The Savola Group Annual Report 2003

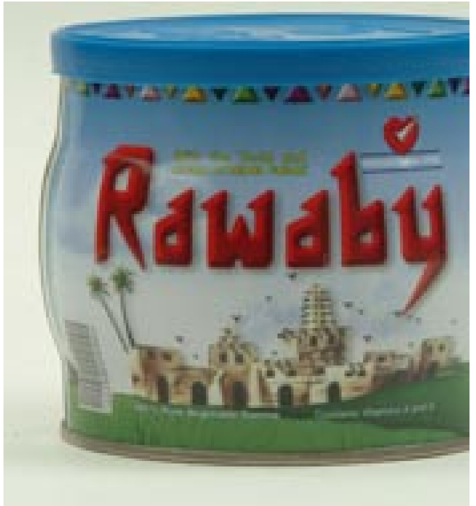
The Savola Group

The Annual Report 2003

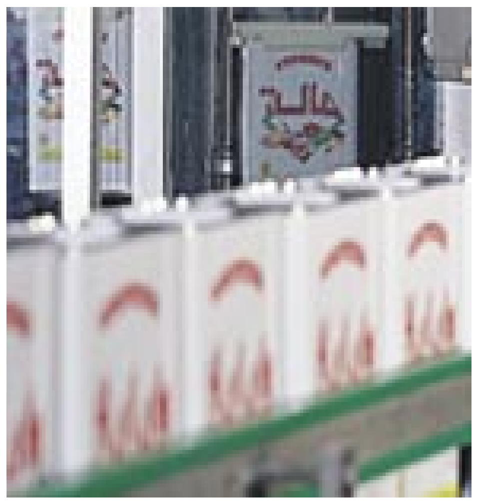
بسم الله الرحمن الرحيم

In The Name Of ALLAH, The Most Merciful, The Most Beneficent

This is the annual report for the fiscal year that ended December 31, 2003.
These results were submitted to the Savola Group Shareholders
at the Annual General Assembly held on
March, 24 2004 (corresponding to Safar 3, 1425H).



Savola began as an edible oil refinery with 50 employees in 1979. Today it has grown to 5,334 employees across a portfolio of some of the most successful consumer brands in the Kingdom.



The Savola Group

A Word from The Chairman

Dear Shareholders,

I have the pleasure to report that The Savola Group net profit for 2003 increased 45% over 2002. With the help of Allah, net profit amounted to SR 301 million and sales reached SR 4.128 billion, compared to SR 3.641 billion last year. The Savola share profit for 2003 also increased to SR 18.81 per share compared to SR 16.50 for the year 2002.

During 2003 The Group successfully increased its capital share from SR 628.5 million to SR 800 million by granting free shares (one free share to each 3.667 shares owned) and by distributing SR 2.57 as dividends for all granted and owned shares. Also, The Group successfully distributed SR 7.00 per share as interim dividends for the first half of 2003.

All of The Group's Business Divisions enjoyed outstanding achievements and success in 2003.

The Group's management, and myself and my colleagues on the Board of Directors can confirm that The Group continues toward its "Triple Five Goal", with the help of Allah. We expect to achieve SR 5 billion sales turnover and SR 500 million profit by the year 2005 as we benefit more from The Group's maturity, accumulated experience and the scientific management approaches being adopted throughout. This ambitious strategic goal will be realized with the help of Allah, the dedication of all Savola Group employees and the support and trust of our shareholders.

In addition to the scientific planning that The Group is adopting in business performance, The Group is committed to a strong ethical approach in all its business aspects—in a balance that satisfies the requirements of all its stakeholders, employees and community.

For "Corporate Governance" The Group successfully established an accurate and efficient managerial system to strengthen transparency, as well as to monitor and enhance the relationship with all stakeholders.

As part of The Group's communications programs, The Group continues to publish The Savola Quarterly News Bulletin. This Bulletin covers the latest business progress and updates for each Business Division, with consolidated financial results and analyses for each quarter. The Group also provides copies of its quarterly bulletins, annual reports and other booklets prepared by The Group to its shareholders, government authorities, and key institutes and individuals.

The Savola Group's esteemed shareholders for their continued trust and support. I also extend my sincere thanks and appreciation to The Group's Business Division management and employees for their dedication and unlimited efforts to achieve The Group goals.

Adel M. Fakeih
Chairman & Managing Director

In 2003 AFIA corn oil was honored as the "Brand of the Decade" in the fast-moving consumer goods category.

The prestigious award was one of 10 presented out of a field of over 500 brands considered. Other winners included Saudi Aramco, Aramex, Saudi American Bank, Emirates Airlines and Dubai Media City.

This outstanding award reflects the 20-year growth of AFIA into the leading edible oil brand in the Middle East Region.

Today Savola Edible Oils competes on the world stage with more than 15 different type of oils and fats products—corn oils, palm oils, sunflower oils, blended oils, ghee, and shortening.

The Savola Group Board of Directors

To our Shareholders,

The Savola Board of Directors has the pleasure of submitting The Savola Group Annual Report for the fiscal year ended December 31, 2003.

Despite tough competition during the year, The Group continued its excellent business performance in sales, cash flow, shareholders equity and profitability, with the help of Allah.

The Group companies continue to strengthen their market leadership in both local and regional markets. The Board would like to thank all of The Group's customers for the trust and loyalty they place in The Savola Group and its products.

The Board also extends its thanks and appreciation to the Government of the Custodian of the Two Holy Mosques for its continuous support and encouragement.

In addition, the Board would like to thank The Group's esteemed Shareholders for their trust and support. Many thanks also go to The Group and Business Unit management and employees who made possible another successful year. Many thanks to them all for their dedication and unwavering efforts during 2003.

The Board is looking forward to more achievements and excellence to achieve The Group's strategic goal "The Triple Five".

May the peace, mercy and blessings of Allah be upon you.

The Savola Group Board of Directors


Abdulaziz Alfadl


Ghassan Al-Sulaiman


Majid Al Qusiby


Abdulah Kamel


Pr-Naif Bin Sultan


Amar Al Khdary


Saleh Al Khalawi


Amro Al Dabbagh


Ibraim Alissa


Sultan Abu-Milha

Our Strengths

Our Plan:

Build the most successful publicly listed diversified investment group in the Middle East, focused on food industries.

Clear Vision:

Give consumers a fair price, while ensuring returns to our investors and all stakeholders.

Create a satisfying work experience for all Savolans. Inspire personal responsibility and enthusiasm for opportunity.

Ethics and Values:

The Savola culture is defined by The Balanced Way—a commitment to corporate ethics and delivering value to all our stakeholders. Ensure world-class transparency in our corporate governance.

Allah's Help:

We firmly believe that Allah's help and blessings will always be there, supporting those who maintain good and sincere intentions.

Marketing Skills:

Excel competitively by always looking for ways to create superior offers for our customers—what we call "offer advantage." Remain responsive and agile in growing market share through our market research, in-depth analyses and 25 years of experience.

Synergistic Investments:

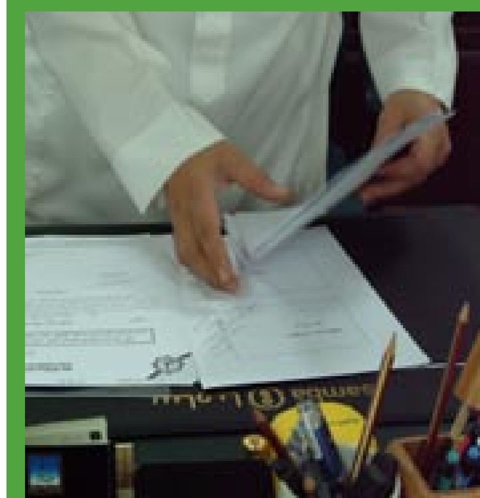
Strive to make full use of our core competencies. Enhance our advantages in basic food industries by maintaining an active investment portfolio and operating in relevant support industries. The result is a deliberate portfolio of complementary brands and production abilities.

Our Financial Goal: 555

5 hundred million Riyal in profit

5 billion Riyal in revenues

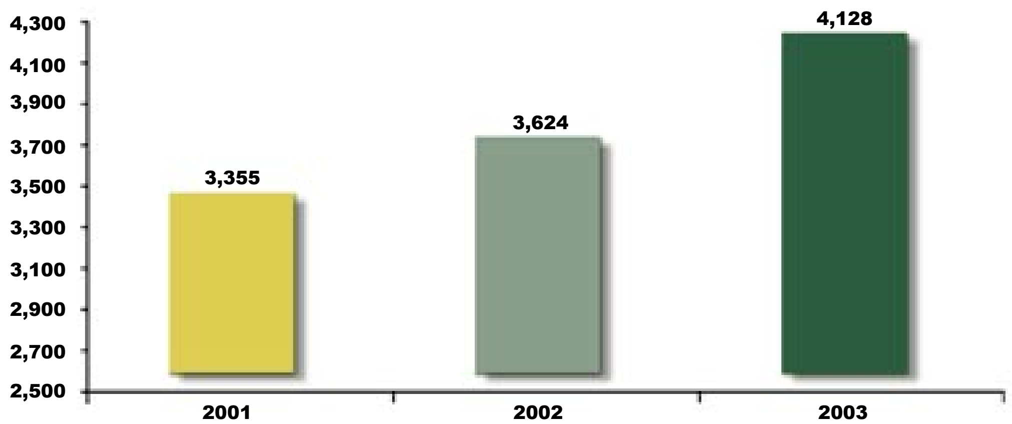
By the year 2005



Key 2003 Financial Highlights

Savola Group Sales

Group Net Sales pursued their progression with a 13.4% increase over 2002



	2001	2002	2003
Net sales	2,896	3,356	3,624
Net sales growth	13.2%	15.9%	8.0%
EBIT*	204	269	318
EBIT margin (% of net sales)	7.0%	8.0%	8.8%
Net income before minority interests (MI)	192	203	276
Net margin (% of net sales)	6.6%	6.0%	7.6%
Net income	138	153	208
Net margin (% of net sales)	4.8%	4.6%	5.7%
Total assets	4,047	3,578	3,472
Total liabilities	2,003	1,587	1,370
Total equity (includes MI)	2,044	1,991	2,102
Total shareholders equity	1,685	1,658	1,718
Leverage ratio (Total liabilities/NTE**)	1.2	0.9	0.7
Gearing ratio (financial debt/NTE**)	0.7	0.4	0.3
Return on total assets	4.7%	5.7%	8.0%
Return on shareholders equity	8.2%	9.2%	12.1%
Earnings per share	10.9	12.2	16.5

