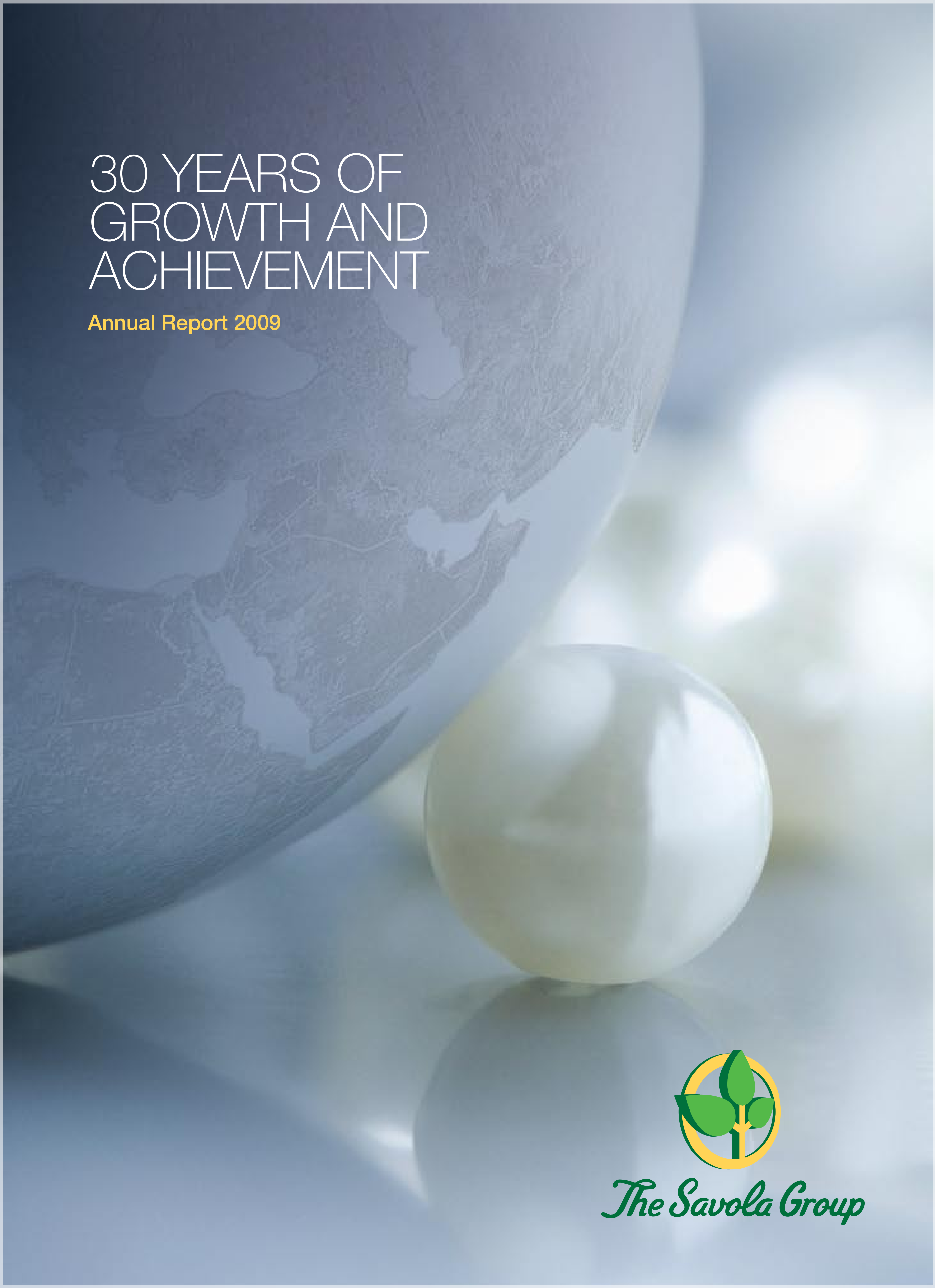
30 YEARS OF GROWTH AND ACHIEVEMENT

Annual Report 2009

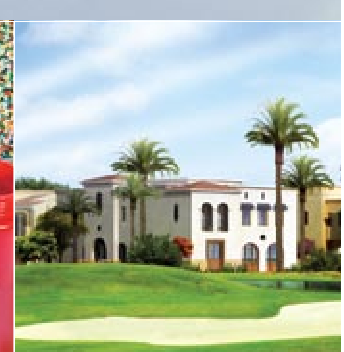


The Savola Group

Contents

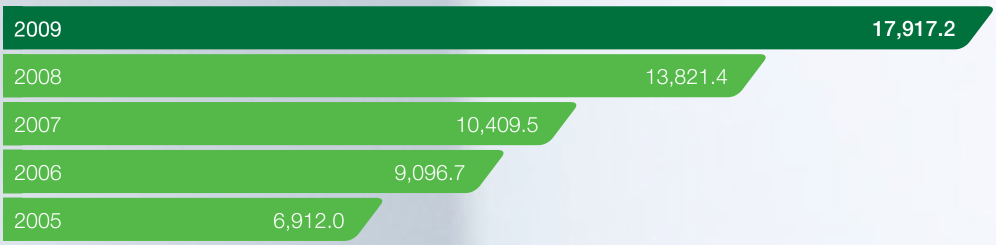
The Savola Group is one of the leading public companies in Saudi Arabia and the region. It is active in four key sectors – foods, retail, plastics and real estate – with operations across a wide spread of territories in the MENA region and Central Asia. In addition, Savola retains significant investments in leading companies and investment funds. The Group employs more than 16,000 employees and has 160,000 shareholders.





2009 HIGHLIGHTS

Revenues SR millions



Net Profits SR millions

Shareholders' Equity SR millions

Total Assets SR millions

30% 2009 growth in the Savola Group turnover

25% 2009 growth in Foods sector sales volumes

31% 2009 growth in Retail sector revenues

84% 2009 growth in Plastics sector net income

The year was marked by exceptional performance across all operating sectors, which together contributed 90 percent of the year's net profit of SR 952 million, compared with net profit of SR 202 million in 2008. Returns from investments were applied to the growth of core activities: foods, retail, and plastics. These sectors have now reached critical mass and become significant profit generators in their own right.

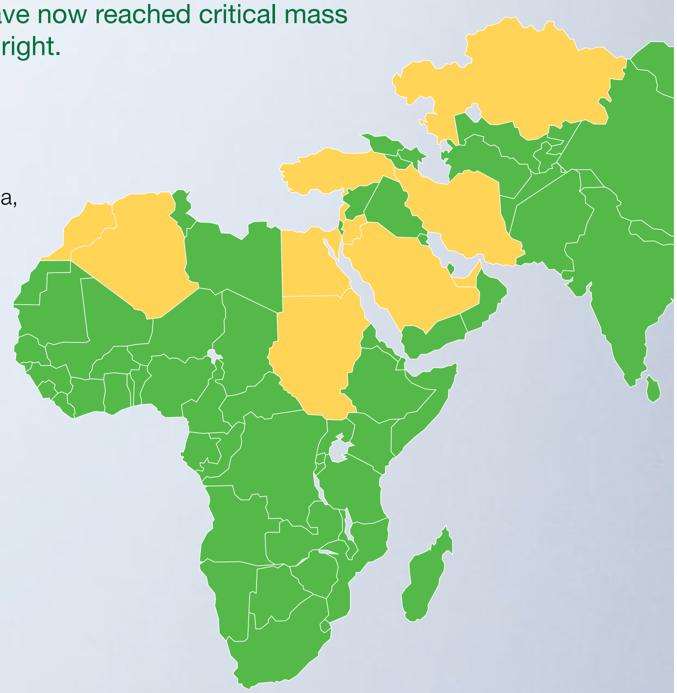
Foods The Group's largest contributor to net income. At SR 400 million, profits have grown by 285 percent over two years. Savola Foods has 12 plants in eight countries, marketing edible oils and sugar to more than 30 countries across the Middle East, North Africa, and Central Asia region.

