growth rate 5% (2016: 5.5%)
El Farasha for Food Industries Company	--	3,627	<ul style="list-style-type: none"> Budgeted EBITDA growth rate 14% (2016: 17.51%) Discount rate 27.01 % (2016: 24.86 %) Terminal value growth rate 5.5% (2016: 5.5%)
Savola Industrial Investment Company – USCE	--	39,338	<ul style="list-style-type: none"> Budgeted EBITDA growth rate -1.08% (2016: -1.08%) Discount rate 12.8% (2016: 12.8 %) Terminal value growth rate 3% (2016: 3%)
Alexandria Sugar Company, Egypt (ASC)	--	17,908	<ul style="list-style-type: none"> Budgeted EBITDA growth rate Nil (2016: -5.7%) Discount rate Nil (2016: 25.6 %) Terminal value growth rate Nil (2016: 5.5%)
Total	222,024	102,423	

Key assumptions used for determination of in value in use:

Management determined forecast sales growth and gross margin based on past performance and its expectations of market development. The discount rates reflect management's estimate of the specific risks relating to the segment. Estimates for price inflation have been made based on the publicly available information and historical results, which have been used as an indicator of future results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

31. IMPAIRMENT LOSSES (continued)

The calculation of value in use is most sensitive to the assumptions of sales growth rate of 5% that has been used to extrapolate cash flows for the budget period of 5 years and beyond; as well as the terminal value.

Other non-financial assets:

Additionally, an impairment of SR 199.2 million was recognized during the year ended December 31, 2016 on other non-financial assets. This represents the write-down of certain property, plant and equipment and other assets of Alexandria Sugar Company, Egypt (ASCE) and Alexandria United Company for Land Reclamation (AUCR) (subsidiaries) to their recoverable amounts due to unfavourable changes in sugar prices and supply dynamics; increase in the costs due to subsidy removal and sales disruptions.

The recoverable amount is based on “value-in-use” method and was determined at the level of cash generating unit (“CGU”) as identified by management and consists of the net operating assets. In determining value in use for the CGUs, the cash flows (determined using approved five-year business plan and budget) were discounted at a rate of 13.9% (December 31, 2016: 12.8% to 25.6%) on a post-tax basis and were projected up to the year 2022. The estimated average growth rate used to extrapolate the cash flows beyond the five-year period was 2.6% (December 31, 2016: 3% to 5.5%) and management believes that such growth rate does not exceed the long-term average growth rate for the market in which it operates. The calculation of value-in-use is most sensitive to the following key assumptions used:

- Future performance improvements
- Discount rate applied to cash flows projections
- Sale prices and quantities

b) Impairment loss on Fair valuation of AFS investments:

The Group holds investments in equity of Swicorp, Saudi Arabia and Joussor Holding Company and classifies these under Available for Sale investments. The Group had carried out an internal study to estimate the Fair Values of these unquoted investments at December 31, 2016 using multiple valuation techniques including Price Earnings Multiples, Price to Book value and Price to Tangible Book Value the decline in the fair value was considered significant. Accordingly, impairment losses amounting to SR 48 million and SR 135.9 million have been recognized on Swicorp, Saudi Arabia and Joussor Holding Company, respectively in the comparative period.

As at December 31, 2017, the fair values were determined using the consistent approach and no further impairment losses were recognised.

c) Impairment loss on re-measurement of an associate held for sale:

As fully explained in note 13, during the last quarter of 2016, the investment in Intaj Capital Limited was classified as held for sale resulting its measurement at lower of carrying amount or Fair value less cost to sell. The determination of fair value less cost to sell was principally based on bid prices from potential buyers but also supported by detailed internal analysis of underlying investments. The Group considered the latest NAV report available from the Fund Manager, and adjusted the same with the probable exit timing, appropriate EBITDA multiples and current liquidity discount. Consequently, investment was written down to its estimated fair value of SR 80.8 million and an impairment loss of SR 88.4 million was recognized as at December 31, 2016. As at December 31, 2017, the fair value was determined using the consistent approach and no further impairment loss was recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

32. NET FINANCE COST

	December 31, <u>2017</u>	December 31, <u>2016</u>
Commission income on bank deposits	127,391	196,083
Positive fair value of call option	10,240	--
Finance income	137,631	196,083
Financial charges on borrowings	340,056	369,146
Negative fair value of put option	60,253	--
Foreign exchange loss, net	57,711	353,782
Bank commission	52,129	22,667
Unrealized loss on remeasurement of other commodity futures, net	7,839	8,111
Unwinding of discount on site restoration	4,925	969
Finance cost	522,913	754,675
Net finance cost recognized in profit or loss	385,282	558,592

33. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value and cash flow interest rate risks and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management framework

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 market risk, credit risk and liquidity risk.

The Board of Directors has overall responsibility for establishment and oversight of the Group's risk management framework. The executive management team is responsible for developing and monitoring the Group's risk management policies. The team regularly meets and any changes and compliance issues are reported to the Board of Directors through the audit committee.

Risk management systems are reviewed regularly by the executive management team to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The audit committee oversees compliance by management with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

33. FINANCIAL RISK MANAGEMENT (continued)

Financial instruments carried on the consolidated statement of financial position include cash and cash equivalents, trade and other receivables, investments, long term receivables, borrowings, derivatives, accounts payable and accrued and other current liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Financial asset and liability is offset and net amounts reported in the financial statements, when the Group has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and liability simultaneously.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk.

Interest rate risk

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 positions and cash flows.

The Group's interest rate risks arise mainly from its borrowings and short-term deposits, which are at floating rate of interest and are subject to re-pricing on a regular basis and for which the management closely monitors the changes in interest rates.

During 2014, the Group entered into Interest Rate Swaps ("IRS") to partially manage its exposure to interest rate risk on Sukuk issuance value of SR 1.5 billion, up to the extent of SR 750 million. This has been designated as a Cash flow hedge.