** EBIT Earnings Before Interest and Taxes*

*** NTE Net Tangible Equity (Shareholders Equity + Minority Interests–Net Goodwill)*

Savola contined to improve its financial performance in 2003. In particular:

Growth: Net Sales, EBIT, Net Income and Earnings per Share measures all increased at a higher rate over previous years

Profitability: Net Income (before MI) margin increased to 9.0% of Net Sales (7.6% in 2002)

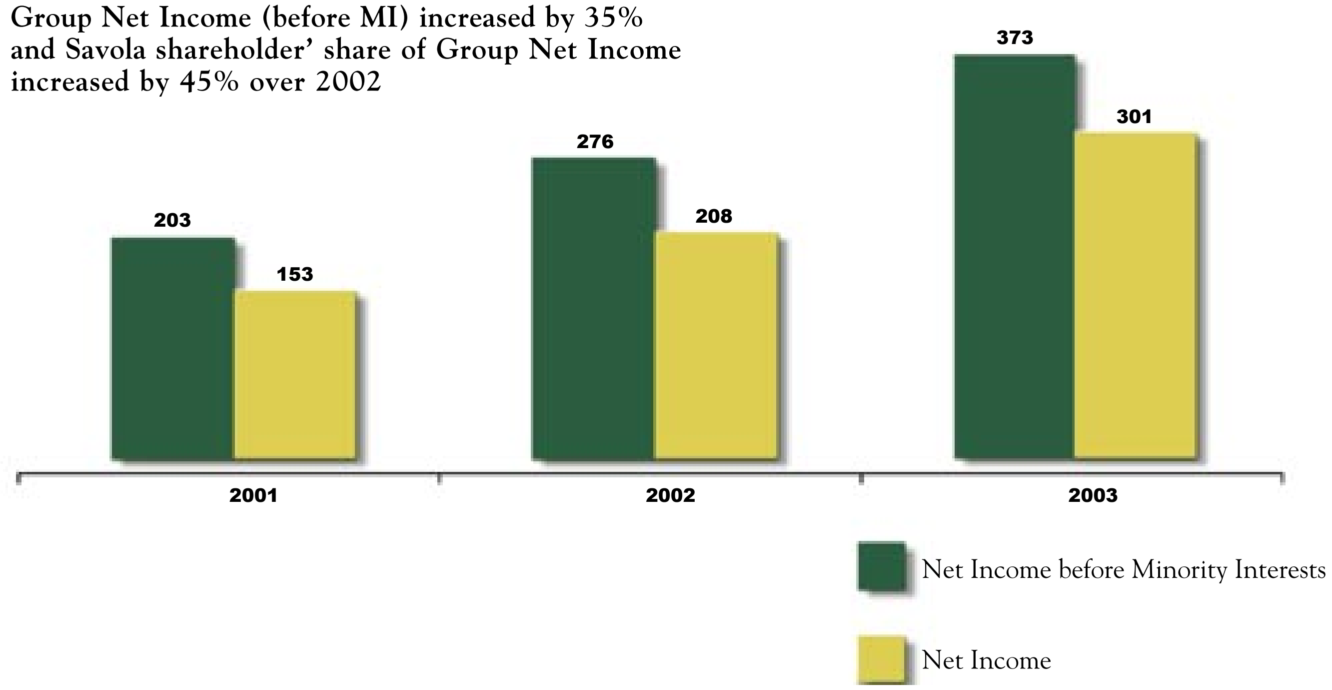
Financial structure: Leverage Ratio stable at 0.8 (0.7 in 2002)

Asset utilization: Return on Total Assets improved to 9.5% (8.0% in 2002), while Net Sales to Total Assets remained stable at 1.05 (1.04 in 2002)

Return on equity: Return on Shareholders Equity increased to 16.3% (12.1% in 2002)

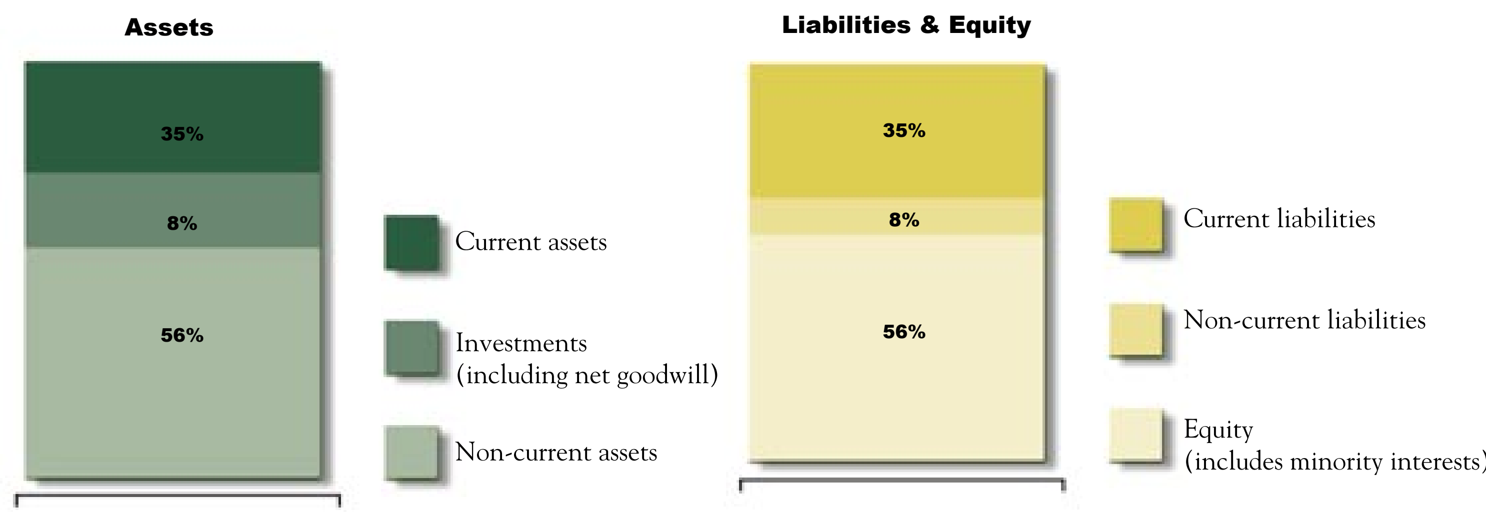
Savola Group Net Income

Group Net Income (before MI) increased by 35% and Savola shareholder' share of Group Net Income increased by 45% over 2002



Savola Group Balance Sheet Structure

Consolidated Balance Sheet shows healthy financial structure with 56% Equity Ratio (as % of Total Assets) In 2003, the company opted to use significant short-term borrowings to capitalise on the low interest rate environment



The Savola Group Holdings

Core activities of The Savola Group

Retail Division

Azizia Panda
Hypermarket
Real Estate

Edible Oils

Savola Edible Oils KSA
Savola Sime Foods Egypt
Savola Jordan
Savola Morocco
Savola Sudan

Sugar Division

SIIC / United Sugar

Investments

Al-Marai (Dairy)
Herfy Food (Restaurants)
SAGCO (Glass)
Plastics Factory (Packaging)
ACI (Investments Portfolio)

Support Activities

Savola Group HQ
Savola Academy
Royah

The Executive Members

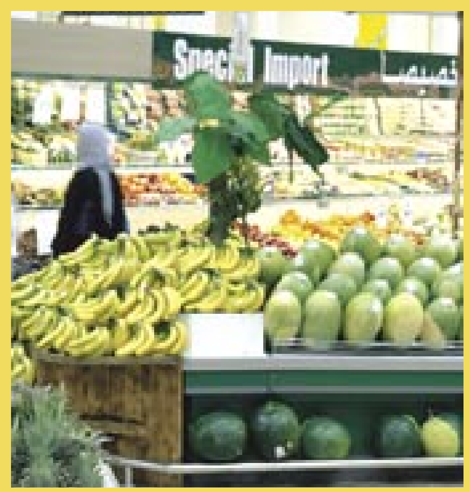
Dr. Abdulraouf M. Mannaa,
Sr. Executive Vice President—
Edible Oils & Fats

Dr. Ibrahim H. Al Madhoon,
Executive Vice President—Investments

Dr. Mohammad A. Kashgari,
Executive Vice President—
Sugar & Packaging

Dr. Sami M. Baroum,
Executive Vice President—Retail

The Savola Group Milestones and History



- **2003** • Savola Edible Oils becomes the market leader in all markets where it operates.
- **2003** • Azizia-Panda one of the first retail chains in Middle East to apply the concept of Category Management in stores.
- **2003** • Start of Savola Edible Oil commercial operations of Moroccan (JV) project and Sudan (greenfield) project.
- **2002** • Azizia-Panda annual sales exceed SR 1.5 billion for first time; 46 stores in the Kingdom.
- **2001** • Azizia-Panda customer count grows from 1.8 million to 2.4 million during the year—an increase of 33%.
- **1998** • Merger of Savola Company with Azizia-Panda United (APU). Savola inherits a multitude of ancillary investments (Al Mawashi—sold in 2000, Deemah—sold in 2001, Herfy Food Services, and Azizia Commercial Investment (ACI).
- **1997** • Sugar refinery starts commercial operations, the Kingdom's first.
- **1994** • United Sugar Company incorporates—a joint venture between Savola, Tate & Lyle and local KSA sugar wholesalers and distributors.
- **1993** • Acquisition of 41% of Saudi Glass Company (SAGCO); another 19% purchased in 1994.
- **1993** • Private placement of 11% shareholding in Savola Edible Oils to wholesalers and distributors.
- **1991** • Acquisition of 40% of Al-Marai Company.
- **1989** • Packaging division starts with in-house plastic bottle and closures manufacturing facility developed by Saudi Edible Oils.
- **1982** • Launch of premium corn oil brand AFIA, becomes the category leader.
- **1981** • Start of edible oil refinery operations, the first in KSA. Launch of Al-Arabi and Nakheel palm oil brands.
- **1979** • Incorporation of the Savola Company with 50 employees; by 1980 this grew to 195 employees and in 2003 to 5,334 Savolans.

The Savola Group **Business Divisions**

Retail

The Retail Division, owned 100% by Savola, continues to be the largest retail food chain in the Middle East.

In a highly competitive marketplace, the Retail Division enjoyed strong business performance during 2003. Sales grew by 8%, reaching SR 1,650 million compared to SR 1,525 million for 2002.

The Division achieved sound profitability, with a healthy year-to-year net profit growth. Operational costs were rationalized and sourcing became more efficient, improving on-going profitability.

The management team created improvement programs in the fresh food departments. The results have paid off. Independent research again confirmed Panda's reputation for offering the "best freshness" fruits and vegetables in the supermarket sector.