Retail Following the absorption of Giant Stores and Géant within Saudi Arabia, Panda's regional network of supermarkets and hypermarkets has grown to 152 stores. With eight percent of the grocery food market, Panda is now Saudi Arabia's largest retailer.

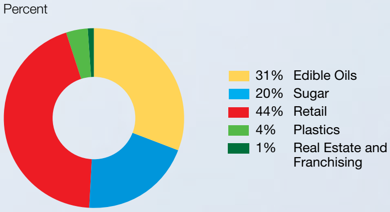
Plastics Consolidated net profit was SR 103 million, up from SR 56 million in 2008. Return on capital employed rose from 10 percent to 17 percent, reinforcing the sector's market leading position.

Real estate Occupancy rates in Kinan's malls rose, and the company embarked on its first residential property development.

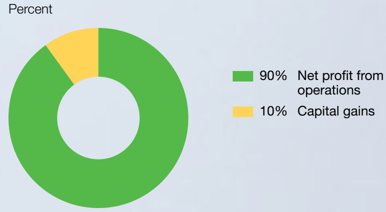
Our focus is to further develop the core sectors, while scaling down reliance on capital gains. Operational activities now generate better returns than external investments and we are less exposed to high levels of fluctuation that often characterize such investments.



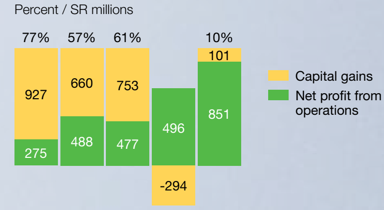
2009 Revenues / sales by sector
Percent



2009 Capital gains to net profit ratio
Percent



Capital gains to net profit ratio
Percent / SR millions



30 YEARS OF GROWTH AND ACHIEVEMENT

A Great Milestone, 1979-2009

Savola began life in 1979 as an edible oils company with SR 40 million capital and 200 employees, importing and refining raw vegetable oils under the name of Saudi Vegetable Oils & Ghee Company. Today, Savola's paid-up capital has grown to SR 5 billion and employees number more than 16,000 around the world.

The early days were inauspicious. Faced with intense competition from the strong presence of multinationals in the Saudi market, the business struggled and very nearly foundered. But the response to development challenges greatly contributed to the company's survival, and its current strong position follows a long journey of efforts by distinguished persons who left no stone unturned to get there. Praise is due to all founders, board members, executives, managers, and employees at all managerial and operational levels for their remarkable contributions to this great enterprise. We take this opportunity to pray for those who have passed away, and express our thanks to the company's past and current management teams.

The early response to adversity was to compete hard and compete intelligently, taking a close look at areas where advantage could be gained. Seeking a competitive edge led to focus on market research and commodity research – at the time virtually unheard of business tools in Saudi Arabia.

By talking to consumers, researching their likes, dislikes, and desires, Savola was able to develop products that matched market demand. The very act of asking consumers about their preferences gave Savola a distinct competitive advantage.

From inception, Savola realized that raw materials account for about 70 percent of end product total cost. Therefore, Savola focused on procuring raw materials based on advanced methods of commodity research that helped in securing better purchase contracts, enhancing Savola's competitive advantages against international companies.

Since then, these principles have been integral to Savola's business management – not only in the original edible oils operation, but in subsequent diversification to additional food products, plastics, retail, and real estate.

Establishing plastics production in 1991 was a natural development for the edible oil business. Having the company's own facilities would ensure continuity of high-quality packaging supply. However, the subsequent development of the packaging industry in the Kingdom meant local plants became more reliable for securing the greater part of the company's needs. Consequently, Savola sold a number of its packaging activities such as corrugated cartons, glass, and tin plate printing. Savola retained the Plastics sector, which has always remained a promising prospect for growth. Over the years, the Plastics sector has grown to be a leading producer in the Kingdom, supplying several industrial businesses in Saudi Arabia and abroad, with Savola off-take now accounting for less than 4.0 percent of its annual production.

Sugar business began in 1994 by establishing a refinery of 500,000 tons annual production in Jeddah, now expanded to over 1.2 million tons with exports and distribution across all GCC countries and the entire Middle East region. The Group has also commissioned a 750,000 ton cane sugar refinery in Egypt, with a second beet sugar refinery under development in Alexandria.

Building on its success in Saudi Arabia, the Foods sector operations expanded to Egypt, Algeria, the Levant, Iran, Morocco, Turkey, Sudan, and Kazakhstan. The sector continues to expand by exploring new regions and adding new products to its range.

Retail operations began in 1998 with the acquisition of the Panda group of stores, specializing in food and groceries. Already running a flourishing food business, Savola could now extend its value chain from production to retail point of purchase. Retail operations grew to 152 stores by the end of 2009. The acquisition of Panda came with a significant real estate component – 10 shopping malls where Panda was the anchor tenant. As retail and real estate are different business propositions, each with its own specialized business drivers, Savola separated the two operations to form a 100 percent-owned Real Estate Division. Kinan International Real Estate Company was subsequently established to own and operate the mall properties, with Savola retaining a 30 percent holding and the balance being taken up by new investors in 2006.

Also part of the Panda takeover in 1998 was the Herfy group of fast-food outlets, of which Savola controls 70 percent, with the balance held by the founder and managing partner. Herfy is now being floated as a publicly listed company, a move that will see Savola retaining a diluted share of 49 percent but realizing more cash for expansion of the Group's principal operating areas.

Al Batool International, established in 2003 and 100 percent owned by Savola, operates retail franchises for international cosmetics and fashion brands, and is another Savola initiative aimed at creating opportunities for young Saudi entrepreneurs to run their own businesses.

Historically, in a period when private equity funds did not exist in the Saudi market, acquisitions and subsequent sale of companies and investments formed a major part of Group activities, contributing significantly to profits through dividend income and capital gains accruing on disposal. But Savola's current focus is on core businesses where it has a large and growing competitive advantage.

Savola sold most of its ancillary or low-income investments to apply the funds to growing its core businesses. It is still seeking to exit other non-core investments at the proper time and price. Savola continues to retain its over 26 percent stake in Al Marai, the Middle East's leading dairy products, fruit juice, and bakery conglomerate, acquired in 1991. Al Marai has proved to be an excellent strategic investment, consistently adding value to the Group over the years.

With 30 years of success and experience across diverse business sectors, Savola is now uniquely positioned for a new phase of organic growth. As a result of this corporate maturity, Savola adopted corporate governance standards in 2004, not only for legal compliance, but as an ethical commitment in keeping with the Group's corporate culture, aiming at enhancing Savola's corporate ethics of Honesty and Accountability (*Amanah*), Conscientiousness (*Taqwa*), Caring Justice (*Birr*), and Personal Control (*Mujahadah*).

Corporate social responsibility is a key part of Savola's management policy, evident through its support for 'Savola Bridges' community service programs. Saudization is a continuing priority, with Saudi nationals comprising a significant and growing proportion of the total workforce, numbering around 5,000 out of the 12,500 employees in Savola and its subsidiaries in the Kingdom. Savola's workforce abroad is over 3,500, with efforts continuing to recruit more young Saudi nationals.

Corporate Culture

The Savola Group adopts a firm corporate culture through its 'Balanced Way' approach, based on time-honored principles and values.

Amanah — *(Honesty and Accountability)* Responsibility towards our shareholders, through maximizing profits and commitment to transparency and disclosure of the company's performance.

Birr — *(Caring Justice)* Responsibility toward colleagues, through developing capabilities, motivation, guidance, and sharing of ideas.

Taqwa — *(Conscientiousness)* Responsibility to our customers and the community at large by providing high-quality products and services at reasonable prices, acknowledging our suppliers' and stakeholders' rights, as well as contributing to the development of communities where we operate through the 'Savola Bridges' CSR programs.

Mujahadah — *(Personal Control)* Mujahadah is the drive within us towards self-improvement and progressively increasing self-discipline, so as to realize our full potential and achieve greater distinction and excellence.