The interest rate profile of the Group's interest-bearing financial instruments as reported to the management of the Group is as follows:

	December 31, <u>2017</u>	December 31, <u>2016</u>
Fixed rate instruments		
Financial assets	<u>471,882</u>	556,693
Financial liabilities	<u>255,276</u>	<u>303,418</u>
Variable rate instruments		
Financial assets	<u>267,792</u>	303,880
Financial liabilities	<u>7,141,233</u>	<u>8,760,813</u>

Sensitivity analysis for fixed rate instruments

Change in 100 basis points in interest rates, with all other variables held constant, would have increased or decreased the equity and profit before zakat and income tax for the year by SR 2.5 million (December 31, 2016: SR 2.9 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

33. FINANCIAL RISK MANAGEMENT (continued)

Sensitivity analysis for variable rate instruments

Change in 100 basis points in interest rates, with all other variables held constant, would have increased or decreased the equity and profit before zakat and income tax for the year by SR 60.93 million (December 31, 2016: SR 59.63 million).

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates for its transactions principally in Saudi Riyals, US Dollars, Iranian Riyals, Egyptian Pounds, Sudanese Pounds and Turkish Lira. The Group operates internationally and is exposed to foreign exchange risk. The Group's investments in foreign subsidiaries and associates, whose net assets are exposed to currency translation risk. Currently, such exposures are mainly related to exchange rate movements between foreign currencies against Iranian Riyals, Egyptian Pounds, Sudanese Pounds and Turkish Lira. Such fluctuations are recorded as a separate component of equity in the accompanying consolidated financial statements. The Group's management monitors such fluctuations and manages its effect on the consolidated financial statements accordingly.

Generally, borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Group. In addition, interest on borrowings is denominated in the currency of the borrowings. This provides an economic hedge without derivatives being entered into and therefore hedge accounting is not applied in these circumstances.

Following is the gross financial position exposure (in thousands) classified into separate foreign currencies:

	December 31, 2017				
	US Dollars	Iranian Riyals	Egyptian Pounds	Sudanese Pounds	Turkish Lira
Trade receivables	17,488	1,098,444,415	462,406	129,997	140,149
Other receivables	1,281	756,816,731	193,500	20,673	27,447
Cash and cash equivalents	39,969	6,030,049,102	177,546	129,997	1,978
	<u>58,738</u>	<u>7,885,310,248</u>	<u>833,452</u>	<u>280,667</u>	<u>169,574</u>
Trade payables	(17,123)	(3,612,122,638)	(256,061)	(25,232)	(101,310)
Other payables	(234)	(547,387,226)	(620,176)	(53,871)	(3,428)
Loans and borrowings	(206,329)	(389,052,630)	(2,679,191)	(325,884)	(99,917)
	<u>(223,686)</u>	<u>(4,548,562,494)</u>	<u>(3,555,428)</u>	<u>(404,987)</u>	<u>(204,655)</u>
Net exposure	<u>(164,948)</u>	<u>3,336,747,754</u>	<u>(2,721,976)</u>	<u>(124,320)</u>	<u>(35,081)</u>

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

33. FINANCIAL RISK MANAGEMENT (continued)

	December 31, 2016				
	US Dollars	Iranian Riyals	Egyptian Pounds	Sudanese Pounds	Turkish Lira
Trade receivables	4,761	951,535,486	212,273	39,701	168,210
Other receivables	3,015	508,515,472	68,353	28,267	30,627
Cash and cash equivalents	35,673	6,039,189,228	560,324	64,082	4,095
	43,449	7,499,240,186	840,950	132,050	202,932
Trade payables	(62,622)	(860,001,733)	(197,684)	(59,573)	(102,364)
Other payables	(68,000)	(2,718,097,152)	(300,567)	(22,954)	(5,142)
Loans and borrowings	(189,631)	(192,304,052)	(1,096,735)	(312,248)	(68,128)
	(320,253)	(3,770,402,937)	(1,594,986)	(394,775)	(175,634)
Net exposure	(276,804)	3,728,837,249	(754,036)	(262,725)	27,298

Significant exchange rates applied during the year were as follows:

	Average rate		Spot rate	
	For the year ended December 31,		As at December 31,	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
<i>Foreign currency per Saudi Riyal</i>				
US Dollars	0.27	0.27	0.27	0.27
Iranian Riyals	9,057	8,105	11,320	8,120
Egyptian Pounds	4.76	2.28	4.74	4.9
Sudanese Pounds	5.63	3.98	7.40	5.19
Turkish Lira	0.97	0.81	1.01	0.94

The Group's investment in foreign subsidiaries are not hedged.

Sensitivity analysis

Every 1% increase or decrease in exchange rate with all other variables held constant will decrease or increase profit before zakat and income tax for the year by SR 6.9 million (December 31, 2016: SR 2.9 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

33. FINANCIAL RISK MANAGEMENT (continued)

The following table demonstrates the sensitivity to the change in exchange rates. If Foreign currency had weakened / strengthened by 1% against Saudi Riyal, with all other variables held constant, the effect on the Group's profit before zakat and income tax at December 31, 2017 and December 31, 2016 would be as follows:

	Increase / decrease in exchange rates	US Dollars	Iranian Riyals	Egyptian Pounds	Sudanese Pounds	Turkish Lira
<u>December 31, 2017</u>						
Saudi Riyal	+1%	(3,237)	2,948	(6,002)	(293)	(349)
Saudi Riyal	-1%	3,237	(2,948)	6,002	293	349
<u>December 31, 2016</u>						
Saudi Riyal	+1%	(5,459)	4,304	(1,533)	(506)	290
Saudi Riyal	-1%	5,459	(4,304)	1,533	506	(290)

Price risk

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 statement of financial position as available-for-sale investments. The management of the Group monitors the proportion of equity securities in its investment portfolio based on market indices. Such investments are managed on an individual basis and all buy and sell decisions are approved by the Investment Committee. In addition, United Sugar Company uses derivative financial instruments (Commodity future contracts) to hedge its price risk of raw material in the Sugar business.

Details of the Group's investment portfolio exposed to price risk, at the reporting date are disclosed in note 8 to these consolidated financial statements. As at December 31, 2017, the Company's overall exposure to price risk is limited to the fair value of those positions.

Sensitivity analysis

The net assets of the Group will increase / (decrease) by SR 3.79 million (December 31, 2016: SR 5.2 million) if the prices of equity vary due to increase / decrease in fair values by 1% with all other factors held constant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

33. FINANCIAL RISK MANAGEMENT (continued)

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group has no significant concentration of credit risk. To reduce exposure to credit risk, the Group has an approval process whereby credit limits are applied to its customers. The management also regularly monitors the credit exposure towards the customers whereby the customers are grouped according to their credit characteristics, including whether they are an individual or a legal entity, whether they are a wholesale/retail or manufacturers, their geographic location, industry and existence of any financial/economic difficulties and accordingly records provisions against those balances considered doubtful of recovery which is based on customer profile and payments history. Outstanding customer receivables are regularly monitored. In order to cater the credit risk from debtors, the Group has also entered into insurance arrangements in certain geographies.