In 2004 the Division will continue its ambitious expansion strategy to deliver new supermarkets at premium locations in major cities of the Kingdom. The first hypermarket—and the first hypermarket in the Kingdom—will be launched in Riyadh during the second quarter 2004.

The focus on training and human resources development remains a priority. Panda Training Academies in Jeddah and Riyadh will expand further. These efforts and investments help bring on-stream qualified young Saudis, newly equipped with the professional skills necessary for the retail business.

More than 10% of all groceries in the Kingdom are purchased in Panda and Azizia stores.

Panda opened its first store in Riyadh in 1978. Now there are 46 stores throughout the Kingdom.

The Savola Group

Business Divisions

Edible Oils

Savola Group owns 90% of Savola Edible Oils Company. In 2004 the company will change name to Afia International Company—reflecting the market leadership of this well-recognized premium brand.

The Savola Edible Oils Company (SEO) continued to out-perform its past achievements in an impressive manner. The combined turnover of SEO in 2003 reached SR 1,267 million, compared to SR 1,064 million last year—an increase of 20%. SEO set new records of profitability in 2003 while also maintaining its product leadership position in all the markets in which it operates.

Savola Edible Oils Company entirely operates and manages the following factories and subsidiaries and owns controlling interests of varying percentages.

Note that the name change to Afia International Company from Savola Edible Oils Company will take effect in 2004 and legal formalities are being completed.

a) Savola Edible Oils – KSA Operations
Savola Edible Oils is 100% owned by The Savola Group.

The year 2003 once again proved the strengths of KSA Operations as the Company faced challenges and delivered impressive results year-on-year. For 2003, Company sales of edible oil products increased to SR 737 million compared to SR 642 million in 2002, a substantial increase of 15%.

Despite increases in raw material cost and competition from imported cheap brands, the Company managed to maintain its overall market share leadership position of 70% of the domestic market. Its flagship brands, AFIA in the corn segment and Al Arabi in the palm olein segment, both sustained their market leadership positions.

The innovative re-launch of AFIA last year successfully warded off competitors and proved that market leaders are uniquely capable of satisfying consumer needs. Al Arabi this year followed suit by changing its packaging to an elegant new PET bottle. This re-launch helped Al Arabi maintain its dominant position in the palm olein segment.

O'lite, a premium sunflower oil brand, was successfully launched in 2003. This brand boosted the Company's share in the sunflower oil category from 12% to 28%. Management expects that the impressive innovative PET bottle with its eye-catching label will make the brand another AFIA success in the sunflower oil category.

b) Savola Sime Egypt (SSE) :
Savola Sime Egypt is 50% owned by The Savola Group and its subsidiary Savola Edible Oils Company. In 2003 Savola Sime Egypt continued to out-perform its competitors in Egypt in terms of market share, profits and innovation. The overall market share of SSE reached 25% in 2003, an increase from 23.8% in 2002, while still maintaining a reasonable level of profitability.

Two major obstacles faced by SSE during 2003 were the continued devaluation of Egyptian currency and increases in raw material prices. In both areas, SSE emerged with market successes.

SSE launched the Golden Sun brand in innovative sachet packs for the local market. A launch of Rawaby mini-packs put that brand back in the driver's seat in both the ghee and oils categories of the Egyptian market.

The AFIA brand continued to challenge the Egyptian market leader and SSE management believe that very soon it will become the market leader in the corn oil segment.

During 2003 the merger of Savola Sime Egypt and Savola Sime Suez was completed. When all legal formalities are completed, this merger will enable SSE to focus and consolidate its manufacturing and sales operations, improving performance in years to come.

c) Savola Jordan Company:
Savola Jordan is 75% owned by Savola Edible Oils, up from 51% last year. Its capital reached JD 4.25 million (SR 22.5 million).

Savola Jordan Company is another success story, breaking its own records over past years. Although it is the newest unit of the Division it increased its sales from SR 73.4 million in 2002 to an impressive SR 129.8 million in 2003, a growth rate of 77%.

Savola Jordan, despite its lean structure, managed to maintain its market leadership position in Jordan and also became the market leader in the premium corn oil segment in both Lebanon and Syria.

while in Lebanon it captured 28% of the market. Savola Jordan expanded its export operations into neighboring Syria where the initial launch of AFIA captured a very successful 48% market share in very short time.

Iraq remained an important focus for Savola Jordan during 2003. The Company managed to secure and execute numerous 'United Nations Oil for Food Program' contracts that exceeded 22,000 metric tons. This ability to fulfill its delivery obligations under very restrictive environments established Savola Jordan's reliable reputation.

d) Savola Morocco Company:
A joint venture between Savola Edible Oils with 51% ownership, with the balance owned by a local Moroccan investor. The share capital of this company reached MD 54 million (SR 18.7 million) in 2003.

Savola Morocco acquired the idle refinery and filling lines of Savola Bahrain Company, which ceased its operations in 2000 and is now under liquidation, pending regulatory approvals.

The erection of this plant is well ahead of schedule, with almost all the equipment on site. It is expected that, Inshallah, commercial operations will begin in April 2004—two months ahead of schedule.

e) Savola Sudan Company:
Savola Sudan is 60% owned by Savola Edible Oils, with the remaining 40% owned by other investors. Its share capital reached SD 1.5 billion (SR 21.5 million).

The strategy of establishing Savola Sudan was re-examined by the SEO Board of Directors, leading to the decision to accelerate entry into Sudan. As a result, SEO increased the capital of Savola Sudan to $5.5 million.

The Savola Sudan company formation was completed in 2003 and 250,000 sq.m. of land was secured in Khartoum industrial city. Necessary equipment has been ordered. It is expected that the Company will begin commercial operations in first quarter of 2005.

f) Expansion Projects
To contribute to the "Triple Five Goal" of The Savola Group, numerous opportunities for expansion of Savola Edible Oils were evaluated during 2003.

One new venture was the establishment of Savola Kazakhstan, underway following Board approval in November 2003. This Savola Kazakhstan operation was created through the acquisition of an established edible oils factory in the Aktobe region of Kazakhstan. Ownership will be divided with 90% held by Savola and the remaining 10% with a local Kazakhstan company. The existing plant is capable of refining 22,500 metric tons of soft oil from new crushing facilities that are under construction. The plant has already begun commercial operations and it is expected that legal formalities will be completed in early 2004.

SEO is considering investments in oil palm plantations to secure its palm oil supply and stabilize margins that are heavily affected by volatile palm oil prices. Specific proposals are being evaluated and will be submitted to the Board of Directors for approval in near future.

The Division expects to become a dominant player in manufacturing and sale of edible oils and fats products in the Middle East, Asia and Africa. SEO is also exploring investment opportunities in the Far East, in addition to the sizeable investments directed to Middle East expansion. All these specific opportunities were presented to the Board of Directors and approved for further exploration. Inshallah, final recommendations will be made in the near future.

Sales increased 20% over 2002, setting new records of profitability and market share.

The company expects to be a dominant player in manufacturing and sale of edible oil brands in the Middle East, Asia and Africa.

AFIA

Business Divisions

Sugar

The Savola Group has a 41% effective ownership of the United Sugar Company (USC). USC owns and operates the Kingdom's only sugar refinery, located in Jeddah Islamic Port.

USC had a very successful year in 2003, with help and guidance of Allah the Almighty. This year marked a major shift in strategic direction from the past as a production-led sugar refinery. USC is now a marketing-focused sugar company engaged in branding and marketing quality consumer sugar to the Saudi market. As a result, total USC sales volume grew by 31% from 630 kilo metric tons in 2002 to 829 kMT in 2003.

In the domestic market, sales grew by 12% from 630 kMT in 2002 to 706 kMT in 2003. This gives USC a domestic market share of 96% compared to 90% in 2002.

Al-Osra packs in fine and coarse are the first branded retail sugars produced by USC. Sales of Al Osra sugar grew by 170% from 53 kMT in 2002 to 144 kMT in 2003. Al Osra market share averaged 54% of the domestic retail market in 2003, a substantial increase from 34% in 2002.

Al-Osra continues to re-enforce its leadership position in the Saudi sugar market. Sound marketing strategies and creative advertisement campaigns have positioned Al-Osra as the leading sugar brand in KSA. In advertising, the Al-Osra management team launched the first sugar TV and radio commercials across Gulf Countries, with a message of "Peak of Purity." The brand has been certified as an ISO 9001:2000 compliant—signifying superior quality to consumers.

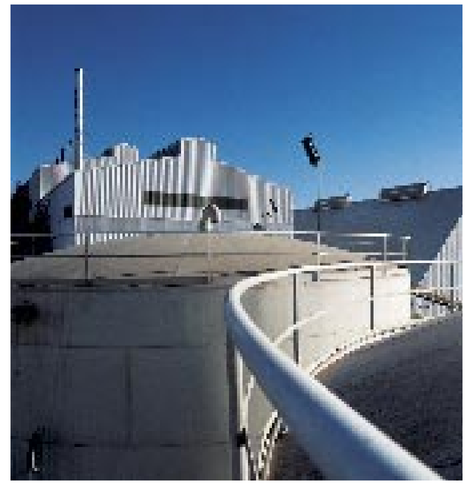
Exports of sugar increased dramatically in 2003, from no exports in 2002. Jordan, Yemen, Sudan and other countries in the GCC took USC exports of 123 kMT in 2003.

In July 2003 the refinery expansion project was completed, bringing the design capacity to 805 kMT. White sugar production in 2003 surpassed design capacity and reached a record 871 kMT for the year, a 33% growth over 2002.

USC has made excellent progress in Saudization, increasing from 41% of the workforce in 2002 to 46% Saudis in 2003.

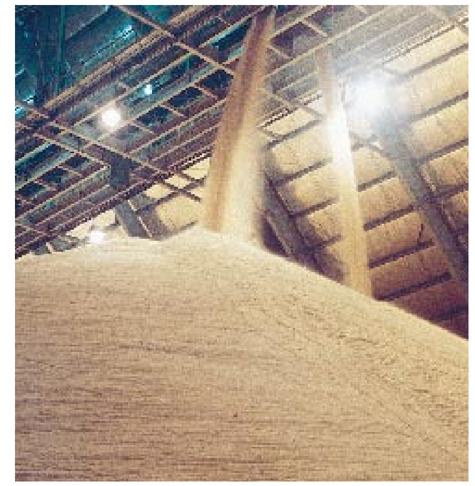
During the year, the USC Board approved two major initiatives:

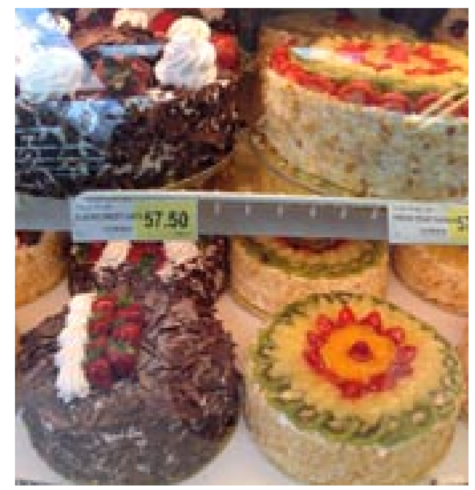
- Expansion Phase II—Increase refinery production capacity to over 1,000 kMT per annum. This will make the USC refinery one of the world's larger plants.
- Retail packaging plant—Build and operate a state-of-art packaging plant to enable USC's retail campaign achieve its targets.