To learn more about Savola's corporate culture, please visit www.savola.com.

CHAIRMAN'S STATEMENT

Dear Shareholders,

It gives me great pleasure to present you with the Savola Group annual report for the year ended December 31, 2009. The year marked the 30th anniversary of Savola's foundation, culminating in a historic milestone of high performance and remarkable achievements.

The year's successes have resulted in Savola achieving a net profit of SR 952 million. Most significantly, more than 85 percent of this was derived from operations, in line with our strategy to reduce our dependence on capital gains as a source of revenue. Our 'Focus and Leverage' strategy is showing very positive benefits as we strive to capitalize on the intrinsic qualities that underpin the Group's success. Savola made such achievements despite the impacts of the global financial crisis and the resultant slump in commodity and raw material prices. The decision to make impairment provisions to our investment portfolio and write down inventories – painful as it was at the time – has proved its value. Our focus on working capital released cash and created liquidity, enabling us to seize opportunities that would not otherwise have been possible.

In line with Savola's long-standing policy, we will distribute 10 percent of the company's share capital as dividends for the year. SR 375 million was distributed as dividends over the first three quarters of 2009, with SR 125 million to be distributed for the fourth quarter subject to your Assembly's approval.

I'm sure such great results are attributable first to God's blessing, and then to our staff's faithful dedication. They are also the fruit of Savola's unique corporate philosophy, inspired by a profound commitment to work culture derived from universal values that are in line with our religion and based on ethics, values, governance, and morality. These principles guide every aspect of Savola's strategic thinking and our day-to-day dealings with all our stakeholders – shareholders, employees, customers, suppliers, and the community at large. This year's annual report includes a section on Savola ethics and values.

Savola's commitment is evident in our corporate responsibility through our 'Savola Bridges', and in our commitment towards our stakeholders and good management through our corporate governance 'Savola Pledges.'

In closing, I take this opportunity to thank the Custodian of the Two Holy Mosques, the Government of the Kingdom of Saudi Arabia, and you, our esteemed shareholders, for your unwavering support and confidence.

Adel M. Fakeih
Chairman

BOARD OF DIRECTORS

(from left to right)

Mr. Mousa O. Al Omran
Board Member

Mr. Yousef M. Alireza
Board Member

Eng. Talal I. Al Maiman
Board Member

Mr. Mohammad A. Al Fadl
Board Member

Eng. Adel M. Fakeih
Chairman of the Board

(from left to right)

Dr. Sami M. Baroum
Managing Director

Dr. Ghassan A. Al Sulaiman
Board Member

Mr. Abdulaziz K. Al Ghufaily
Board Member

Mr. Ibrahim M. Al Issa
Board Member

Dr. Abdullah M. Telmesani
Board Member

Mr. Ammar A. Al Khudairy
Board Member

GROUP MANAGING DIRECTOR'S STATEMENT

Dear Shareholders,

It is my great pleasure to present to you the Savola annual report for the year ended December 31, 2009. This was an outstanding year for the Savola Group, reporting profits from core operations of SR 851 million, with consolidated net profits of SR 952 million. Turnover was up 30 percent to SR 18 billion, and we are now well positioned to meet even higher operational targets during 2010. Among the year's highlights was an 80 percent increase in net income by the Plastics sector, 31 percent revenue growth by the Retail sector trebling of net profit by the Foods sector, the last over two years, and diversification into residential development by the Real Estate sector.

With the help of Almighty Allah, this success is mainly attributable to Savolans' hard work, commitment to our corporate ethics, and to our strategy of 'Focus and Leverage', by which we concentrate on growing our core businesses in foods, retail, packaging, and real estate development, while leveraging our strategic assets in human capital and management expertise.

Historically, the Group has relied heavily on capital gains from investments as a source of revenue. Returns from such investments have been effectively applied to the growth of operational activities such as foods, plastics, and retail. Now these divisions have reached critical mass and are increasingly becoming significant profit generators in their own right. Consequently, our emphasis is focused on further growth in operations, while scaling down the reliance on capital gains. As this process has unfolded, our core operations have developed ample capacity to utilize funds that would previously have been placed in diversified investments. Not only can our core operations now generate better returns than external investments, we also have the advantage of being less exposed to the high levels of fluctuation that often characterize such portfolios.

In concentrating on core businesses, each division has gained significantly more autonomy in decision-making and policy, with Group Headquarters becoming more focused on adding value rather than day-to-day management. As a result, Headquarters staffing has become leaner and more efficient, with a corresponding reduction in management charges to the operating sectors.

The decision to allocate provisions in the fourth quarter of 2008 freed Savola from being burdened with high-cost investments and inventories that may hinder our strategy in exiting secondary activities and low-return investments, and redirecting the resultant cash flows towards the core sectors. Despite the crush in the credit market, Savola managed to expand strongly in its core activities during 2009. In doing so, the Group took advantage of acquiring assets and minority holdings in the main sectors, generating operational cash of SR 2.3 billion (supported by low inventory values after allocating the required provisions), as well as cash of SR 500 million resulting from exiting certain investments such as the stocks portfolio, and the sale and lease-back of the Panda central warehouse. This enabled the Group to re-invest SR 700 million in completing capital expansions so as to increase capacity and open new markets for Panda. A further SR 1.2 billion was invested in acquiring minority shareholdings and assets of competing companies, in addition to distributing dividends of SR 500 million for the year.

Within our sectors, we are rationalizing operations by implementing synergies, such as the introduction of common distribution systems for sugar and edible oils. We have further leveraged the Foods sector by improvements across the full spectrum of the business model, from sourcing to processing and distribution.

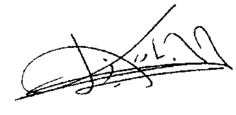
In Retail, the 'value for money' strategy has been very successful – as illustrated by the impressive growth in customer count and revenues. We have also consolidated retail markets through mergers and acquisitions, as with Panda's absorption of Giant Stores and the assets of Saudi Géant within the Kingdom.

Plastics sector benefits from being at the heart of one of the world's largest producers of raw materials and is well placed to build on its 2009 achievements, which included improving the return on capital employed from 10 percent to 17 percent, reinforcing its position in this industry.

In the Real Estate sector, Kinan International grew overall occupancy rates in its malls – some reaching 100 percent – and embarked on its first residential property development.

With the help of Almighty Allah, we will continue to focus on entrenching our competitive position across all sectors, further replacing our reliance on capital gains with revenues from operating divisions where we can leverage our strategic assets, values, and expertise, enabling us to achieve an ideal balance for our shareholders.

I extend my sincere thanks to the Board of Directors for their continued support and strategic guidance, and to the management team for their dedication and efforts, and to all employees inside and outside the Kingdom. We look forward to an even more prosperous and successful 2010.



Sami M. Baroum
Group Managing Director

EXECUTIVE MANAGEMENT BOARD

Dr. Sami Mohsen Baroum
Group Managing Director

PhD in Operations Management and MIS from Indiana University; MBA with distinction from the Wharton School of Business, University of Pennsylvania, USA.

Dr. Mohammad Amin Kashgari
CEO – Retail & Plastics Sectors

PhD and Masters degree in Chemical Engineering at Stanford University, California, USA; Bachelor in Chemical Engineering from KFUPM, Dhahran.

Eng. Zouhair Eloudghiri Lafshoush
CEO – Foods Sector

Masters Degree in Telecommunications from Ecole des Telcom, Paris, and Diploma in Industrial Engineering from Ecole des Mines, France.

Eng. Nidal Abdulmajeed Jamjoom
CEO – Kinan International Real Estate Development

Bachelor in Industrial Engineering, KAAU, Jeddah.

Dr. Mohammad Amin Jefri
President – Franchise Division

PhD and Masters degree in Chemical Engineering, Michigan State University, USA; Bachelor in Chemical Engineering, KFUPM, Dhahran.

Mr. Majed D. Kareem
Chief Financial Officer

Bachelor in Financial Management, King Saud University, Riyadh.