The Group's maximum exposure to credit risk at the reporting date is as follows:

	December 31, <u>2017</u>	December 31, <u>2016</u>
Financial assets		
Long term receivables	78,558	10,751
Trade receivables	970,618	1,252,122
Other receivables	357,501	421,541
Derivatives	64,387	50,907
Bank balances	<u>1,265,128</u>	<u>1,371,894</u>
	<u>2,736,192</u>	<u>3,107,215</u>

Trade receivables are carried net of provision for doubtful receivables.

As at the reporting date, receivable overdue for more than six months amounted to SR 121.05 million (December 31, 2016: SR 148.22 million). The total allowance for credit losses at December 31, 2017 amounted to SR 80.23 million (December 31, 2016: SR 72.73 million). There were no past due or impaired receivables from related parties other than SR 3.75 million receivable from an investee company, Joussour holding Company, as disclosed in Note 26. "Related Parties". Company has recorded full impairment against the said receivable balance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

33. FINANCIAL RISK MANAGEMENT (continued)

Concentration Risk

The sector wise analysis of receivables, comprising trade and long term receivables is given below:

	December 31, 2017	December 31, 2016
Wholesale / Retail	737,053	773,104
Manufacturing	177,251	366,567
Exports	96,784	90,015
Others	118,326	105,921
	1,129,414	1,335,607
Less: Provision for doubtful trade debts	(80,238)	(72,734)
	1,049,176	1,262,873

The maximum exposure to credit risk for trade and long term receivables by geographic region is as follows:

	December 31, 2017	December 31, 2016
Saudi Arabia	682,102	945,966
Iran	119,384	144,321
Turkey	145,127	134,290
Egypt	123,114	59,691
Other Regions	59,687	51,339
	1,129,414	1,335,607
Less: Provision for doubtful trade debts	(80,238)	(72,734)
	1,049,176	1,262,873

Liquidity risk

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 an 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 through committed credit facilities to meet any future commitments.

The Group's approach to managing liquidity is to ensure, as far as possible that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. For this purpose, the Group has maintained credit lines with various commercial banks in order to meet its liquidity requirements. As at December 31, 2017, the Group has unused bank financing facilities amounting to SR 4.7 billion (December 31, 2016: SR 3.7 billion) to manage the short term and the long term liquidity requirements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

33. FINANCIAL RISK MANAGEMENT (continued)

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include contractual interest payments and exclude the impact of netting agreements.

December 31, 2017	Carrying Amount	Contractual cash flows				
		Less than 6 months	6 months to 1 year	1 year to 3 years	3 years to 5 years	More than 5 years
<i>Non derivative financial liabilities</i>						
Loans and borrowings	7,396,862	3,643,577	461,275	3,364,077	366,272	--
Trade payables	2,471,121	2,471,121	--	--	--	--
Accrued and other liabilities	1,786,358	1,786,358	--	--	--	--
Unclaimed dividends	258,473	258,473	--	--	--	--
	<u>11,912,814</u>	<u>8,159,529</u>	<u>461,275</u>	<u>3,364,077</u>	<u>366,272</u>	<u>--</u>
<i>Derivative financial liabilities</i>						
Interest rate swaps used for hedging	4,735	(770)	348	9,831	--	--
Derivative contracts used for hedging	38,988	38,869	119	--	--	--
Put Option	159,979	--	--	--	--	162,400
Other derivative contracts	7,974	7,974	--	--	--	--
	<u>211,676</u>	<u>46,073</u>	<u>467</u>	<u>9,831</u>	<u>--</u>	<u>162,400</u>

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amount with the exception of unclaimed dividend. Accordingly, it has been classified as such.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

33. FINANCIAL RISK MANAGEMENT (continued)

December 31, 2016	Carrying <u>Amount</u>	Contractual cash flows				
		Less than 6 <u>months</u>	6 months to <u>1 year</u>	1 year to <u>3 years</u>	3 years to <u>5 years</u>	More than <u>5 years</u>
<i>Non derivative financial liabilities</i>						
Loans and borrowings	9,068,036	4,057,334	626,508	2,056,892	2,575,912	80,000
Trade payables	2,495,748	2,495,748	--	--	--	--
Accrued and other liabilities	1,768,339	1,768,339	--	--	--	--
Unclaimed dividends	258,473	258,473	--	--	--	--
	<u>13,590,596</u>	<u>8,579,894</u>	<u>626,508</u>	<u>2,056,892</u>	<u>2,575,912</u>	<u>80,000</u>
<i>Derivative financial liabilities</i>						
Interest rate swaps used for hedging	(2,972)	(2,131)	(2,252)	3,965	3,924	--
Derivative contracts used for hedging	15,127	11,272	3,855	--	--	--
Other Derivative contracts	93,873	89,530	4,343	--	--	--
	106,028	98,671	5,946	3,965	3,924	--

Fair value of assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

33. FINANCIAL RISK MANAGEMENT (continued)

When measuring the fair value of an asset or liability, the Group uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or liability falls into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest input level that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

As the Group's financial instruments are compiled under the historical cost convention, except for available-for-sale investments, inventory and firm commitments under fair value relationships, and derivative financial instruments which are carried at fair values, differences can arise between the book values and fair value estimates. Management believes that the fair values of the Group's financial assets and liabilities are not materially different from their carrying values.

The following table shows the carrying amount and fair values of the financial assets and financial liabilities, including their levels and fair value hierarchy. It doesn't include fair value information for financial assets and financial liabilities not measured at fair value if the carrying value is a reasonable approximation of fair value.