Total USC sales volume grew by 31% in 2003, to 829 kilo metric tons from 630 kMT in 2002. Nearly 15% of this was in new export sales, up from no exports in 2002.

The company's domestic market share grew to 96% compared to 90% in 2002.





USC has the highest level of Saudization within The Savola Group subsidiaries, reaching 46% Saudis in 2003, up from 41% of the workforce in 2002.

الأسرة
Al Osra

The Savola Group

Business Divisions

Plastics Factory

The Savola Group operates its packaging business through its subsidiary the Savola Packaging System Company (SPS), which is completely owned by The Group and one of its subsidiaries. SPS wholly owns the Plastics Factories in Jeddah and Riyadh.

The year 2003 has been another successful year for the Packaging Division. Despite the tough competition and significant increase in raw material prices during 2003, the Division increased its net sales by 8% over 2002 and was able to maintain its net profit at the level of 2002. Even with this 8% increase in sales, operating expenses have been reduced by 2% through tight control of expenditures and continuous efficiency improvement.

Market share increased in key segments like carbonated drinks, water, dairy and juices. Also, sales of new products increased by 124% over 2002.

Plastics Factory objective in 2003 was on boosting export sales, developing new products and improving capacity utilization. With the grace of Allah, the division did well in all areas. Export sales jumped from 4% of total sales in 2002 to 11% in 2003.

In 2003 there was more focus on key customer accounts to increase Plastics' share of business and to improve collections. This improved the account receivables, DSO and reduced the number of past due accounts.

Saudization is still a challenge for the Plastics Division because of the relatively high turnover among Saudis in 2003. This turnover limited our current Saudization to 32%. However plans are in place to increase it to 40% by the end of 2004.

In 2003 Plastics Factory market share increased in the key segments of carbonated drinks, water and dairy & juice containers.

The Savola Group **Investments**

Almarai Company

The Savola Group owns 40% of Almarai Company share capital.

Almarai has become one of the leading food companies in the Middle East with more than 150 different products such as fresh milk, yoghurts, cheese and juices, plus other products in test market. The Almarai brands control more than 40% of the diary market and are household names in Saudi Arabia and the GCC countries.

The Company has an excellent reputation for quality and was the first dairy cow farm in the world to be awarded ISO 9002 Quality Certification. There are now 50,000 milking cows across six diary farms, all of them well established and equipped to international standards.

This long-term success came as a result of the outstanding efforts exerted by the Company's management and the dedication of its employees, who work hard to achieve the Company's objectives and strategies.

Almarai has built a very efficient and highly advanced chilled distribution network. More than 600 refrigerated trucks deliver to 23,000 sales outlets in Saudi Arabia and the GCC countries. This chilled distribution ensures that consumers receive the safest and freshest Almarai products.

Almarai announced its strategic Expansion Plan-III for the next five years (2003 – 2007). The company has allocated SR 1,750 million to strengthen its market position and enhance productivity. Of this amount: SR 375 million for farms development, SR 625 million for manufacturing and transportation, SR 100 million for investment in sales center and distribution network, SR 75 million for IT and information networks, and SR 575 million for renewal and renovation.

As part its expansion plans, the Company will establish a new factory for cheese production and a special factory for juice production. With this expansion, the company intends to create 1,000 posts for young Saudis and also provide training for Saudis at management levels.

Almarai is one of the leading brand names in the Arabian sub-continent, supplying consumers with milk, laban, yoghurt, juice, butter, cheese, cream and dairy desserts.

Over 60% of all Almarai milk is fermented into laban, the traditional Middle Eastern drink similar to natural yoghurt. Approximately 25% is processed as fresh milk and the remainder is used to create branded dairy products.

The Savola Group **Investments**

Herfy Food Services Company

Herfy is 70% owned by The Savola Group.

Herfy Food Services enjoyed outstanding success in 2003, confirming Herfy's position as one of the leading Saudi fast food companies. Sales in 2003 grew by 8% and profitability by 11%, compared to 2002.

During 2003, Herfy successfully opened a number of new restaurants in Riyadh and the Gassim region. Plans are in place to open 10 new domestic restaurants during 2004.

The Company will continue its franchise expansion strategy into neighboring countries that began with Bahrain in 2002. In 2003, franchising agreements were signed to operate Herfy and Al-Mahatah restaurants in the GCC countries UAE and Kuwait. Many other franchising requests are being currently studied.

The new Herfy-owned factory for production of maamoul and rusk came on-stream in the second half of 2003.

Construction also began in 2003 for a major beef and chicken meat processing plant to supply Herfy's restaurants with its needs. This Herfy processing plant is expected to start its commercial production during the first quarter of 2005.

Herfy has grown to 92 Herfy and Al-Mahatah restaurants throughout the Kingdom. Home delivery services are provided by 40. And 10 new restaurants will open during 2004

HERFY

The Savola Group **Investments**

Saudi Arabian Glass Company (SAGCO)

SAGCO is 51% owned by The Savola Group.

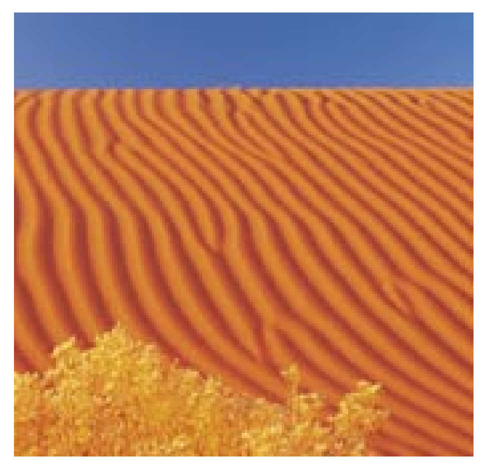
Saudi Arabian Glass Company reached the highest sales of its history during 2003—hitting SR 206.1 million, compared with SR 187.4 million during 2002. This is a growth of 10%.

This 2003 success was achieved following losses the company experienced in previous years. SAGCO's achievement came by reducing cost of sales and through an effective cost control program.

SAGCO glass production is entirely to custom order so all capacity is always fully sold. The company enjoys a high proportion of repeat, on-going orders from domestic as well as export customers. The company has continued making glass container exports to the US, Canada, Europe, Australia, New Zealand, South Africa and other African and Middle East countries.

Glassmaking began more than 4,000 years ago in ancient Egypt. Glass items were considered luxuries found only in the tombs of priests and royalty.

Glass is mostly sand, mixed with several other ingredients and heated to about 1,500°C until molten. Then it is poured into molds to become our bottles and containers.



LOGO TO COME

Your search for quality glass ends here.

Consolidated Financial Statements and Independent Auditors' Report

AL JURAID & COMPANY
MEMBER FIRM OF
PRICEWATERHOUSECOOPERS

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INDEPENDENT AUDITORS' REPORT

February 25, 2004

To the Shareholders of Savola Group Company:

We have audited the accompanying consolidated balance sheets of Savola Group Company (the "Company"), a Saudi joint stock company, and its subsidiaries as of December 31, 2003 and 2002 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended, and the notes which form an integral part of the consolidated financial statements. These consolidated financial statements, which were prepared by the Company to comply with applicable articles of the Regulations for Companies and presented to us with all information and explanations which we required, are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements taken as a whole:

- Present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2003 and 2002 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Saudi Arabia appropriate to the circumstances of the Company and its subsidiaries; and
- Comply, in all material respects, with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of financial statements.

AL JURAID & COMPANY

By:
Sami B. Al Sarraj
License Number 165

Al Juraid & Company, License No. 25
Licensed Partners:
Abdullah M. Al Juraid, No. 49
Sami B. Al Sarraj, No. 165
Walid I. Shukri, No. 329
Pendlyn Wilson III, No. 182

Consolidated Balance Sheets

A Saudi joint stock company with a capital of SR 628.571.400 fully paid up

December 31, 2002 and 2001
(Saudi Riyals in Thousands)

	Notes	2003	2002
Assets			
Current Assets:			
Cash and cash equivalent	3	SR 166,372	SR 106,675
Accounts receivable - net	4, 5	294,190	393,162
Inventories - net	6	537,806	415,939
Prepayments and other assets	7	112,702	92,104
Total current assets		1,111,070	1,007,880
Investments - Net	8	669,337	468,406
Goodwill - Net	9	109,141	118,480
Deffered charges - Net	10	22,399	13,780
Fixes assets - Net	11, 13	2,026,529	1,863,08
Total		SR 3,938,476	SR 3,471,634
Liabilities and shareholders' equity			
Current liabilities:			
Short-term bank borrowings	12	SR 738,695	SR 284,135
Current portion of long-term debt	13	72,558	81,766
Accounts payable	5, 14	404,933	345,578
Accrued expenses and other liabilities	15, 16	179,720	292,858
Total current liabilities	12	1,395,906	1,004,337
Long-term payables	17	109,308	89,321
Long-term debt	13	141,054	210,131
Employee termination benefits	18	71,871	66,118
Total liabilities		1,718,139	1,369,907
Minority interests	5	370,495	384,038
Commitments and contingencies	28, 30		
Shareholders' equity:			
Share capital	19	800,000	628,571
Share premium reserve	19, 20	209,000	380,429
Statutory reserve	21	344,394	314,286
General reserve	22	254,000	254,000
Foreign currency translation adjustments		(63,452)	(49,866)
Retained earnings		305,900	190,269
Total shareholders' equity		1,849,842	1,717,689
Total		SR 3,938,476	SR 3,471,634

The accompanying notes 1 to 33 form an integral part of these consolidated financial statement.