Mr. Mahmoud M. Abdul Ghaffar
Senior Vice President – Corporate Affairs & Board Secretary

Bachelor in Industrial Safety & Security, San Francisco University, USA.

Mr. Nafez Al Morhabi
Chief Investment Officer

MBA in Finance & Accounting, University of Lancaster, UK; Bachelor in Business Administration.

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Board of Directors’ Report

The Board of the Savola Group has the honor to present your annual report for the year ended December 31, 2009. This annual report reflects the overall performance of the Group, its subsidiaries within Saudi Arabia and abroad, as well as companies not managed by the Group. It also addresses social programs, industry best practice, and requirements of corporate governance and other relevant regulations issued by the Capital Market Authority and the Ministry of Commerce and Industry. It includes the Directors’ Report, together with the Audited Financial Statements, related notes, and the Auditors’ Report for the year ended 31 December 2009.

BOARD OF DIRECTORS' REPORT

1. Economic Environment

Despite the financial crisis and the ensuing slowdown in the global economy, Saudi Arabia's economy grew by about 1.0 percent in 2009, compared with about 4.3 percent in 2008, according to estimates by investment banks. This growth is attributable to continued government expenditure in all service and infrastructure sectors. The government has approved the largest budget on record for 2010 to accelerate economic growth and foster job creation. With this massive spending program, the economy is projected to grow by about 3.0 percent in 2010. Some economists are predicting even higher growth of close to 4.0 percent as a result of government spending and continuing demand for oil. Bank economists generally agree that Saudi Arabia has managed to weather the global economic downturn and that the short-term outlook remains positive.

The public sector remains Saudi Arabia's engine of investment, though the private sector's contribution is constantly growing with the Kingdom's progress in implementing its strategy plan and accelerating large investments in hydrocarbons. The continued population growth, as well as the high percentage of youths in the population, is expected to sustain the strong demand for housing. Retail activity also showed signs of renewed vigor, according to the Saudi Arabian Monetary Agency.

These promising economic conditions in sectors where Savola operates are conducive to our continued growth in 2010.

2. Summary Review of 2009

Financial Highlights

- Sales and revenues grow by 30 percent to reach SR 18 billion
- Cash flow from operations reaches SR 2.3 billion
- Net profit for 2009 reaches SR 952 million, compared to SR 202 million the previous year
- Group profitability from core activities before capital gains is three times that of three years ago
- Dividend maintained at 10 percent of Group share capital
- Continuation of buyout of minorities in managed companies

Operational Highlights

- 25 percent growth in Foods sector volumes
- Mergers and acquisitions activities contribute to 34 percent growth in Retail sector floor space to 425,000 m²
- 37 percent growth in retail customer count to 74 million
- Real Estate sector expands into residential property
- 55 percent growth in Plastics sector operational cash flow

2010 Forecast

- Savola announces its 2010 financial projections for its key sectors for the first time
- Savola forecasts 2010 profits excluding capital gains and exceptional items at SR 920 million

The year was marked by exceptional performance across all operating sectors, which together contributed 85 percent of the year's net profit of SR 952 million, compared with net profit of SR 202 million in the previous year. The 2008 results were affected by making provisions for declined fair value of investments and provisions for inventory re-evaluation due to the drop in raw material prices in the fourth quarter of 2008.

The 2009 net profit from operations is the highest in the Savola Group's history, exceeding SR 851 million before capital gains. Savola announced earlier last year that it was projecting net profits excluding capital gains of SR 800 million in 2009. This forecast was increased to SR 846 million at the beginning of the fourth quarter of 2009.

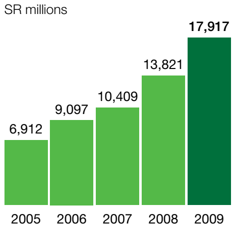
The Foods sector was the biggest single contributor at more than SR 400 million net profit. Plastics yielded over SR 100 million and the Retail sector SR 85 million. The latter figure is after accounting for heavy investment in infrastructure and expansion, and post-merger integration costs relating to the Saudi operations of Géant Stores. The sector can be expected to grow substantially as economies of scale take effect. Already, it is the second largest food and grocery retail chain in the Middle East and market leader in Saudi Arabia, holding 8.5 percent market share at the end of 2009.

The following is a summary of the 2009 financial results, with comparisons to the previous year:

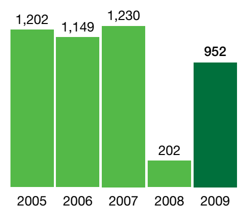
a) **Financial performance, 2008-09**
Refer to table 2-a opposite.

b) **Analysis of revenues**
Refer to table 2-b opposite.

Revenues
SR millions



Net income
SR millions



Revenues / sales by sector
Percent

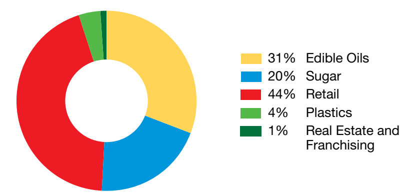


Table 2-a: Consolidated Income Statement

SR thousands (except where indicated)	2009	2008	Variance	Variance %
Revenues – net	17,917,202	13,821,377	4,095,825	30%
Cost of revenue	(14,809,887)	(12,007,054)	(2,802,833)	23%
Gross profit	3,107,315	1,814,323	1,292,992	71%
Share of profits (loss) of associates and jointly controlled entity, and dividend income	352,799	335,174	17,625	5%
Other income – net	79,877	110,526	(30,649)	-28%
Total income	3,539,991	2,260,023	1,279,968	57%
Selling and Marketing	(1,490,920)	(1,123,033)	(367,887)	33%
General and Administrative	(671,437)	(465,491)	(205,946)	44%
Total expenses	(2,162,357)	(1,588,524)	(573,833)	36%
Income (loss) from operations	1,377,634	671,499	706,135	105%
Gain (loss) on disposal of investments	318,116	147,980	170,136	115%
Impairment of Assets & Projects written off	(221,596)	(442,406)	220,810	-50%
Financial charges – net	(227,337)	(153,658)	(73,679)	48%
Income (loss) before Zakat and income tax and minority interests	1,246,817	223,415	1,023,402	458%
Zakat and income tax	(63,323)	(53,387)	(9,936)	19%
Net income before minority interests	1,183,494	170,028	1,013,466	596%
Share of minority interests in the net income (loss) of consolidated subsidiaries	(231,929)	32,330	(264,259)	-817%
Net income	951,565	202,358	749,207	370%

Table 2-b: Geographical Analysis of Revenues, SR thousands

Sector	Country	Products/Brands	2009	2008
Edible Oils	Saudi Arabia, GCC, Yemen	Afia, Arabi Olite, Almaida, Shams	1,512,748	1,764,228
	Egypt	Rawabi, Afia, Ganna, Slite, Helwa	893,005	1,261,191
	Iran	Laden, Aftab, Afiat, Bahar	1,804,629	-
	Kazakhstan	Lito, Gloria, Minola	158,370	143,101
	Sudan	Alarabi, Shams, Safaa, Al Taeb, Sabah, Sudani	211,389	229,825
	Morocco	Afia, Hala,	378,656	368,587
	Turkey	Yudum, Sirma	583,453	761,111
	Algeria	Afia	221,724	30,060
	Intercompany sales		(42,544)	(621)
	Total		5,721,379	4,557,482
Sugar	Saudi Arabia, GCC, Yemen	Al Osra, Ziadah, Nawaem, Safaa, Nehar	2,506,785	2,117,112
	Egypt (USCE)	Al Osra	1,108,820	344,949
	Total		3,615,606	2,462,061
Plastics	Saudi Arabia	Variety of products as requested by clients	644,332	633,995
	Egypt	Variety of products as requested by clients	105,110	137,448
	Total		749,442	771,443
Retail	Saudi Arabia	Panda, HyperPanda	6,733,809	5,194,744
	UAE (Dubai)	HyperPanda	328,748	350,112
	Lebanon		293,870	69,481
	Herfy Sales	Herfy, Herfy Restaurants, Herfy Products	517,594	466,464
	Total		7,874,021	6,080,801
Real estate	Saudi Arabia	Kinan International	97,749	39,230
Franchising	Saudi Arabia	Bonia, Jacqueline Riu, Yves Rocher, Tom Tailor	43,623	37,537
Total revenues			18,101,820	13,948,554
Intercompany sales			(184,618)	(127,177)
Total revenues / sales			17,917,202	13,821,377

Note: For Iran, total 2009 sales were SR 2.2 billion. The figure SR 1.8 billion represents consolidated results from 1st April to the end of 2009.

c) **Consolidated income statement, five-year comparison**

Income statement for the 2009 financial year, including sales, costs, gross profits and expenditures compared with the four previous years. Refer to table 2-c opposite. (For more detail, refer to financial statements and accompanying notes.)

d) **Consolidated balance sheet, five-year comparison**

Financial position statement for 2009, highlighting assets, liabilities, and shareholders' equity compared with the four previous years. Refer to table 2-d opposite. (For more detail, refer to the financial statements and accompanying notes.)