	Carrying amount			Fair Value			
	Designated at fair value	Fair value hedging instruments	Available for sale	Level 1	Level 2	Level 3	Total
December 31, 2017							
<i>Financial assets measured at fair value</i>							
Future exchange contracts used for hedging	--	13,326	--	--	13,326	--	13,326
Other future exchange contracts	40,821	--	--	--	40,821	--	40,821
Call option	10,240	--	--	--	--	10,240	10,240
Equity securities	--	--	471,507	379,080	--	92,427	471,507
	<u>51,061</u>	<u>13,326</u>	<u>471,507</u>	<u>379,080</u>	<u>54,147</u>	<u>102,667</u>	<u>535,894</u>

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

33. FINANCIAL RISK MANAGEMENT (continued)

	Carrying amount			Fair Value			
	Designated at fair value	Fair value hedging instruments	Available for sale	Level 1	Level 2	Level 3	Total
December 31, 2017							
<i>Financial liabilities measured at fair value</i>							
Interest rate swaps used for hedging	--	(4,735)	--	--	(4,735)	--	(4,735)
Future exchange contracts used for hedging	--	(38,988)	--	--	(38,988)	--	(38,988)
Other future exchange contracts	(7,974)	--	--	--	(7,974)	--	(7,974)
Put option	(159,979)	--	--	--	--	(159,979)	(159,979)
	<u>(167,953)</u>	<u>(43,723)</u>	<u>--</u>	<u>--</u>	<u>(51,697)</u>	<u>(159,979)</u>	<u>(211,676)</u>
December 31, 2016							
<i>Financial assets measured at fair value</i>							
Future exchange contracts used for hedging	--	50,907	--	--	50,906	--	50,906
Other future exchange contracts	--	--	--	--	--	--	--
Equity securities	--	--	612,421	519,994	--	92,427	612,421
	<u>--</u>	<u>50,907</u>	<u>612,421</u>	<u>519,994</u>	<u>50,906</u>	<u>92,427</u>	<u>663,327</u>
<i>Financial liabilities measured at fair value</i>							
Interest rate swaps used for hedging	--	(2,972)	--	--	(2,972)	--	(2,972)
Future exchange contracts used for hedging	--	(15,127)	--	--	(15,127)	--	(15,127)
Other future exchange contracts	(93,873)	--	--	--	(93,873)	--	(93,873)
	<u>(93,873)</u>	<u>(18,099)</u>	<u>--</u>	<u>--</u>	<u>(111,972)</u>	<u>--</u>	<u>(111,972)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

33. FINANCIAL RISK MANAGEMENT (continued)

Valuation technique and significant unobservable inputs

The following table shows the valuation techniques used in measuring Level 2 and Level 3 fair value, as well as significant unobservable input used.

Financial instruments measured at fair value

<u>Type</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Inter-relationship between significant unobservable inputs and fair value measurements</u>
Equity securities	Market comparison technique. PE multiple, Price to Book value.	Price Earnings Multiples, Price to Book value and Price to Tangible Book Value.	Not applicable
Future contracts	Broker quotes	Not applicable	Not applicable
Call Option	Black Scholes Model	Strike price Volatility of Sugar index Spot price (fair value)	Increase in fair value will decrease the Put Option and increase the Call option values. Increase in volatility index will increase the value of Put and Call options.
Interest rate swaps	DCF	Not applicable	Not applicable

34. CAPITAL MANAGEMENT

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and to maintain a strong capital base to support the sustained development of its businesses.

The Group manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders or issue new shares. The Group also monitors capital using a gearing ratio, which is net debt, interest bearing loans and borrowings including finance cost thereon, trade and other payables, less cash and bank balances. Capital signifies equity as shown in the consolidated statement of financial position plus net debt. The gearing ratio as at December 31, 2017 and December 31, 2016 is as follows:

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

34. CAPITAL MANAGEMENT (continued)

	December 31, <u>2017</u>	December 31, <u>2016</u>
Total liabilities	13,500,840	16,037,562
Less: Cash and cash equivalents	(1,298,117)	(1,404,808)
Adjusted net debt	12,202,723	14,632,754
 Total equity	 9,707,980	 9,249,834
Less: Hedging reserve	4,735	2,972
Adjusted equity	9,712,715	9,252,806
 Adjusted net debt to adjusted equity ratio	 1.25	 1.58

35. DIVIDENDS

Subsequent to year end, the Company's Board of Directors have recommended final dividend amounting to SR 533.98 million representing Saudi Riyal 1 per share for the approval by the shareholders.

36. NEW STANDARDS, AMENDMENTS TO STANDARDS AND STANDARDS ISSUED BUT NOT YET EFFECTIVE

36.1 New Standards, Amendment to Standards and Interpretations already effective

The Group has adopted, as appropriate, the following new and amended IASB Standards, effective January 1, 2017.

a) Disclosure Initiative (Amendments to IAS 7)

The amendments require disclosures that enable users of Financial Statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

Group's financing activities, as disclosed in Consolidated Statement of Cash Flows, represents only cash flow changes, except for finance cost paid for which non cash change is reflected in cash flow from operating activities.

b) Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)

The amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.

Group does not hold any debt instruments measured at fair value; therefore, there is no impact of this amendment on Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

36. NEW STANDARDS, AMENDMENTS TO STANDARDS AND STANDARDS ISSUED AND NOT YET EFFECTIVE (continued)

36.1 *New Standards, Amendment to Standards and Interpretations already effective (continued)*

- c) Annual Improvements to IFRSs 2014–2016 Cycle (Amendments to IFRS 12 Disclosure of Interests in Other Entities)

The amendments clarify that disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution. There is no impact of this amendment on Financial Statements.

36.2 *Standards issued but not yet effective*

Following are the new standards and amendments to standards are effective for annual periods beginning after January 1, 2018 or later and earlier application is permitted; however, the Group has not early adopted them in preparing these consolidated financial statements. The Group is in the process of evaluating the impact of these standards.

- a) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

- b) IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

36. NEW STANDARDS, AMENDMENTS TO STANDARDS AND STANDARDS ISSUED AND NOT YET EFFECTIVE (continued)

36.2 *Standards issued but not yet effective (continued)*

b) IFRS 9 Financial Instruments (continued)

Impairment – Financial Assets and Contract Assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ (ECL) model. This will require considerable judgement as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs are those that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs are those that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset’s credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; an entity may choose to apply this policy also for trade receivables and contract assets with a significant financing component.

Classification – Financial Liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in Other Comprehensive Income
- the remaining amount of change in the fair value is presented in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

36. NEW STANDARDS, AMENDMENTS TO STANDARDS AND STANDARDS ISSUED AND NOT YET EFFECTIVE (continued)

36.2 *Standards issued but not yet effective (continued)*

b) IFRS 9 Financial Instruments (continued)

Hedge accounting

When initially applying IFRS 9, the Group may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9.