The Savola Group

Consolidated Statements of Income

(A Saudi Joint Stock Company)

For the years ended December 31, 2002 and 2001
(Saudi Riyals in Thousands)

	Notes	2003	2002
Sales - Net	5	SR 4,127,801	SR 3,641,258
Cost of sales		(3,324,614)	(2,846,213)
Gross profit		803,187	795,045
Expenses:			
Selling and marketing	23	(376,278)	(364,523)
General and administrative	5, 24	(196,346)	(213,995)
Operating income		230,563	216,527
Other income (expenses):			
Investments income - net	25	174,985	94,266
Amortization of goodwill	9	(14,925)	(11,441)
Financing cost	12, 13	(30,379)	(32,296)
Other income		19,591	18,213
Income before zakat and minority interests		379,835	285,269
Zakat and foreign income tax	16	(7,005)	(9,042)
Income before minority interests		372,830	276,227
Minority interests		(71,749)	(68,665)
Net income		SR **301,081**	SR **207,562**

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

The Savola Group

Consolidated Statements of Changes in Shareholders' Equity

(A Saudi Joint Stock Company)

For the years ended December 31, 2002 and 2001
(Saudi Riyals in Thousands)

	Notes	2003	2002
Share capital:			
Balance at January 1		SR 628,571	SR 628,571
Bonus shares issued during the year	19	171,429	–
Balance at December 31		800,000	628,571
Share premium reserve:			
Balance at January 1		380,429	380,429
Bonus shares issued during the year	19	(171,429)	
Balance at December 31		209,000	380,429
Statutory reserve:			
Balance at January 1		314,286	314,286
Transfer from retained earnings	21	30,108	–
Balance at December 31		344,394	314,286
General reserve:			
Balance at January 1 and December 31		254,000	254,000
Foreign currency translation Adjustments:			
Balance at January 1		(49,866)	(45,891)
Adjustments during the year		(13,586)	(3,975)
Balance at December 31		(63,452)	(49,866)
Retained earnings:			
Balance at January 1		190,269	135,864
Net income		301,0812	07,562
Transfer to statutory reserve	21	(30,108)	–
Dividends (2002 - proposed)	31	(153,142)	(150,857)
Directors' remunerations	26	(2,200)	(2,300)
Balance at December 31		305,900	190,269
Total shareholders equity		SR 1,849,842	SR 1,717,689

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

The Savola Group

Consolidated Statements of Cash Flows

(A Saudi Joint Stock Company)

For the years ended December 31, 2002 and 2001
(Saudi Riyals in Thousands)

	2003	2002
Cash flow from operating activities:		
Net income	SR 301,081	SR 207,562
Adjustments to reconcile net income to net cash provided by operating activities:		
Investment income - net	(174,985)	(94,266)
Amortization	25,395	27,594
Depreciation	131,345	140,029
(Gain) loss on sale of fixed assets	(1,014)	8,097
Share of minority interests in the net income of the consolidated subsidiaries	71,749	68,665
Change in operating assets and liabilities:		
Accounts receivable	(13,952)	17,291
Inventories	(121,867)	60,135
Prepayments and other current assets	(20,598)	(4,958)
Accounts payable	12,979	(12,662)
Accrued expenses and other current liabilities	35,519	(19,345)
Employees' termination benefits	5,753	4,602
Net cash provided by operating activities	251,405	402,744
Cash flow from investing activities:		
Dividend received from an associated company	112,924	100,825
Proceeds from sale of investments	394	32,413
Additions to investments	(10,780)	–
Additions to investments in marketable securities	(141,471)	–
Proceeds from sale of marketable securities	172,287	–
Adjustments to goodwill - net of additions	(5,586)	2,494
Additions to deferred charge	(19,089)	(8,034)
Additions to fixed assets - net	(307,358)	(172,478)
Net cash used by investing activities	(198,679)	(44,780)
Cash flow from financing activities:		
Net change in short-term bank borrowings	454,560	33,756
Repayment of long-term debt	(81,765)	(303,743)
Additions to long-term debt	3,480	61,713
Dividends paid	(284,012)	(134,324)
Changes in minority interests	(85,292)	(17,261)
Net cash provided (used) by financing activities	6,971	(359,859)

Consolidated Statements of Cash Flows (Continued)

(A Saudi Joint Stock Company)

For the years ended December 31, 2002 and 2001
(Saudi Riyals in Thousands)

	2003	2002
Net change in cash and cash equivalents	59,697	(1,895)
Cash and cash equivalents at beginning of year	106,675	108,570
Cash and cash equivalents at end of year	166,372	106,675
Supplemental schedule of non-cash information:		
Dividend from an associated company charged to other accounts receivable	–	112,924
Directors' remunerations	2,200	2,300
Proposed dividends	–	150,857
Changes in long-term payables	19,987	3,962
Unrealized loss on investments recognized in the consolidated statement of income	–	8,910
Foreign currency translation adjustments	13,586	3,975
Investment in a subsidiary unconsolidated in the current year - net	46,376	–

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

For the years ended December 31, 2002 and 2001

1. THE COMPANY, ITS SUBSIDIARIES AND NATURE OF BUSINESS

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

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

Saudi Business Center
Madinah Road
P.O. Box 14455
Jeddah 21424
Kingdom of Saudi Arabia

The Company has investments in the following consolidated subsidiaries collectively the ("Group"), which operate under separate commercial registrations and are principally engaged in the manufacturing and marketing of food products, retailing, packaging materials and fast food operations:

Name	Country of incorporation	Effective ownership interest (%) at December 31, 2003	2002
Savola Packaging Systems Limited	Saudi Arabia	100	100
Utur Packaging Materials Company Limited	Saudi Arabia	100	100
Royah Company for the Development of Information Systems & Computer Services	Saudi Arabia	100	100
Savola Snack Foods Company Ltd. ("SSFC") - under liquidation	Saudi Arabia	100	100
Savola Trading International Limited	Virgin Islands	100	100
Tayseer FZCO	UAE	100	100
Azizia Panda Trading Company ("APTC")	Saudi Arabia	100	–
Al Azizia - Panda Al Qassim Company	Saudi Arabia	100	90
Savola Edible Oils Company Limited ("SEO")	Saudi Arabia	90.43	90.25
Herfy Food Services Company Ltd.	Saudi Arabia	70	70
Savola Industrial Investments Co. ("SIIC")	Saudi Arabia	63.5	63.5
Saudi Paper Cups & Containers Co.	Saudi Arabia	–	100

SEO also has the following consolidated subsidiaries:

Name	Country of incorporation	Effective ownership interest (%) at December 31, 2003	2002
Malintra Holdings	Luxembourg	100	100
Savola Bahrain Company (see Note 8 - b)	Bahrain	–	90
Savola Jordan Company ("SJC")	Jordan	75	51
Savola Morocco Company	Morocco	51	–
Savola Sime Foods Limited ("SSFL")	Virgin Islands	50	50

SIIC has a 64.79% ownership interest in United Sugar Company Ltd. ("USC"), a limited liability company registered in Saudi Arabia, which was consolidated in SIIC's financial statements before the preparation of these consolidated financial statements.

Tayseer FZCO was set up during 2002 as a limited liability company in the United Arab Emirates for the purpose of trading in food products. It has not started operations as of December 31, 2003.

During 2003, the Company set up APTC as a limited liability company in Saudi Arabia. APTC has not started operations as of December 31, 2003.

During 2002, the Company resolved to liquidate SSFC. However, the legal liquidation process has not started as of December 31, 2003.

During 2003, SEO increased its ownership interest in SJC from 51% to 75% by acquiring additional shares from the Jordanian shareholder. Such change in ownership was approved by the regulatory authorities in Jordan.

During 2003, the Group increased its ownership interest in Al Azizia - Panda Al Qassim Company from 90% to 100% by acquiring the minority shareholders' interest in that company.

The Group also has an effective ownership interest of 49.9% in Savola Sime Egypt ("SSE"), a limited liability company registered in the Arab Republic of Egypt, which was also consolidated in SSFL's financial statements (having 75% ownership interest in SSE) before the preparation of these consolidated financial statements. The Group has significant control over SSE.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements have been prepared under the historical cost convention on the accrual basis of accounting, and in compliance with the accounting standards promulgated by the Saudi Organization for Certified Public Accountants (SOCPA). Significant accounting policies are summarized as follows:

Basis of consolidation — The consolidated financial statements include the financial statements of the Company and its subsidiaries set forth in Note 1 above. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of estimates — The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Cash and cash equivalents — Time deposits purchased with original maturities of less than three months are included in cash and cash equivalents.

Accounts receivable — Accounts receivable are carried at original amount less provision made for doubtful accounts. A provision for doubtful accounts is established when there is significant doubt that the Group will not be able to collect all amounts due according to the original terms of accounts receivable.

Inventories — Inventories are valued at the lower of cost or market. Cost is determined on the moving-average method. Cost of finished goods and work-in-process includes the cost of raw materials, direct labor and production overheads.

Investments in unconsolidated subsidiaries — Investments in unconsolidated subsidiaries, which are either under formation or liquidation, or where the control does not rest with the Group, are not consolidated in these financial statements but are accounted for using the equity method.

Investments in associated companies — Investments in associated companies, in which the Group has an effective ownership interest of less than 50%, are accounted for using the equity method. According to this method, investments are originally recorded at cost and then adjusted to reflect the Group's share in the profits or losses of the investee companies and their distribution of profits. The Group's share of profits or losses of the investee companies is credited or charged to the consolidated statement of income.

Other equity investments— Other equity investments, which are not held for trading purposes, principally consist of less than 20% equity investments in various limited liability companies, and are recorded at cost when acquired. The carrying values are adjusted based on the fair values of these companies as of the consolidated balance sheet date, unless it is determined that the fair values cannot be estimated, in which case such investments are reflected at cost. Unrealized gains or losses resulting from changes in fair values are reported as a separate component of shareholders' equity. Such changes in fair values were not material as of December 31, 2003 and 2002. Permanent diminution, if any, in the value of such investments is charged to income currently. Consequently, any related unrealized losses that had been previously recognized directly in shareholders' equity are charged to the consolidated statement of income.

Goodwill — Goodwill represents the excess cost of investments over the fair value of the net assets acquired, and is being amortized using the straight-line method over a period not exceeding 20 years.

Deferred charges — Deferred charges consist of expenses incurred by the Group on setting up new retail outlets and other projects, which are expected to have future benefits. Such expenses are being amortized using the straight-line method over the related estimated economic lives not exceeding five years. Deferred charges also include SIDF loan approval fees and related costs, which are deferred and are being amortized using the straight-line method over the period of the respective loans.

Fixed assets — Fixed assets are stated at cost and are depreciated using the straight-line method over their estimated useful lives as follows:

	Years
Land	–
Buildings	20 - 33
Machinery and equipment	3 - 20
Furniture and office equipment	4 - 10
Motor vehicles	3 - 4
Leasehold improvements	15 - 25

Interest costs on borrowings to finance the construction of fixed assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

Expenditures for maintenance and repairs that do not materially extend the asset's life are included in expenses.