3. Dividends Policy

In line with the company's Articles of Association, Savola Group's dividends policy mandates:

– Allocating 10 percent of net profits to statutory reserves. The General Assembly meeting is authorized to maintain this allocation once the reserve is equal to half the capital.

– Of the remaining net profits, a first payment at 5.0 percent of paid-up capital is distributed to shareholders.

– 7.5 percent of the balance is allocated as remuneration for Board of Directors member.

– The balance is then distributed to shareholders as additional dividends.

In view of the above policy, the Group distributes quarterly cash dividends to shareholders at 10 percent of its share capital. In practice, the dividends distributed and to be distributed during 2009 amounted to SR 500 million at a rate of 1 riyal per share. The Group will continue to apply this policy in 2010 unless there are material changes to financial projections for the year. The Board of Directors specifies the date of entitlement to such dividends, announced through the Tadawul stock exchange screen and local newspapers in accordance with the regulations.

As for remuneration of Board members' annual bonuses mentioned above, the Group complies with Ministerial Resolution No 1071 dated 1412 AH, specifying a ceiling not exceeding SR 200,000 per member.

4. 2010 Financial Projections, by Sector

The Group projects net profit of SR 920 million in 2010 and net profit of SR 150 million for the first quarter of 2010, excluding capital gains, including the Herfy public offering gain estimated at SR 200 million. Main sector and Group profits for 2010 are expected to be:

SR millions	2009	2010
Foods sector	400	450
Retail sector	84	190
Plastics sector	103	120
Group (before capital gains)	851	920

5. Long- and Short-Term Loans

The Group has always striven to adopt Shari'ah-compliant processes in all its financial transactions, especially in its borrowing policies. All loans and deposits within Saudi Arabia are Shari'ah-compliant. Long- and short-term loans outstanding at the end of 2009 are:

a) **Long-term loans as at 31 December 2009**

Refer to table 5-a on page 20.

b) **Long-term loan repayment schedule as at 31 December 2009**

Refer to table 5-b on page 20.

c) **Short-term loans with commercial banks, repayable within one year**

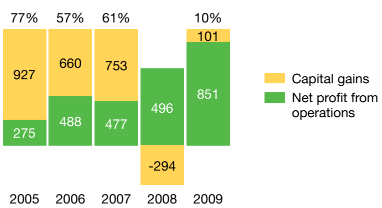
Refer to table 5-c on page 20.

d) **Payments made to the Government, 2009 Summary**

Table 5-d on page 20 shows a comparison of legal payments due for governmental regulatory and control authorities. (Legal payments shown represent the consolidated amounts of the Savola Group and its subsidiaries inside the Kingdom and overseas.)

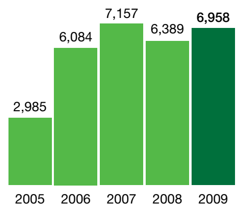
Capital gains to net profit ratio

Percent / SR millions



Shareholders' equity

SR millions



2010 financial projections for main sectors

SR millions

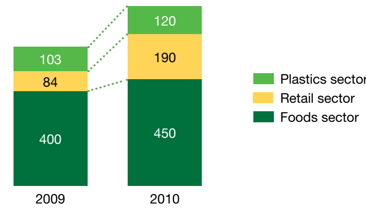


Table 2-c: Consolidated Income Statement, Five-year Comparison

SR thousands	2009	2008	2007	2006	2005
Revenues – net	**17,917,202**	13,821,377	10,409,530	9,096,687	6,912,030
Cost of sales	**(14,809,887)**	(12,007,054)	(8,705,859)	(7,553,330)	(5,700,362)
Gross profit	**3,107,315**	1,814,323	1,703,671	1,543,357	1,211,668
Share of profits (loss) of associates and jointly controlled entity and dividend income – net	**352,799**	335,174	243,753	181,607	171,707
Other income – net	**79,877**	110,526	82,057	97,824	57,780
Total income	**3,539,991**	2,260,023	2,029,481	1,822,788	1,441,155
Selling and Marketing	**(1,490,920)**	(1,123,033)	(839,516)	(719,220)	(553,023)
General and Administrative	**(671,437)**	(465,491)	(456,794)	(345,166)	(352,869)
Total expenses	**(2,162,357)**	(1,588,524)	(1,296,310)	(1,064,386)	(905,892)
Income (loss) from Operations	**1,377,634**	671,499	733,171	758,402	535,263
Gain (loss) on Disposal of Investments	**318,116**	147,980	863,982	659,755	927,157
Impairment of Assets & Projects Written-off	**(221,596)**	(442,406)	(110,482)	-	-
Financial charges – net	**(227,337)**	(153,658)	(33,326)	(71,454)	(91,432)
Income (loss) before Zakat and income tax and minority interests	**1,246,817**	223,415	1,453,345	1,346,703	1,370,988
Zakat and income tax	**(63,323)**	(53,387)	(115,463)	(45,677)	(30,780)
Net income before minority interests	**1,183,494**	170,028	1,337,882	1,301,026	1,340,208
Share of minority interests in the net income (loss) of consolidated subsidiaries	**(231,929)**	32,330	(107,858)	(152,438)	(138,034)
Net income	**951,565**	202,358	1,230,024	1,148,588	1,202,174

Table 2-d: Consolidated Balance Sheet, Five-year Comparison

SR thousands	2009	2008	2007	2006	2005
Current assets (A)	**5,633,507**	4,764,430	3,711,339	5,854,016	2,943,605
Current liabilities (B)	**6,316,032**	6,001,606	3,138,566	3,629,595	3,279,015
Working capital (C=A–B)	**(682,525)**	(1,237,176)	572,773	2,224,421	(335,410)
Current assets	**5,633,507**	4,764,430	3,711,339	5,854,016	2,943,605
Other non-current assets	**6,086,256**	5,525,059	4,364,864	2,436,585	1,256,054
Property, plant and equipment (fixed assets)	**5,536,761**	4,250,663	3,513,801	2,984,402	3,917,612
Total assets	**17,256,524**	14,540,152	11,590,004	11,275,003	8,117,271
Current liabilities	**6,316,032**	6,001,606	3,138,566	3,629,595	3,279,015
Long-term loans	**1,996,202**	1,117,136	456,540	560,051	941,652
Other liabilities	**418,979**	284,730	222,221	210,275	250,528
Total liabilities	**8,731,213**	7,403,472	3,817,327	4,399,921	4,471,195
Paid-up capital	**5,000,000**	5,000,000	3,750,000	3,750,000	1,500,000
Retained earnings and reserves	**1,958,028**	1,389,165	3,406,901	2,333,549	1,485,113
Shareholders' equity	**6,958,028**	6,389,165	7,156,901	6,083,549	2,985,113
Minority interests	**1,567,283**	747,515	615,776	791,533	660,963
Total liabilities and shareholders' equity	**17,256,524**	14,540,152	11,590,004	11,275,003	8,117,271