IFRS 9 will require the Group to ensure that hedge accounting relationships are aligned with the Group's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. IFRS 9 also introduces new requirements regarding rebalancing of hedge relationships and prohibiting voluntary discontinuation of hedge accounting. Under the new model, it is possible that more risk management strategies, particularly those involving hedging a risk component (other than foreign currency risk) of a non-financial item, will be likely to qualify for hedge accounting.

Under IAS 39, for all cash flow hedges, the amounts accumulated in the cash flow hedge reserve are reclassified to profit or loss as a reclassification adjustment in the same period as the hedged expected cash flows affect profit or loss. However, under IFRS 9, for cash flow hedges of foreign currency risk associated with forecast non-financial asset purchases, the amounts accumulated in the cash flow hedge reserve and the cost of hedging reserve will instead be included directly in the initial cost of the non-financial asset when it is recognised.

Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit losses.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Group plans to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognised in retained earnings and reserves as at January 1, 2018.
- New hedge accounting requirements should generally be applied prospectively. However the Group may elect to apply the expected change in accounting for forward points retrospectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

36. NEW STANDARDS, AMENDMENTS TO STANDARDS AND STANDARDS ISSUED AND NOT YET EFFECTIVE (continued)

36.2 *Standards issued but not yet effective (continued)*

c) IFRS 16 Leases

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including 'IAS 17 – Leases', 'IFRIC 4 - Determining whether an Arrangement contains a Lease', 'SIC-15 - Operating Leases – Incentives' and 'SIC 27 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.

The standard is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

Determining whether an arrangement contains a lease

On transition to IFRS 16, the Group can choose whether to:

- Apply the IFRS 16 definition of a lease to all its contracts; or
- Apply a practical expedient and not reassess whether a contract is, or contains, a lease.

Transition

As a lessee, the Group can either apply the standard using a:

- Retrospective approach; or
- Modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases. The Group currently plans to apply IFRS 16 initially on January 1, 2019. The Group has not yet determined which transition approach to apply.

As a lessor, the Group is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

36. NEW STANDARDS, AMENDMENTS TO STANDARDS AND STANDARDS ISSUED AND NOT YET EFFECTIVE (continued)

36.2 *Standards issued but not yet effective (continued)*

d) Annual Improvements to IFRSs 2014–2016 Cycle

- IFRS 1 First-time Adoption of IFRS - Outdated exemptions for first-time adopters of IFRS are removed. Effective for annual periods beginning on or after January 1, 2018.
- IAS 28 Investments in Associates and Joint Ventures - A venture capital organisation, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss. This election can be made on an investment-by-investment basis.
- A non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture. Effective retrospectively for annual periods beginning on or after January 1, 2018; early application is permitted.

e) Other Amendments

The following new or amended standards which are not yet effective and neither expected to have a significant impact on the Group's consolidated financial statements.

- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4) Amendments respond to industry concerns about the impact of differing effective dates.
- Transfers of Investment Property (Amendments to IAS 40) – A property asset is transferred when, and only when, there is evidence of an actual change in its use.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration - clarifies the transaction date used to determine the exchange rate.

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

37. EXPLANATION OF TRANSITION TO IFRSs

As stated in note 2 (a), these consolidated financial statements as at and for the year ended December 31, 2017 are the Group's first annual consolidated financials prepared in accordance with IFRS as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by SOCPA. Further, the Group's opening Statement of Financial Position was prepared as at January 1, 2016, being the date of transition to IFRS Standards.

The accounting policies set out in note 3 have been applied in preparing the consolidated financial statements for the years ended December 31, 2017, December 31, 2016 and in the preparation of an opening IFRS statement of financial position as at January 1, 2016 (the Group's date of transition).

In preparing its opening IFRS statement of financial position, the Group has adjusted amounts reported previously in financial statements prepared in accordance with generally accepted accounting standards as issued by SOCPA (pre-convergence GAAP). An explanation of how the transition from pre-convergence GAAP to IFRS has affected the Group's financial position, for the respective periods, is set out in the following tables and the notes that accompany the tables.

Certain comparative amounts under pre-convergence GAAP have been reclassified to conform to the IFRS presentation.

Reconciliation of consolidated statement of financial position

	<u>Note</u>	<u>Pre – convergence GAAP</u>	<u>Effect of transition to IFRS December 31, 2016</u>	<u>IFRS</u>	<u>Pre – convergence GAAP</u>	<u>Effect of transition to IFRS January 1, 2016</u>	<u>IFRS</u>
<i>Assets</i>							
Property, plant and equipment	a, b, k	6,864,808	1,101,814	7,966,622	7,852,712	965,999	8,818,711
Intangible assets and goodwill	a, c, d	661,669	25,329	686,998	1,113,720	(48,982)	1,064,738
Investment property	a	--	34,256	34,256	--	30,638	30,638
Investment in equity accounted investees	e	7,915,016	(416,418)	7,498,598	7,720,958	(403,767)	7,317,191
Available for sale investments		612,421	--	612,421	709,275	--	709,275
Long term receivables		10,751	--	10,751	177,207	--	177,207
Deferred tax asset	j	28,693	--	28,693	69,763	--	69,763
<i>Total non-current assets</i>		<u>16,093,358</u>	<u>744,981</u>	<u>16,838,339</u>	<u>17,643,635</u>	<u>543,888</u>	<u>18,187,523</u>

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

37. EXPLANATION OF TRANSITION TO IFRSs (continued)

Reconciliation of consolidated statement of financial position (continued)