Impairment of long-lived assets — Fixed assets and other non-current assets, including goodwill, are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. For the purpose of assessing impairment, assets are grouped at the lowest possible level for which there are separately identifiable cash flows.

Borrowings — Borrowings are recognized at the proceeds received, net of transaction costs incurred.

Other provisions — Other provisions are recognized when the Group has a present legal or constructive obligation as result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Employees' termination benefits — Employees' termination benefits are payable as a lump sum to all employees employed under the terms and conditions of the Saudi Labor and Workman Law on termination of their employment contracts. The liability is calculated as the current value of the vested benefits to which the employee is entitled, should the employee leave at the consolidated balance sheet date. Termination payments are based on the employees' final salaries and allowances and their cumulative years of service, as defined by the conditions stated in the laws of the Kingdom of Saudi Arabia.

Revenue recognition — Sales are recognized upon delivery of products or providing services to the customers, and are recorded net of discounts. Rental income is recognized over the lease terms. Revenues are principally derived from manufacturing, wholesale and retail business in food and related products.

Operating leases — Rentals in respect of operating leases are charged to the consolidated statement of income over the terms of the leases.

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

Zakat and income tax — The Company and its Saudi Arabian subsidiaries are subject to zakat in accordance with the regulations of the Department of Zakat and Income Tax ("DZIT"). The foreign subsidiaries are subject to tax regulations in their countries of incorporation. Zakat and income tax related to foreign subsidiaries are charged to income on annual basis.

Foreign currency translation — The Company's books of account are maintained in Saudi riyals. Foreign currency transactions are translated into Saudi riyals at the market rates prevailing at the dates of the transactions. Assets and liabilities denominated in foreign currencies are adjusted to reflect their Saudi riyal equivalents as of the consolidated balance sheet date. Exchange adjustments, which were not significant for 2003 and 2002, are charged or credited to the consolidated statement of income currently.

Assets and liabilities of foreign subsidiaries are translated at the exchange rates in effect at the date of the consolidated financial statements. The components of foreign subsidiaries' equity accounts, except retained earnings, are translated at the exchange rates in effect at the dates the related items originated. The elements of foreign subsidiaries' income statements are translated using the weighted-average exchange rate for the year. Adjustments resulting from the translation of foreign subsidiaries' financial statements into Saudi riyals are reported as a separate component of shareholders' equity in the accompanying consolidated financial statements.

Reclassifications — Certain amounts in the 2002 consolidated financial statements have been reclassified to conform with the 2003 presentation.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31 are comprised of the following (000's):

		2003		2002
Cash at banks - current accounts	SR	101,894	SR	49,035
Time deposits		56,043		52,765
Cash in hand		8,435		4,875
Total	**SR**	**166,372**	**SR**	**106,675**

Time deposits at December 31, 2002 include restricted deposits of approximately SR 47 million (2003 - Nil), which were blocked against bank facilities granted to SSE by a foreign bank.

4. ACCOUNTS RECEIVABLE

Accounts receivable at December 31 are comprised of the following (000's):

	2003	2002
Trade accounts receivable	SR 203,739	SR 210,743
Other accounts receivable	76,991	172,642
Due from related parties (Note 5)	34,429	36,815
Total	**315,159**	**420,200**
Less: Allowance for doubtful accounts	(20,969)	(27,038)
Accounts receivable - net	**SR 294,190**	**SR 393,162**

5. RELATED PARTY MATTERS

During the course of its operations, the Group had the following significant transactions with related parties during the years ended December 31 (000's):

	2003	2002
Sales - net	SR 509,883	SR 478,698
Technical services	13,276	10,525
Other	2,916	–

Pricing and terms of payment for these transactions are approved by the management of the Group and the related parties.

Certain Group companies make wholesale purchases of goods and commodities for resale in the retail operations, from entities affiliated to the Company or to certain shareholders. Such purchases are made in the course of the routine retail supermarket operations. The terms of such transactions are determined by the management with reference to the wholesale market prices of such goods and commodities.

The balances at December 31, principally resulting from the aforementioned transactions, are as follows (000's):

	2003	2002
Due from related parties:		
Certain shareholders of USC	SR 30,418	SR 36,815
Savola Morocco Company	1,101	–
Other	2,910	–
Total	**SR 34,429**	**SR 36,815**
Due to related parties:		
Savola Bahrain Company (see Note 8 (b))	46,376	–
Tate and Lyle Investments (Gulf States) Ltd.	6,715	6,192
Other	331	–
Total	**SR 53,422**	**SR 6,192**

Included in minority interests account is an advance payment of SR 69.8 million as of December 31, 2003 and 2002, which was made by Al-Muhaidib Holding Company for Trade and Industry ("MHC"), a minority shareholder in USC, to SIIC for the purpose of increasing MHC's effective share in the capital of USC. This amount does not bear any finance charges and is expected to be used only for the increase of USC's capital.

6. INVENTORIES

Inventories at December 31 are comprised of the following (000's):

	2003	2002
Finished goods	SR 250,264	SR 233,789
Raw materials	164,644	96,405
Spare parts not held for sale	68,994	66,569
Materials in transit	53,910	21,342
Work-in-process	13,598	11,583
Total	**551,410**	**429,688**
Less: Provision for slow moving items	(13,604)	(13,749)
Inventories - net	**SR 537,806**	**SR 415,939**

7. PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets at December 31 are comprised of the following (000's):

	2003	2002
Prepaid rental charges	SR 27,971	SR 23,809
Other prepayments	32,799	21,930
Advances to vendors and other	51,932	46,365
Total	**SR 112,702**	**SR 92,104**

8. INVESTMENTS

Investments at December 31 are comprised of the following (000's):

	2003	2002
Investments in associated companies - net	SR 590,321	SR 447,906
Investments in unconsolidated subsidiaries	59,016	–
Other equity investments - net	20,000	20,500
Investments - net	**SR 669,337**	**SR 468,406**

The movements in the investments account for the years ended December 31 are as follows (000's):

	2003	2002
Balance at January 1	SR 468,406	SR 489,827
Additions to investments in marketable securities	141,471	–
Disposals of marketable securities	(141,471)	–
Share of profit from an associated company	144,059	138,914
Additions to investments	10,780	–
Investments disposed off	(500)	(17,093)
Dividend received from an associated company	–	(121,875)
Investment in SBC, net of profit share	44,730	–
Movement in provisions related to investments	1,862	(21,367)
Balance at December 31	**SR 669,337**	**SR 468,406**

a) Investments in associated companies at December 31 are comprised of the Group's effective ownership interests in the following limited liability companies (000's):

	Effective ownership interest (%)		2003		2002
Al Marai Company Ltd. - Saudi Arabia	40.33	SR	590,321	SR	449,668
Saudi Arabian Glass Company ("SAGCO") - Saudi Arabia	51		71,171		71,171
Wazir Ali Industries Ltd. - Pakistan	40		2,446		2,446
Arabian Saline Water Technology Co. Ltd. (Behar) - Saudi Arabia	30		209		209
			664,147		**523,494**
Less: Provision for decline in the value of investments in associated companies			(73,826)		(75,588)
Investments in associated companies - net		**SR**	**590,321**	**SR**	**447,906**

SAGCO was not consolidated in 2003 and 2002 because the control of SAGCO does not rest with the Group. At December 31, 2000, management decided to write off in full the goodwill that related to its investment in SAGCO and to fully provide for this investment because management believed that there was a permanent decline in its value. Subsequently, SAGCO has reported net income for 2003 and 2002, which was not significant. However, management of the Group still believes that the circumstances surrounding their conclusion on the permanent decline in the value of such investment have not significantly changed. Accordingly, the Group has not accounted for its share in SAGCO's net income for 2003 and 2002.

The investment in Behar was also fully provided for by the Group as of December 31, 2003 and 2002 because management believes there is a permanent decline in its value. The Group has not accounted for its share in the results of Behar for 2003 and 2002 as the net carrying value of such investment is nil at December 31, 2003 and 2002, and management believes that no additional losses will be incurred by the Group.

The Group has provided corporate guarantees to local commercial banks in relation to loans amounting to SR 143 million (2002 - SR 151 million) obtained by SAGCO and Behar from those banks.

During 2003, the Group provided for its investment in Wazir Ali Industries Ltd. due to permanent decline in its value.

b) Investments in unconsolidated subsidiaries at December 31 are comprised of the following (000's):

		2003		2002
Savola Bahrain Company ("SBC")	SR	48,236	SR	–
Savola Morocco Company ("SMC")		10,780		–
Total	**SR**	**59,016**	**SR**	**–**

Following is a summary of the combined financial information for the unconsolidated subsidiaries (000's):

For the year ended December 31, 2003		
Net income	SR	2,739
As of December 31, 2003		
Total assets		59,686
Total liabilities		670

The Group's effective ownership interest in SBC is 100% (90% through SEO and 10% through the Company). SBC did not have any operations during 2003 and 2002. On September 17, 2003, the shareholders of SBC convened a meeting and resolved to liquidate SBC and appointed a liquidator. Currently, the subsidiary is under the liquidation process. Accordingly, the subsidiary's financial statements for 2003 were not consolidated in the accompanying consolidated financial statements.

Upon the completion of liquidation process of SBC, the recorded investment in SBC of SR 48.2 million will be offset against the recorded balance payable to SBC of SR 46.4 million (see Note 5).

SMC was set up as a limited liability company in Morocco for the purpose of manufacturing and trading in edible oil products. As of December 31, 2003, SMC was under development. Management expects that SMC will become operational in 2004.

c) Other equity investments at December 31 are comprised of the Group's effective ownership interests in the following limited liability companies (000's):

	Ownership interest (%)		2003		2002
Al-Azizia Commercial Investment Co. ("ACI") Saudi Arabia	10	SR	41,091	SR	41,091
Other	Below 1% each		–		600
Total			**41,091**		**41,691**
Less: Provision for permanent decline in the value of other equity investments			(21,091)		(21,191)
Other equity investments - net		**SR**	**20,000**	**SR**	**20,500**

During 2002, the Group provided for its investment in ACI due to permanent decline in its value.