Table 5-a: Long-term Loans, as at 31 December 2009

SR thousands	Banks / Others	2009	2008
Saudi Industrial Development Fund (SIDF)			
United Sugar Co.	Saudi Industrial Development Fund	-	6,125
Herfy Food Services Co.	Saudi Industrial Development Fund	10,639	13,079
Savola Packaging Systems Co.	Saudi Industrial Development Fund	10,495	12,945
Total (A)		21,134	32,239
Commercial banks			
The Savola Group	Saudi Fransi	1,131,250	300,000
Al Azizia Panda United Co.	NCB	240,000	-
Afia International Co.	Samba, NCB, Al Rajhi Bank, European, Egyptian and Turkish banks	852,566	465,140
Savola Foods Emerging Markets Co.	Moroccan, Sudanese, Algerian and European banks	40,774	51,268
Herfy Food Services Co.	ANB	7,500	16,875
United Sugar Co.	Samba, Commercial Intl Bank, Egypt	494,343	382,713
Savola Packaging Systems Co.	SABB, Credit Agricole Bank, Egypt	3,723	8,540
Total commercial banks (B)		2,770,157	1,224,536
Total long-term debt (A+B)		2,791,291	1,256,775
Less current portion:			
SIDF		(6,250)	(11,165)
Commercial banks		(788,839)	(128,476)
Long-term debt		1,996,201	1,117,134

Table 5-b: Long-term Loans Repayment Schedule, as at 31 December 2009

SR thousands	Savola Group	Afia International	Herfy Food Services	Savola Packaging Systems	United Sugar Company	Savola Foods	Al Azizia Panda United	2009 Total	2008 Total
2010	205,000	411,955	8,800	5,316	124,974	3,684	35,360	795,089	818,562
2011	926,250	222,191	7,100	2,807	209,410	8,278	80,000	1,456,036	132,984
2012	0	111,532	2,239	3,400	61,520	9,044	80,000	267,735	126,887
2013	0	101,407	0	2,695	61,520	9,044	44,640	219,306	23,985
2014	0	4,327	0	0	36,919	9,044	0	50,290	13,564
2015	0	1,154	0	0	0	1,681	0	2,835	1,154
Total	1,131,250	852,566	18,139	14,218	494,343	40,775	240,000	2,791,291	1,256,777

Table 5-c: Short-term Loans with Commercial Banks Repayable Within One Year

SR thousands	Banks / Others	2009	2008
The Savola Group	SABB, Bank Aljazira, Saudi Fransi, Al Rajhi Bank	615,191	1,162,954
Afia International Co.	Islamic Dev. Bank, Al Rajhi Bank, NCB, SABB, Samba and European, Egyptian and Turkish banks	670,326	1,052,866
Savola Foods Emerging Markets Co.	Islamic Dev. Bank, Moroccan, Sudanese, Algerian and European banks	196,956	245,502
Al Azizia Panda United Co.	NCB	-	126,967
Savola Packaging Systems Co.	SABB, Abu Dhabi Bank in Egypt	302,580	143,960
United Sugar Co.	Islamic Dev. Bank, Samba, SABB, Commercial Intl Bank, Egypt	407,129	526,318
Batool International Co. (Franchising)	SABB	34,999	34,999
Total		2,227,181	3,293,566

Table 5-d: Payments Made to the Government, 2009 Summary

SR thousands	2009	2008
Customs Duties	279,050	128,758
Zakat and Income Tax	58,984	23,241
GOSI (for KSA) and social insurance (for outside KSA)	80,732	55,996
Visa and Government fees	18,348	12,114
Other duties and Government levies	97,440	13,343
Total	534,555	233,542

6. **Performance Review by Sector**

6.1 **Foods**

Savola Foods owns and operates 12 plants across 8 countries, from Morocco to Kazakhstan. Edible oils and sugar are sold in more than 30 countries across the Middle East, North Africa, and Central Asia region.

Savola Foods, which manages operations in this sector, is 90 percent owned and totally controlled by the Savola Group.

The sector recorded major achievements in 2009, in operations as well as mergers and acquisitions. Notable among these was a 25 percent year-on-year growth in sales volumes, contributing to the company's remarkable results by the end of the year. Total volumes reached more than 3.0 million tons, with profits of SR 400 million, compared to SR 1 million last year and almost triple the 2007 figure of SR 140 million. (The Food sector's depressed results in 2008 were attributable to exceptional provisions made by the Group to meet falling inventory prices, coinciding with the collapse in the financial markets.)

After the previous year's extreme volatility in edible oil prices, 2009 saw a return to relative stability. This helped Savola Foods to concentrate on improving business fundamentals such as product support through accurate distribution, improved packaging design and quality, and the relaunch of several brands.

Sugar prices, however, were the subject of 2009 volatility, generally with an upward trend. This imposed tremendous pressure on the Egyptian business in particular. Elsewhere, Algeria Oil secured a 24 percent market share after only one year of operations. In Sudan and Kazakhstan, new capacity was exploited.

Looking ahead to 2010, Savola Foods will focus on business-to-business opportunities, potentially a field with vast potential that has yet to be developed. Acquisition efforts to enter Pakistan's large oil market are continuing to build up our capacity. Pasta production is also scheduled to begin in factories of Afia International Company in Egypt by early 2011.

To equip Savola Foods to manage its continuing growth, the company provides continuing training for its staff at all levels – from entry to top management – in the business skills needed to deliver top-quality performance. During 2009, six training courses were attended by more than 120 managers from all business units – essential preparation in building a successful multinational company.

6.1.1 **Edible Oils**

a) **Afia International Company** (Arabia and Levant)

Savola Foods holds a 95 percent controlling stake in Afia International. The Afia plant in Jeddah supplies markets in Saudi Arabia, the Gulf states, Yemen, and Levant countries. Sales revenue for the total region was SR 1.5 billion in 2009 – up 15 percent on the previous year, while volume grew by 12 percent. Net profit for Saudi Arabia rose to SR 226 million, compared to SR 56.6 million in 2008 when results were affected by losses resulting from decreased value of inventory and making appropriate provisions. However, the company managed to recover a large part of these provisions in 2009.

Major profit achievements were also reported by the Gulf and Levant Afia teams. Afia Gulf recorded a profit of SR 22 million, while Levant recorded SR 5 million. The regional relaunch of *Afia* brand took place in Saudi Arabia and the other GCC states, introducing new packaging and an improved visual concept. *Al-Arabi* brand was relaunched on the same principles in Saudi Arabia. During 2009, both brands demonstrated their value to Savola: major assets that enjoy strong brand equity and consumer loyalty, as evidenced by their continued growth in market share, with *Afia* being ranked the region's top FMCG Arab brand by *Forbes* magazine.

Afia International (KSA based) owns edible oil operations in Iran, Egypt, Turkey, and Kazakhstan. Detailed performance of Afia International subsidiaries follows:

a-1) **Savola Behshahr Company** (Iran)

Following the recent buy-out of minority partners, Afia International Company now holds 80 percent of Savola Behshahr Company. As a result of this acquisition, the company began consolidating its results from April 2009. Savola Behshahr owns and operates three plants in Iran: Behshahr Industrial Company, Margarine Manufacturing Company, and Behshahr Arvand. Total sales revenue reached SR 2.4 billion in 2009. Net profit from Savola Behshar grew to SR 276 million, compared to SR 185.8 million the previous year. The increase in net profit was due to marking down the value of its inventory of raw materials in 2008 to market value and hence recording a higher profit margin in 2009. The *Ladan* oil brand was relaunched with new packaging and an improved visual concept, receiving several quality awards, while Savola's entire Iranian operations were recognized with the receipt of the high-profile *Consumers' Rights Supporter* award.