	<i>Note</i>	<i>Pre – convergence GAAP</i>	<i>Effect of transition to IFRS</i>	<i>IFRS</i>	<i>Pre – convergence GAAP</i>	<i>Effect of transition to IFRS</i>	<i>IFRS</i>
		<i>December 31, 2016</i>			<i>January 1, 2016</i>		
Inventories	a, f, g	3,204,482	112,646	3,317,128	4,853,454	156,260	5,009,714
Trade receivables	a, g	1,228,616	23,506	1,252,122	920,620	(92,529)	828,091
Prepayments and other receivables	a, h	1,302,308	40,665	1,342,973	1,669,208	41,600	1,710,808
Cash and cash equivalents	a	1,331,524	73,284	1,404,808	2,067,074	22,908	2,089,982
		7,066,930	250,101	7,317,031	9,510,356	128,239	9,638,595
Asset classified as held for sale		1,132,026	--	1,132,026	--	--	--
<i>Total current assets</i>		8,198,956	250,101	8,449,057	9,510,356	128,239	9,638,595
<i>Total assets</i>		24,292,314	995,082	25,287,396	27,153,991	672,127	27,826,118
<i>Equity</i>							
Share capital		5,339,807	--	5,339,807	5,339,807	--	5,339,807
Share premium		342,974	--	342,974	342,974	--	342,974
Statutory reserve		1,774,085	--	1,774,085	1,774,085	--	1,774,085
General reserve		4,000	--	4,000	4,000	--	4,000
Fair value reserve	a, e	(22,093)	(9,930)	(32,023)	3,784	(4,402)	(618)
Effect of transactions with non-controlling interest without change in control		(171,375)	--	(171,375)	(171,375)	--	(171,375)
Foreign currency translation reserve	m	(1,941,088)	1,014,801	(926,287)	(1,019,087)	1,019,087	--
Retained earnings		3,157,057	(1,271,214)	1,885,843	4,275,841	(1,337,559)	2,938,282
<i>Total equity attributable to shareholders of the Company</i>		8,483,367	(266,343)	8,217,024	10,550,029	(322,874)	10,227,155
Non-controlling interests	a	634,279	398,531	1,032,810	956,037	352,902	1,308,939
<i>Total equity</i>		9,117,646	132,188	9,249,834	11,506,066	30,028	11,536,094

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

37. EXPLANATION OF TRANSITION TO IFRSs (continued)

Reconciliation of consolidated statement of financial position (continued)

	<i>Note</i>	<i>Pre – convergence GAAP</i>	<i>Effect of transition to IFRS December 31, 2016</i>	<i>IFRS</i>	<i>Pre – convergence GAAP</i>	<i>Effect of transition to IFRS January 1, 2016</i>	<i>IFRS</i>
<i>Liabilities</i>							
Loans and borrowings	a	4,217,478	238,478	4,455,956	4,581,902	195,944	4,777,846
Employee benefits	a, i	439,381	169,870	609,251	412,220	130,895	543,115
Deferred tax liability	j	50,551	5,390	55,941	102,932	13,517	116,449
Deferred income	l	158,217	(158,217)	--	175,314	(175,314)	--
Long term payables		215,581	--	215,581	232,497	--	232,497
Long term lease rentals		--	202,248	202,248	--	160,307	160,307
Provision against assets restoration	k	--	92,326	92,326	--	97,083	97,083
<i>Total non-current liabilities</i>		<u>5,081,208</u>	<u>550,095</u>	<u>5,631,303</u>	<u>5,504,865</u>	<u>422,432</u>	<u>5,927,297</u>
Loans and borrowings	a	4,486,198	125,882	4,612,080	5,011,713	87,730	5,099,443
Trade payables	a, f	2,415,503	80,245	2,495,748	3,118,747	95,043	3,213,790
Current maturity of lease rentals		--	47,730	47,730	--	26,118	26,118
Accrued and other liabilities	a	2,177,594	58,942	2,236,536	2,012,600	10,776	2,023,376
		9,079,295	312,799	9,392,094	10,143,060	219,667	10,362,727
Liabilities classified as held for sale		1,014,165	--	1,014,165	--	--	--
<i>Total current liabilities</i>		<u>10,093,460</u>	<u>312,799</u>	<u>10,406,259</u>	<u>10,143,060</u>	<u>219,667</u>	<u>10,362,727</u>
<i>Total liabilities</i>		<u>15,174,668</u>	<u>862,894</u>	<u>16,037,562</u>	<u>15,647,925</u>	<u>642,099</u>	<u>16,290,024</u>
<i>Total liabilities and equity</i>		<u>24,292,314</u>	<u>995,082</u>	<u>25,287,396</u>	<u>27,153,991</u>	<u>672,127</u>	<u>27,826,118</u>

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

37. EXPLANATION OF TRANSITION TO IFRSs (continued)

Reconciliation of consolidated statement of profit or loss and other comprehensive income

	<i>Note</i>	<i>For the year ended December 31, 2016</i>		
		<i>Pre – convergence GAAP</i>	<i>Effect of transition to IFRS</i>	<i>IFRS</i>
Continuing operations				
Revenues	a, g, l	25,105,954	1,224,848	26,330,802
Cost of revenues	a, h, i, k	(20,891,572)	(786,266)	(21,677,838)
Gross profit		4,214,382	438,582	4,652,964
Share of results in investment in equity- accounted investees, net of zakat and tax and dividend income	e	782,576	(80,565)	702,011
Administrative expenses	a, b, c, i	(739,584)	(21,072)	(760,656)
Selling and distribution expenses	a, b, i	(3,424,964)	(122,847)	(3,547,811)
Impairment losses		(573,892)	--	(573,892)
Results from operating activities		258,518	214,098	472,616
Finance income	a, k	196,083	--	196,083
Finance cost	a, k	(745,792)	(8,883)	(754,675)
Net finance cost		(549,709)	(8,883)	(558,592)
Loss before zakat and income tax		(291,191)	205,215	(85,976)
Zakat and income tax expense	a, j	(156,900)	3,878	(153,022)
Loss from continuing operations		(448,091)	209,093	(238,998)
Discontinued operation				
Loss from discontinued operation, net of tax		(176,260)	--	(176,260)
Loss for the year		(624,351)	209,093	(415,258)
Other comprehensive income				
<i>Items that will not be classified to profit or loss</i>				
Re-measurements of the defined benefit liability	i	--	(25,060)	(25,060)
Items that are or may be reclassified to profit or loss*				
Foreign operations – foreign currency translation differences		(1,001,602)	--	(1,001,602)
Investment in equity accounted investees - share of Other Comprehensive Income		(122,164)	--	(122,164)
Cash flow hedges – effective portion of changes in fair value		10,027	--	10,027
Available for sale financial assets – net change in fair value		87,015	--	87,015
Other comprehensive loss		(1,026,724)	(25,060)	(1,051,784)
Total comprehensive loss for the year		(1,651,075)	184,033	(1,467,042)

* Under the pre-convergence GAAP, the Other Comprehensive Income movement was included as part of consolidated statement of changes in equity.