9. GOODWILL

Goodwill at December 31 is comprised of the following (000's):

	2003	2002
Cost		
Balance at beginning of year	SR 276,884	SR 316,038
Additions	1,886	3,247
Provisions and adjustments	(17,449)	(42,401)
Balance at end of year	261,321	276,884
Accumulated amortization		
Balance at beginning of year	(91,930)	(80,489)
Charge for the year	(14,925)	(11,441)
Balance at end of year	(106,855)	(91,930)
Offset against minority interests	(45,325)	(66,474)
Goodwill - net	**SR 109,141**	**SR 118,480**

The goodwill being offset against the minority interests represents that part of the goodwill in the books of SSFL, which relates to the minority interests in that company. On consolidation, the gross amount of SSFL's goodwill has been included in the consolidated accounts of the Group. However, for presentation purposes, it is being netted off against minority interests to reflect the Group's share of goodwill.

10. DEFERRED CHARGES

Deferred charges at December 31 are comprised of the following (000's):

	2003	2002
Cost		
Balance at beginning of year	SR 159,313	SR 151,279
Write off of fully amortized deferred charges	(90,521)	–
Additions during the year	19,089	8,034
Balance at end of year	87,881	159,313
Accumulated amortization		
Balance at beginning of year	(145,533)	(129,380)
Write off of fully amortized deferred charges	90,521	–
Charge for the year	(10,470)	(16,153)
Balance at end of year	(65,482)	(145,533)
Deferred charges - net	**SR 22,399**	**SR 13,780**

11. FIXED ASSETS

Fixed assets at December 31 are comprised of the following (000's):

	2003	Additions	Disposals/ transfers	Foreign currency translation adjustments	2002
Cost					
Land	SR 600,578	SR 130,332	SR (1,162)	SR (2,957)	SR 474,365
Buildings	561,634	4,888	(16,889)	(3,182)	576,817
Machinery and equipment	1,364,407	101,195	(100,166)	(13,607)	1,376,985
Furniture and office equipment	197,992	19,325	(5,727)	(569)	184,963
Motor vehicles	87,678	11,001	(5,039)	(702)	82,418
Leasehold improvements	151,986	10,656	(3,928)	(22)	145,280
Construction in progress	180,330	61,165	–	–	119,165
Total	**3,144,605**	**338,562**	**(132,911)**	**(21,039)**	**2,959,993**
Accumulated depreciation					
Buildings	170,400	20,240	(13,070)	(184)	163,414
Machinery and equipment	681,694	63,893	(85,144)	(1,489)	704,434
Furniture and office equipment	150,154	29,344	(4,979)	(241)	126,030
Motor vehicles	67,003	8,995	(4,500)	(224)	62,732
Leasehold improvements	48,825	8,873	(336)	(7)	40,295
Total	**1,118,076**	**131,345**	**(108,029)**	**(2,145)**	**1,096,905**
Fixed assets - net	**SR 2,026,529**				**SR 1,863,088**

Construction in progress at December 31, 2003 and 2002 principally relates to the upgrading and enhancing of the refinery and the packaging process of SEO, expansion of the sugar refinery of USC, and the construction of hypermarkets for the Company.

Under the terms of land lease agreements with Jeddah Industrial City ("JIC") and Jeddah Islamic Port ("JIP"), certain Group member companies have various renewable operating leases for land upon which their production facilities are located. Annual lease and service charge payments to JIC and JIP are nominal.

See Note 13 with respect to the pledge of certain fixed assets of the Group as collateral to Saudi Industrial Development Fund and commercial banks.

12. SHORT-TERM BANK BORROWINGS

Short-term bank borrowings consist of bank overdrafts, short-term loans and a Murabaha financing arrangement, and bear financing charges at the prevailing market rates. Some of these short-term loans are secured by corporate guarantees of the Company and other Group member companies. The Group has unused bank borrowings facilities of SR 287 million as of December 31, 2003. At December 31, 2003, the Group's consolidated total current liabilities exceeded its total current assets by SR 285 million. Management believes that these unused facilities will be utilized to meet the Group's financial obligations as they become due.

13. LONG-TERM DEBT

Long-term debt at December 31 is comprised of the following (000's):

		2003		2002
Saudi Industrial Development Fund ("SIDF")	SR	185,437	SR	234,664
Commercial banks		28,175		57,233
Total		**213,612**		**291,897**
Less current portion:				
SIDF		(61,500)		(52,708)
Commercial banks		(11,058)		(29,058)
Total		(72,558)		(81,766)
Long-term debt	**SR**	**141,054**	**SR**	**210,131**

The loans from SIDF, which have been provided to certain subsidiaries of the Company, bear annual service fees, which amounted to SR 2.8 million during 2003 (2002 - SR 2.7 million). The cumulative SIDF loan approval fees of SR 8.3 million at December 31, 2003 (2002 - SR 8.3 million) have been deferred by the subsidiaries and are being amortized over the period of the related loans.

The SIDF loan agreements include certain covenants that provide, among other things, restrictions relating to the payment of dividends, capital expenditures and rental charges, and the maintenance of certain financial ratios. As of December 31, 2003, a loan covenant, namely the payment of dividends, was not met by a subsidiary. The subsidiary's management has informed the SIDF about this matter, and believes that the SIDF will not take any action as a result of this. Accordingly, the loan amount has been classified in accordance with its repayment terms.

All of the related subsidiaries' fixed assets, which have a net book value of SR 620 million at December 31, 2003 (2002 - SR 619 million) are pledged as collateral under the SIDF loan agreements. The SIDF loans are also secured by corporate guarantees of the Company.

The commercial bank loans bear finance charges at the prevailing market rates and are partly secured by corporate guarantees of the Company.

In addition, certain fixed assets of the Group member companies, with a net carrying value of SR 24 million as of December 31, 2003 (2002 - SR 24 million), are pledged as collateral under the commercial bank loan agreements. The aggregate repayment schedule of the long-term debt outstanding at December 31, 2003 is summarized as follows (000's):

Year ending December 31:		
2004	SR	72,558
2005		72,117
2006		68,937
Total	**SR**	**213,612**

14. ACCOUNTS PAYABLE

Accounts payable at December 31 are comprised of the following (000's):

		2003		2002
Trade accounts payable	SR	303,054	SR	239,748
Non-trade accounts payable		48,457		99,638
Due to related parties (Note 5)		53,422		6,192
Total	**SR**	**404,933**	**SR**	**345,578**

15. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities at December 31 are comprised of the following (000's):

		2003		2002
Accrued charges	SR	98,478	SR	90,495
Other provisions		48,750		37,417
Advertising		29,280		10,716
Directors' remunerations (Note 26)		2,200		2,300
Zakat provision (Note 16)		1,012		1,073
Proposed dividends (Notes 31 and 33)		–		150,857
Total	**SR**	**179,720**	**SR**	**292,858**

16. ZAKAT AND FOREIGN INCOME TAX

Zakat and foreign income taxes are charged to the consolidated statements of income. The Company and its subsidiaries file separate zakat and income tax declarations, which are filed on unconsolidated basis. Significant components of zakat base of each company are comprised of shareholders' equity, provisions at the beginning of the year and adjusted net income, less deductions for the net book value of fixed assets, investments and certain other items. Zakat and foreign income tax included in the consolidated statements of income for the years ended December 31 are as follows (000's):

		2003		2002
Zakat for the Company	SR	–	SR	–
Zakat and foreign income tax of consolidated subsidiaries		7,005		9,042
Total	**SR**	**7,005**	**SR**	**9,042**

Provision for Zakat

The following is a summary of movements in the Company's provision for zakat account for the years ended December 31 (000's):

		2003		2002
Balance at January 1	SR	1,073	SR	1,535
Adjustments during the year		(61)		(462)
Balance at December 31	**SR**	**1,012**	**SR**	**1,073**

There were no additional zakat charges for 2003 and 2002 due to the negative zakat base.

Zakat Status

The Company has obtained the final zakat certificates through the year ended December 31, 1997.

The Company received queries from the DZIT concerning the Company's declarations for the years 1999 to 2001. Management is in the process of preparing the responses to the DZIT queries. The Company is also in the process of filing its 2002 final zakat return.

The DZIT also assessed an additional zakat liability of SR 4.9 million concerning the years 1999 and 2000, against which the Company filed an objection letter. Management believes that the DZIT will revise its assessment. Accordingly, such amount was not provided for in the accompanying consolidated financial statements.

The subsidiaries received final zakat certificates for certain years and provisional zakat certificates for other years. They have also received queries from the DZIT for the open years, for which replies have been or will be filed by the respective companies.

During 2002, a Group member company received assessments from the DZIT concerning its zakat declarations for the years 1996 to 2001, in which the DZIT assessed an additional zakat liability of approximately SR 8.6 million. The management of the subsidiary had appealed such assessment and subsequently received a revised assessment from the DZIT for a revised zakat liability of SR 3.6 million. However, management has again appealed such assessment and believes that only SR 2.3 million may be ultimately payable to the DZIT and, accordingly, no liability for the remaining balance of SR 1.3 million has been recorded in the accompanying consolidated financial statements.

During 2003, a former Group member company, namely Saudi Paper Cups and Containers Co. Ltd., received final zakat assessments for the years 1995 to 2001 in which the DZIT claimed additional zakat liability of SR 2.1 million from the Company, being the former majority shareholder. Also, during 2003, a Group member company received an assessment from the DZIT concerning its zakat declaration for 2000, in which the DZIT assessed an additional zakat liability of approximately SR 0.6 million. The Company objected against such assessments and filed these cases with the Appeal Committee. Management believes that no additional zakat liability will be ultimately payable and, accordingly, no liability has been recorded in the accompanying consolidated financial statements for such amounts.

Any additional zakat liability that may be assessed by the DZIT upon the finalization of the Group companies' zakat returns up to 2002 will be recorded by the Group member companies when finalized with the DZIT.

17. LONG-TERM PAYABLES

Long-term payables represent dividends declared in prior years and share fractions, which resulted from split of shares in prior years. Such amount has not yet been claimed by the respective shareholders for several years. In the opinion of management, such amount is unlikely to be paid during 2004 and, accordingly, it is classified under non-current liabilities.

18. EMPLOYEES' TERMINATION BENEFITS

The movements in employees' termination benefits for the years ended December 31 are as follows (000's):

		2003		2002
Balance at January 1	SR	66,118	SR	61,516
Additions during the year		7,606		8,325
Payments during the year		(1,853)		(3,723)
Balance of December 31	**SR**	**71,871**	**SR**	**66,118**

19. SHARE CAPITAL

The Company's share capital of SR 800,000,000 at December 31, 2003 consists of 16,000,000 fully paid and issued shares of SR 50 each (2002 - Share capital SR 628,571,400 consisting of 12,571,428 fully paid and issued shares).