Afia
PURE GOLD
LADAN
Rawaby
YUDUM
MISIR YAĞI
Sabah

a-2) **Afia International** (Egypt)

Following the acquisition of minority interests in 2009, Afia International Company in Egypt is now 99.8 percent owned by Afia International Company, compared with 90 percent held last year. The company leads the Egyptian edible oils retail market with 42 percent market share, driven by the premium brands *Rawaby, Afia, Ganna,* and *Helwa*. During 2009, new packaging was launched for ghee products – special pouches in sizes designed for low-income consumers – providing *Rawaby* and *Ganna* quality at the same price as bulk ghee. Savola has pioneered this market innovation, which delivers great value and is proving exceptionally popular with consumers. Egypt also saw the launch of cocoa butter substitute, a highly specialized fat for use in confectionery, biscuits, and ice cream. The company's net profit amounted to SR 25 million, compared to SR 82.7 million the previous year. Lower profits for the year are due to the increase in the government subsidized market and the corresponding downturn in the unsubsidized market where Savola operates.

a-3) **Yudum Edible Oil Company** (Turkey)

Yudum is 100 percent owned by Afia International Company and operates an edible oil manufacturing plant in Ayvalık, Turkey. It supplies the Turkish edible oils consumer market with two leading brands – *Yudum* (18 percent market share for sunflower and 9 percent for corn oils) and *Sirma* (15 percent market share in the corn oil segment). The company also exports its olive oil brands *Cielo* and *Brillo* to the Far East. Revenues were SR 583 million in 2009 on volume of 93,000 tons. Profit for the year amounted to SR 6 million, compared with SR 0.3 million in 2008 when low profits were largely due to the sharp decline in raw material prices and lower exchange rates of the Turkish lira against the US dollar.

Yudum Corn was launched during 2009 as an extension of *Yudum Sunflower*, and within a few months had taken second position in the corn segment of the market.

a-4) **TEOI** (Kazakhstan)

Turkuaze Edible Oils (TEOI) is 95 percent owned by Afia International Company and captured substantial market share before being adversely affected by the dumping of Russian products. Volumes in 2009 grew by 60 percent against 2008 figures, but an overall loss of SR 20 million was recorded as a result of the dumping and the price war which ensued.

b) **Savola Foods Emerging Markets Company**

Savola Foods Emerging Markets Company is a 95.4 percent subsidiary of Savola Foods Company, and owns edible oil operations in Morocco, Sudan, and Algeria. Performance details of the company's subsidiaries are:

b-1) **Savola Morocco**

Savola Morocco is 100 percent owned by Savola Foods Emerging Market Company. During 2009, Afia's market share grew with a brand building drive, better distribution, and with *Afia* positioned as the mainstream brand and *Hala* as the low-tier counterpart.

A significant increase in distribution reach during the year helped grow revenues and profits. Volume increased by 39 percent to reach 83,000 tons, while the net loss of SR 25 million in 2008 was turned into a SR 16 million profit. One of the key causes for the loss recorded in 2008 was the drop in raw material prices during the final quarter, leading to a sharp decline in margins on the company's high-value inventory.

b-2) **Savola Sudan**

Savola Edible Oils Sudan Company, 100 percent owned by Savola Foods Emerging Market Company, entered its fourth year of operation, recording 23 percent volume growth to 37,000 tons and yielding a profit of SR 6 million, compared to a loss of SR 30.6 million the previous year. The company's mainstream brand, *Sabah*, enjoys a very favorable response from trade and consumers, especially because of the long-term strategy to switch Sudanese consumers to packaged, safer, and healthier branded oils. Savola's pioneering initiative in launching the *Sabah* pouch in 2009 addresses the needs of many consumers who buy in small quantities. Future growth will be boosted by improved distribution reach, using a set of distributors exclusively managed by Savola and responsible for local execution. Further production cost optimization will flow from conclusion of an agreement with the Sudanese government to enter into a new sunflower seeds crushing venture.

b-3) **Afia International Algeria**

Afia International Algeria is 100 percent owned by Savola Foods Emerging Markets and began its commercial operations in October 2008. In its first full year of operation, it took advantage of plant capacity of 200,000 tons to secure a 24 percent market share. The Oran-based plant in the west of Algeria is capable of supplying up to 40 percent of total market demand, and is now on track to reach optimum production and elevate Afia International Algeria to market leadership. *Afia* is the flagship brand in Savola's Algerian market entry, with the launch backed by a large marketing campaign. Revenues for 2009 reached SR 221 million, but heavy start-up costs meant that losses of SR 26 million were incurred, compared to a loss of SR 43 million the previous year.

United Sugar signed an MOU with the UK's Tate & Lyle to acquire its 9.69 percent interest in United Sugar and its 3.58 percent in United Sugar Company of Egypt. This is in line with Savola's strategy of focusing on core businesses while leveraging its strategic assets in these subsidiaries inside the Kingdom and overseas.

The Egyptian business began operating in 2008 with a new 750,000 ton sugar refinery at Ain Al Sokhna port, more than doubling volume in 2009 to 575,000 tons.

6.1.2 **Sugar**

a) **United Sugar Company**
(Saudi Arabia and export)

United Sugar Company operates from the Jeddah Islamic Port and is 65 percent owned by Savola Industrial Investments Company, which is 95 percent owned by Savola Foods Company. United Sugar operates the third largest sugar refinery in the world, with annual production capacity of more than 1.2 million tons. The company has built a strong marketing base in the Middle East on its core brands – *Al Osra* and *Ziadah* – with 68 percent market share in Saudi Arabia. In 2009 the *Al Osra* brand was relaunched in Saudi Arabia with a new design concept and improved packaging. Sales volume was 100 percent of capacity in 2009, with exports accounting for 400,000 tons. Net profits amounted to SR 235 million against a net loss of SR 5 million in 2008 when results included financial provisions against the revaluation of open positions in the international sugar markets, most of which were recovered this year with the international increase in sugar prices.

Profits in 2009 included the results of United Sugar Company of Egypt, which is 53.3 percent owned by United Sugar. The company also signed an MOU with the UK's Tate & Lyle to acquire its 9.69 percent interest in United Sugar and its 3.58 percent in United Sugar Company of Egypt. This is in line with Savola's strategy of focusing on core businesses while leveraging its strategic assets in these subsidiaries inside the Kingdom and overseas.

b) **United Sugar Company of Egypt**

United Sugar Company of Egypt is a 53.3 percent owned subsidiary of United Sugar Company. The Savola Group also has a direct 18.8 percent holding in the company. The Egyptian business began operating in 2008 with a new 750,000 ton sugar refinery at Ain Al Sokhna port, more than doubling volume in 2009 to 575,000 tons. Revenues for the year were SR 1.1 billion. Results showed a SR 38 million profit, against a loss of SR 194 million in 2008 due to start-up costs and provisions against fluctuating raw material prices. The 2009 financial year marked a break-even point for the company, with profits attributed to partial recovery of the provisions made in 2008. Egyptian potential for cubed sugar led to the launch of *Al Osra* sugar cubes, complementing the company's range of granulated sugars. Availability of cubed sugar in Egypt is limited and Savola's new line will help grow the segment and capture market share. *Al Osra* also launched a range of 'basboosa' and cake mixes that give consumers an easy-to-use, high-quality product for preparing sweets. *Al Osra* know-how has been effective in creating a taste profile that surpasses competitors, as shown by extensive product development and consumer testing.

c) **Alexandria Sugar Company**

Alexandria Sugar Company is Savola's first sugar project using beet as its key input raw material. The company will produce white sugar from domestically grown sugar beet, operating at a refinery capacity of 180,000 tons of white sugar, which also yields 60,000 tons of molasses and 60,000 tons of animal fodder in beet pulp. Alexandria Sugar was established during 2008 and is now well advanced with plans to secure its beet needs, having entered into partnership with local producers. Crushing operations are scheduled to begin in 2012.