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

37. EXPLANATION OF TRANSITION TO IFRSs (continued)

Reconciliation of retained earnings

	<i>Note</i>	<i>December 31, 2016</i>	<i>January 1, 2016</i>
Retained earnings under pre-convergence GAAP		3,157,057	4,275,841
Property, plant and equipment	<i>b</i>	26,966	(21,220)
Intangible assets	<i>c & d</i>	--	(57,682)
Investment in equity accounted investees	<i>e</i>	8,051	(16,893)
Sales to distributors	<i>g</i>	--	(33,976)
Operating lease arrangement- lease rentals normalization	<i>h</i>	(253,277)	(213,807)
Employee benefits	<i>i</i>	(98,368)	(68,532)
Deferred tax liability	<i>j</i>	(5,799)	(13,517)
Assets restoration cost	<i>k</i>	(44,470)	(35,392)
Deferred income	<i>l</i>	114,770	142,547
Reclassification of currency translation reserve	<i>m</i>	(1,019,087)	(1,019,087)
<i>Decrease in retained earnings</i>		(1,271,214)	(1,337,559)
Retained earnings under IFRS as at end of the year		1,885,843	2,938,282

a) Consolidation of an entity previously recognized as an associate under SOCPA

Under the pre-convergence GAAP, the Group had a policy of recognizing an entity as a subsidiary if 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. Under IFRS, an entity controlled by the Group is considered as a subsidiary, where the Group is exposed to or has rights to the variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Upon transition to the IFRS, the Group has reassessed its control over its investees based on which it was concluded that the Company has control over Herfy Food Services Company ("Herfy") as per the requirements of IFRS 10. Accordingly, assets and liabilities of Herfy have been consolidated in this consolidated financial statements. Resultantly, net assets amounting to SR 725.53 million as reported in the audited financial statements as at January 1, 2016 (December 31, 2016: SR 802.71 million) have been included, after required IFRS adjustments, in these consolidated financial statements. This has resulted in the recognition of goodwill amounting to SR 25.33 million (included under intangibles assets) as at January 1, 2016 in accordance with IFRS 1. Further, a non-controlling interest amounting to SR 370.02 million has also been recognized as at the date of transition (December 31, 2016: SR 409.38 million).

The assets and liabilities included in these consolidated financial statements as a result of consolidation of Herfy are as follows:

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

37. EXPLANATION OF TRANSITION TO IFRSs (continued)

a) Consolidation of an entity previously recognized as an associate under SOCPA (continued)

	December 31, <u>2016</u>	January 1, <u>2016</u>
<i>Non-current Assets</i>		
Property, plant and equipment	1,005,863	910,078
Investment property	34,256	30,638
Total non-current assets	<u>1,040,119</u>	<u>940,716</u>
<i>Current Assets</i>		
Inventories	101,762	108,946
Trade receivables	29,513	23,204
Prepayments and other receivables	97,441	85,343
Cash and cash equivalents	73,226	22,908
Total current assets	<u>301,942</u>	<u>240,401</u>
Total assets	<u>1,342,061</u>	<u>1,181,117</u>
<i>Liabilities</i>		
<i>Non-current Liabilities</i>		
Loans and borrowings	238,478	198,750
Employee benefits	59,276	53,269
Total non-current liabilities	<u>297,754</u>	<u>252,019</u>
<i>Current Liabilities</i>		
Loans and borrowings	125,881	88,901
Trade payables	61,875	57,541
Accrued and other liabilities	53,844	57,127
Total current liabilities	<u>241,600</u>	<u>203,569</u>
Total Liabilities	<u>539,354</u>	<u>455,588</u>

The operating results included in these consolidated financial statements as a result of consolidation of Herfy are as follows:

	December 31, <u>2016</u>
Revenues	1,156,683
Cost of revenues	<u>(809,080)</u>
Gross profit	347,603
Administrative Expenses	(70,856)
Selling and Distribution Expenses	<u>(47,503)</u>
Results from operating activities	229,244
Net finance cost	<u>(7,914)</u>
Profit before zakat	221,330
Zakat expense	<u>(4,250)</u>
Net profit for the year	<u>217,080</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

37. EXPLANATION OF TRANSITION TO IFRSs (continued)

b) Property, plant and equipment

- i) Upon transition to IFRS, the Group separately accounts for significant components of items of property, plant and equipment that have useful lives which are materially different from that of the overall item or other component. Based on management's detailed analysis such significant components were identified in the operating plants of the Group. As at January 1, 2016, the carrying values of the identified significant components were determined in proportion to the components' fair values, without adjusting the overall carrying values.

As a result of above, the Group has recorded a reversal in depreciation amounting to SR 59.26 million for the year ended December 31, 2016.

- ii) Under the pre-convergence GAAP, any major repairs and maintenance conducted with respect to plant were expensed in the period in which related costs were incurred. Upon transition to IFRS, the Group assesses major repairs and maintenance in respect of eligibility for capitalization. Since the Group has opted for allocating the carrying values based on the fair value as at the date of transition, the impact of such previously incurred repairs and maintenance, eligible for capitalization, has not been accounted for separately.
- iii) Under the pre-convergence GAAP, the retail business of the Group had capitalized certain maintenance expenditure based on a quantitative threshold policy. Under IFRS, the Group has adopted a policy of recognizing subsequent costs like maintenance expenditure as a capital expenditure only if it is probable that the associated future economic benefits will flow to the Group. Accordingly, the Group has derecognized previously capitalized expenditures amounting to SR 23.31 million with a corresponding decrease in retained earnings and non-controlling interests by SR 21.22 million and SR 2.09 million respectively.

c) Intangible assets

Under the pre-convergence GAAP, the Group had adopted a policy of amortizing marketing and recruitment expenses for new stores over a period not exceeding three years. Under IFRS, such cost are not eligible for capitalization on account of not meeting the capitalization criteria. At the date of transition, such cost amounted to SR 21.5 million were expensed. Further, the deferred cost representing the pre-operating / start-up cost capitalized by the Group amounting to SR 48.08 million does not meet the capitalization criteria under IFRS. Accordingly, the Group has derecognized deferred charges amounting to SR 69.59 million with a corresponding decrease in retained earnings by SR 57.68 million.