The shareholders of the Company, in their extra-ordinary general assembly meeting held on July 5, 2003, resolved to increase the Company's share capital by issuing 3 bonus shares for every 11 shares outstanding at that date. As a result, the share capital increased to SR 800 million and the number of shares to 16 million shares. Such increase in share capital was affected by a transfer of SR 171.4 million from share premium reserve account. The legal formalities for such increase in share capital are in process.

20. SHARE PREMIUM RESERVE

Share premium reserve at December 31, 2003 and 2002 represents the difference between the par value and the fair value of the shares issued in prior years, less transfers to share capital (see Note 19). This reserve is not currently available for distribution to the shareholders.

21. STATUTORY RESERVE

In accordance with its Articles of Association and the Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required each year to transfer 10% of its net income to a statutory reserve until such reserve equals 50% of its share capital. Such reserve is not currently available for distribution to the shareholders.

22. GENERAL RESERVE

In previous years, the shareholders resolved to set aside a general reserve by appropriation from retained earnings to meet future expansion in the Company's business. Such reserve can be increased or decreased by a resolution from the shareholders.

23. SELLING AND MARKETING EXPENSES

Selling and marketing expenses for the years ended December 31 are comprised of the following (000's):

		2003		2002
Staff cost	SR	146,546	SR	136,370
Advertising		84,358		85,555
Depreciation		42,804		46,091
Utilities		29,877		29,306
Rent (see Note 30)		23,748		24,589
Repairs, maintenance and consumables		7,382		6,475
Fuel and oil		4,950		8,464
Travel		2,616		2,880
Insurance		1,756		1,595
Telecommunication		1,273		1,823
Bad debts		–		9,697
Other		30,968		11,678
Total	**SR**	**376,278**	**SR**	**364,523**

24. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended December 31 are comprised of the following (000's):

	2003	2002
Staff cost	SR 110,103	SR 105,661
Professional fees	10,753	20,226
Amortization of deferred charges	10,470	16,153
Depreciation	9,464	11,454
Utilities, telephone and communication	7,087	7,296
Travel	5,347	3,991
Training	3,351	6,644
Computer-related	3,091	2,253
Repairs and maintenance	2,643	2,177
Insurance	1,899	2,357
Rent	1,602	2,025
Other	30,536	33,758
Total	**SR 196,346**	**SR 213,995**

Entitlements paid to the Company's Managing Director in the form of monthly salaries and housing and transportation allowance amounted to SR 1,590,000 for the year ended December 31, 2003 (2002 - SR 1,590,000). His annual bonus, which represents 1% of the Company's net income, amounted to SR 3,010,567 for the year ended December 31, 2003 (2002 - SR 2,075,617). His accrued end of service benefits amounted to SR 125,000 for the year ended December 31, 2003 (2002 - SR 125,000). Such expenses are included in staff cost above. In addition, the Company provides the Managing Director with a private driver, medical insurance and life insurance under Cooperative Takaful Program.

25. INVESTMENTS INCOME

Investments income for the years ended December 31 is comprised of the following (000's):

	2003	2002
Share of profit from associated companies - net	SR 144,059	SR 138,914
Gain on disposal of investments	30,926	3,629
Provision for impairment of goodwill	–	(18,000)
Loss on investment in ACI, previously recorded as unrealized loss under equity	–	(8,910)
Provision for permanent decline in the value of investments	–	(21,367)
Investments income - net	**SR 174,985**	**SR 94,266**

26. DIRECTORS' REMUNERATIONS

The remunerations due to the Board of Directors for the year ended December 31, 2003 amounted to SR 2.2 million (2002 - SR 2.3 million). Attendance allowances amounted to SR 0.4 million for 2003 (2002 - SR 0.3 million) for attending Board meetings held during the year.

27. EARNINGS PER SHARE

Earnings per share for the year ended December 31, 2003 amounted to SR 18.82 (2002 - SR 12.97 as restated for the increase in capital and shares).

28. COMMITMENTS AND CONTINGENCIES

The Group had outstanding bank guarantees and letters of credit amounting to SR 98.8 million at December 31, 2003 (2002 - SR 36.4 million), which were issued in the normal course of business. Also see Note 16 with respect to zakat contingencies. At December 31, 2003, USC had commitments to purchase approximately 747,600 tons (2002 - 995,000 tons) of raw sugar at prices which will approximate market prices prevailing on shipment dates, with deliveries spread between January 2004 and June 2005. Also, at December 31, 2003, USC had commitments to sell in 2004 refined sugar of approximately 181,000 tons (2002 - 150,000 tons to sell in 2003) at prices which would approximate the prevailing market prices at the contract date.

29. SEGMENT REPORTING

The Group's consolidated assets, liabilities, sales and net income as of December 31 and for the years then ended by segment are as follows (000's):

	Manufacturing /wholesale	Retail	Other	Total
2003				
Assets	SR 1,669,441	SR 1,517,340	SR 751,695	SR 3,938,476
Liabilities	861,058	852,413	4,668	1,718,139
Sales - net	2,254,294	1,864,745	8,762	4,127,801
Net income	173,288	44,192	83,601	301,081
2002				
Assets	1,496,811	1,332,979	641,844	3,471,634
Liabilities	670,337	689,922	9,648	1,369,907
Sales - net	1,924,078	1,717,180	–	3,641,258
Net income	149,069	32,854	25,639	207,562

The Group's business is principally conducted in the following geographical areas as of December 31 and for the years then ended (000's):

	Saudi Arabia	Egypt	Other countries	Total
2003				
Asset	SR 3,557,443	SR 290,916	SR 90,117	SR 3,938,476
Liabilities	1,580,958	123,105	14,076	1,718,139
Sales - net	3,596,850	388,637	142,314	4,127,801
Net income (loss)	293,587	(178)	7,672	301,081
2002				
Assets	3,092,365	312,760	66,509	3,471,634
Liabilities	1,251,902	82,013	35,992	1,369,907
Sales - net	3,218,952	348,945	73,361	3,641,258
Net income	214,359	4,949	(11,746)	207,562

30. LEASES

The Group has various operating leases for office space, restaurants, supermarkets, retail outlets, employees' accommodations and vehicles. Rental expenses for the year ended December 31, 2003 amounted to SR 34.1 million (2002 - SR 33.9 million).

Operating leases with terms expiring within one year and in excess of one year as of December 31, 2003 are as follows (000's):

Within one year	SR	3,300
Between two and five years		11,863
Greater than five years		704,220
Total	**SR**	**719,383**

31. APPROPRIATION OF NET INCOME

In their general assembly annual meeting, which was held on Muharam 9, 1424H (March 9, 2003), the shareholders approved the appropriation of the 2002 net income as follows:

Payment of SR 2.3 million as Board of Directors' remunerations.

Declared dividends amounting to SR 150.8 million to the shareholders (SR 12 per share).

Also, in its meeting held on Jumad-ul-Awal 5, 1424H (July 5, 2003), the Board of Directors approved the payment of an interim dividend amounting to SR 153.1 million to the shareholders (representing SR 7 per share for the 16 million shares that were outstanding as of July 5, 2003, and SR 12 per share for the bonus shares issued during 2003 amounting to 3,428,572 shares - see Note 19). This decision is expected to be ratified by the shareholders in their general assembly annual meeting scheduled on Safar 3, 1425H (March 24, 2004).

32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Group has no significant concentration of credit risks. Cash and cash equivalents are placed with national and international banks with sound credit ratings. Trade and other accounts receivable are mainly due from local customers and related parties and are stated at their estimated realizable values.

Interest rate risk is the exposure to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's financial position and cash flows. The Group has no significant interest-bearing assets at December 31, 2003 and 2002. Interest-bearing liabilities at December 31, 2003 amount to SR 766.9 million (2002 - SR 341.4 million).

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on regular basis that sufficient funds are available to meet the Group's future commitments. Also see Note 12.

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's transactions are principally in Saudi riyals, United States dollars and Euro. The management believes that the currency risk for inventory purchases is adequately managed primarily through entering into futures contracts. Other transactions in foreign currencies are not material.

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the Group's consolidated financial statements are prepared under the historical cost method, differences can arise between the book values and the 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.

33. SUBSEQUENT EVENTS

These consolidated financial statements were approved by the Board of Directors on February 25, 2004.

In connection with the decision by SOCPA to supplement Saudi Accounting Standards with International Financial Reporting Standards ("IFRS") effective in 2003, the Group changed its accounting policy relating to the recognition of dividends. Consequently, proposed dividends of SR 112 million (SR 7 per share) for the 2nd half of 2003, declared after year-end, have been disclosed within the notes to the consolidated financial statements, as opposed to being reported as liabilities as was the case prior to 2003.

Following is a summary of the movements in the retained earnings balance for the year ended December 31, 2003 after taking into consideration the proposed dividends (000's):

Balance as of January 1, 2003	SR	190,269
Net income for the year		301,081
Transfer to statutory reserve		(30,108)
Dividends paid for the first half of 2003		(153,142)
Dividends proposed for the 2nd half of 2003		(112,000)
Directors' remunerations		(2,200)
Balance as of December 31, 2003	SR	193,900

The Savola Group and its Subsidiaries

The Savola Group welcomes your constructive suggestions that might enhance the quality of services provided to our valued shareholders and customers.
Our toll-free number is 800-244-0204. Or write to The Savola Group, Attention: Investor Relations Dept.

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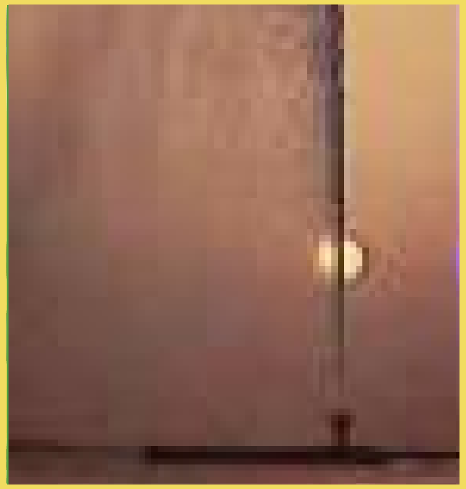
A Saudi joint stock company with a capital of SR 800,000,000 fully paid up.

Please visit our website:
www.savola.com

The Group has its headquarters in Jeddah, a city of 2.5 million people, and the second largest city in Saudi Arabia, after the capital Riyadh.

Jeddah is the hometown to about 25% of non-oil Saudi industries, 75% of Saudi commerce, and is the main gateway for pilgrims visiting the two Holy cities of Makkah and Madinah.

Jeddah is the primary shopping and leisure destination in the Kingdom, with more than 25% of Saudi hotel capacity.




Peace and prayers be upon our Prophet Mohammed,
to his Honest Companions, and to those who follow them
with favor up to the day of judgement