Additionally, the amortization of such deferred charges recognized under pre-convergence GAAP amounting to SR 68.2 million for the year ended December 31, 2016 has been reversed for the said year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

37. EXPLANATION OF TRANSITION TO IFRSs (continued)

d) Intangible assets recognized under past business combinations

On transition to IFRS, the Group elected not to apply IFRSs retrospectively to any past business combination. Accordingly, Goodwill recognized under SOCPA shall continue to be recognized under IFRS subject to the change on account of sub-summation of certain intangible assets like brands within goodwill, in accordance with the IFRS 1 requirements. Accordingly, Goodwill has increased by SR 242.87 million with a corresponding decrease in carrying amounts of brands classified within intangibles.

e) Investment in equity accounted investee

The Group's associates have recognized retained earnings losses resulting from their respective transition to IFRS. Such adjustment has resulted in the reduction in investment in associate balance by SR 16.89 million with the corresponding decrease in the Group's retained earnings as at the date of transition.

Additionally, the share of profit of equity accounted investees for the year ended December 31, 2016 has been adjusted by SR 80.56 million.

Further, as disclosed in note "a" above, the consolidation of Herfy has resulted in the derecognition of carrying value of Group's investment in Herfy amounting to SR 391.74 million as at the date of transition (December 31, 2016: SR 428.97 million).

f) Inventories

Under the pre-convergence GAAP, the Group accounted for certain strategic spare parts and stand-by/servicing equipment as inventory. Upon transition to IFRS, such assets, upon meeting the relevant criteria have been classified as a separate component of property, plant and equipment. Accordingly, at the date of transition, such strategic spare parts and equipment amounting to SR 28.82 million have been reclassified from inventories into property, plant and equipment. Resultantly, the depreciation on strategic spare parts and equipment amounting to SR 2.89 million has been recorded for the year ended December 31, 2016.

g) Sales to distributors

Under the pre-convergence GAAP, the Group was recognizing revenue for the inventory sold to its distributors considering the related risk and rewards to be transferred on dispatch basis. Under IFRS, the conditions to recognize such revenue were not being met. Accordingly, on the date of transition, inventory in transit has increased by SR 69.42 million with a corresponding decrease of SR 105.11 million in trade receivables. The adjustment has also resulted in the decrease in retained earnings by SR 33.98 million. During the year ended December 31, 2016, such sales were recognized and the resultant impact was included in the consolidated statement of comprehensive income for the said year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

37. EXPLANATION OF TRANSITION TO IFRSs (continued)

h) Operating lease arrangements

Under the pre-convergence GAAP, the Group adopted a policy of recognizing the lease expense at amounts and in the period in which these fall due. Under IFRS, the Company has recognized the lease expense other than contingent rent expense on a straight-line basis over the lease term. Accordingly, on the date of transition, the prepaid lease expenses included in the prepayments and other receivables has decreased by SR 48.48 million and lease rentals liabilities have increased by SR 186.42 million with a corresponding decrease in retained earnings by SR 213.81 million.

Further, the Group's lease expenses have increased by SR 60.75 million during the year ended December 31, 2016.

i) Employee benefits

Under the pre-convergence GAAP, the Group accounted for obligations under employees' end of service benefits with reference to the mode of computation stipulated under the corresponding labour law. Upon transition to IFRS, the Group accounts for such end of service benefits as defined benefit obligations. Accordingly, the Group has appointed an independent actuary for the computation of the IFRS transitional defined benefit liability as at January 1, 2016 and onwards. As at the date of transition, employees' end of service benefit liability has increased by SR 77.63 million with the corresponding decrease in retained earnings by SR 68.53 million.

Moreover, the Group's employees' end of service benefit charge has decreased by SR 7.8 million during the year ended December 31, 2016.

Further, under the pre-convergence GAAP, the Group recorded its liability under Employee benefits based on regulatory requirements. In order to determine the liability under IFRS Standards, the Group performed detailed actuarial valuation of its Employee Benefits. Consequently, actuarial loss amounting to SR 25.06 million has been recognized in Other Comprehensive Income with a corresponding increase in the liability for the year ended December 31, 2016. The Group's share of the said actuarial loss amounts to SR 21.67 million which has been recognised in the retained earnings as at year ended December 31, 2016.

j) Deferred tax

Under the pre-convergence GAAP, the Group did not recognize deferred tax on undistributed profits of subsidiaries. Under IFRS, deferred tax liability is required to be recognized on such undistributed profits. Accordingly, on the date of transition, additional deferred tax liability amounting to SR 13.5 million has been recognized with the corresponding decrease in retained earnings by SR 13.5 million.

In addition to above, upon transition to IFRS, the Group has separately classified deferred tax asset amounting to SR 69.76 million which was included in the Prepayments and other receivables prior to the date of transition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

37. EXPLANATION OF TRANSITION TO IFRSs (continued)

k) Provision against asset restoration

Under the pre-convergence GAAP, the Group had adopted a policy of recognizing asset restoration expense in relation to assets taken on operating lease as and when incurred. Upon transition to IFRS, the Group has adopted a policy of recognizing the contractual obligation of asset restoration liability on the date leasehold improvements are made. Accordingly, on the date of transition, the Group has recognized the asset restoration liability of SR 97.08 million with the resulting increase in cost of leasehold improvement by SR 84.68 million and related accumulated depreciation by SR 26.45 million. The adjustment has reduced the retained earnings and non-controlling interest by SR 35.39 million and SR 3.46 million respectively.

The Group's depreciation charge on restoration cost has increased by SR 14.56 million during the year ended December 31, 2016. Further, the decommissioning charges have increased by SR 3.69 million during the year ended December 31, 2016.

l) Deferred income

Under the pre-convergence GAAP, the Group adopted a policy of recognizing a deferred gain or loss for any gain or loss arising from a sale and leaseback transaction in the nature of operating lease. Further, such deferred gain was amortized over the lease term. Under IFRS, the Group has adopted a policy of recognizing any gain or loss on the date of sale for leaseback transaction for sale at a fair value price for leases in the nature of operating lease. Accordingly, on the date of transition, the Group has de-recognized the deferred gain amounting to SR 175.31 million with a corresponding increase in retained earnings and non-controlling interest by SR 142.55 million and SR 32.76 million respectively.

Further, deferred gain amortized during the year ended December 31, 2016 amounting to 34.49 million has been reversed.

m) Foreign currency translation reserve

In accordance with IFRS 1, the Group has elected to deem all the foreign currency translation differences that arose prior to the date of transition in respect of all foreign operations as nil as at date of transition. Resultantly, as at the date of transition, the Group's retained earnings has reduced by SR 1,019 million with the corresponding decrease in the foreign currency translation reserve.

38. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorized for issue by the Company's Board of Directors on Rajab 9, 1439H, corresponding to March 26, 2018.