68%

Al Osra and *Ziadah* sugar brands' market share in Saudi Arabia

6.2 **Retail**

Savola holds 80 percent of Azizia Panda United Co (Panda), with the remaining 20 percent owned by Al-Muhaideb Group. In 2010 it is expected that 7.0 percent of the company's equity will be transferred to Géant Saudi Arabia, a subsidiary of Fawaz Al Hokair Group, reducing Savola's shareholding to 74.4 percent and Al-Muhaideb's holding to 18.6 percent as stipulated in the agreement with Saudi Géant. Panda currently operates 117 supermarkets and 35 hypermarkets in Saudi Arabia, Dubai, Qatar, and Lebanon, making it the regional leader in food and grocery retailing. Following the acquisition of Giant Stores in 2008, 19 Giant outlets were successfully integrated in 2009 into the Panda retail operation. During the fourth quarter of 2009, another acquisition took place and 10 Géant stores were successfully converted to the Panda format.

During 2009, Panda achieved 31 percent sales growth, up to SR 7.3 billion from SR 5.6 billion in 2008, building on a 30-year journey of success in the retail industry. The company made net profits of SR 85 million, compared with SR 96.4 million the previous year. This drop in profits was the result of provisions of SR 50 million made against slow-moving goods as a result of merging with Saudi Géant and Giant Stores, as well as an amount of SR 31 million, being start-up costs related to Géant Stores that had been closed prior to its acquisition by Savola, so as to be re-opened during the last three months of 2009.

Panda grew its total retail floor space to 425,000 m^2, a 34 percent increase over 2008, thanks to opening 20 new stores comprising 12 hypermarkets and eight supermarkets (including the 10 acquired Géant stores).

This was accompanied by a 37 percent increase in Panda customers to 74 million during 2009. In customer surveys, Panda came first in every city where it operates in terms of quality and service.

Panda currently holds 8 percent of the grocery food market and 25 percent of the modern supermarket sector in Saudi Arabia, making it the Kingdom's largest retailer. It is aiming for 9.5 percent market share by the end of 2010. The company plans to open five new hypermarkets and seven supermarkets in 2010.

Part of Panda's growth strategy is to develop its private label lines. Private label coverage was extended in 2009 to include categories such as beverages, sweet and savory groceries, frozen food, non-food items such as kitchen and cleaning products, and general merchandise including garden tools. Supply chain enhancement saw work begin on adding 20,000 m^2 to the Riyadh Central Warehouse. This will bring the total built area to 92,500 m^2 by the last quarter of 2010. The state-of-the-art warehouse completed in 2008 includes separate controlled temperature sections to suit the storage needs for various types of foods – fresh, dry, chilled, and frozen products – servicing all Panda stores in Saudi Arabia.

A range rationalization exercise was conducted on all stock categories, resulting in the removal of non-performing items without compromising customers' needs. By consolidating volumes to fewer brands, customers in fact benefited from a better value offering. To further improve value and on-shelf availability, auto-replenishment was introduced in all stores, trimming the cost of holding unnecessary inventory, with the resultant savings passed on to customers. The company sold its central warehouse in Riyadh for SR 299 million, and leased it back for an 18-year period renewable for a further seven years.

This move is in line with the company's plans to sell its low yielding assets and re-rent them, increasing return on assets and investing the resultant liquidity in expanding the core businesses.

Panda, in collaboration with the Technical & Vocational Training Organization, launched the Saudi Retail Institute with the aim of training and providing jobs for 10,000 young Saudis in Panda's outlets over a three-year period.

The sector was supportive and active in its Corporate Social Responsibility activities, launching many programs that support the community. One of the most important is 'Leave the Change for Them', which completed its second successive year and is scheduled to continue during 2010. This program encourages the millions of Panda customers to donate their small change to the Disabled Children's Society. Other programs in 2009 were: the Gaza donations and support campaign, polio vaccination (in coordination with the Ministry of Health), a blood donation campaign, and the relief and donations campaign for Jeddah flood victims. Panda also ceased selling cigarettes and tobacco products in all its outlets in Saudi Arabia as part of its efforts to promote a healthy life style. Panda won many awards during 2009, such as *Sixth-fastest Growing Company in the Kingdom* and *Company with the Best Work Environment.*

Key objectives for 2010 are to accelerate Panda's leadership, continue organic expansion in the Kingdom, and realize economies of scale to improve gross margins by negotiating better terms with suppliers – passing on the benefits to enhance customer value. In doing so, the challenges are to maintain growth in sales and customer count and complete the integration of recently acquired stores.

37%

2009 growth in retail customer count to 74 million

Savola Plastics is currently the leading PET producer in the GCC, as well as exporting to 27 countries. Major customers are in the MENA region.

Plastics sector recorded positive results in 2009. Consolidated net profits of sector companies amounted to SR 103 million, compared with SR 56 million in 2008.

6.3 **Plastics**

Savola Plastics is a major regional producer of rigid and flexible plastic packaging. The Savola Group owns 100 percent of Savola Packaging Systems Company (based in Jeddah), 93 percent of Al Sharq Plastic (Riyadh), and 100 percent of Marina Plast (Alexandria, Egypt). It has two factories in Jeddah, two in Riyadh, and two in Alexandria, Egypt.

The company supplies containers and closures for water and soft drinks, edible oil, health and personal care products, cleaning materials, lubricants, and others. Film production includes retail and household bags.

Savola Plastics is currently the leading PET producer in the GCC, as well as exporting to 27 countries. Major customers are in the MENA region, with Sri Lanka and Palestine added as new export markets during the year.

Plastics sector delivered record results in 2009. Consolidated net profits of sector companies amounted to SR 103 million, compared with SR 56 million in 2008. The company's 2009 sales reached SR 749 million, with plans to achieve a net profit of SR 120 million in 2010. Plastics sector has expanded its product range with the introduction in 2009 of several new sizes of PET pre-forms (extensively used in bottling and one of the company's most popular lines), high-quality bags printed in up to eight colors, and plastic rolls for a number of local businesses, leading to improved sector profits and sales. Minority interests in Marina Plast were bought out to achieve 100 percent ownership, and several new major customers were secured inside and outside Egypt.

All Plastics sector businesses have performed well. The anchor business unit Savola Packaging Systems revenues in 2009 amounted to SR 448 million, against SR 423 million in 2008, with net profits of SR 79 million compared with SR 29 million previously. This was due to significant sales growth, despite a decline of more than 20 percent in sale prices. Al Sharq Plastic (Riyadh) sales were SR 198 million, against SR 211 million the previous year, with net profits of SR 27 million in 2009 compared with SR 25 million in 2008. New Marina (Egypt) recorded sales of SR 104 million, against SR 133 million in 2008, with net profits of SR 5 million compared to SR 8.4 million in 2008 which was mainly affected by new competitive entrants in the Egyptian market.

Staff motivation was boosted by the introduction of programs such as the *Employee Recognition Awards* and the *Savola Values Awards*. Training in a cross-section of divisional expertise extended to a total of 25 sessions at the company's factories.

Key objectives for 2010 are to increase sales by at least 30 percent.

55%

2009 growth in Plastics sector operational cash flow


THE BODY SHOP
TOOS توس

32%

In 2009, shoppers amounted to 45 million, up from 34 million the previous year.

6.4 **Real Estate**

Savola's principal real estate interests include a 30 percent interest in Kinan International; 40 percent of each of two management companies responsible for steering the development of Knowledge Economic City, Madinah (under establishment); 5.0 percent of Taameer Jordan Holdings; and 3.0 percent of King Abdullah Economic City. Real Estate sector also has investments in a land bank, partnering with developers or building contractors to optimize the value of sites owned by the Group.

a) **Kinan International Real Estate Development Company**

Kinan has 10 malls in its portfolio, spread across seven cities, with total assets valued at SR 2.7 billion. Savola appoints three of Kinan's nine board members. Panda remains an anchor tenant in all Kinan malls, creating mutual synergies. Despite a challenging year for the retail leasing sector, Kinan malls grew overall occupancy rates – in some cases reaching 100 percent. Improved occupancy, together with diversified tenants and various marketing initiatives, contributed to a significant increase in visitors to Kinan malls. In 2009, shoppers amounted to 45 million, up from 34 million the previous year.

Following a strategic decision in 2008 to diversify into residential property, Kinan has now embarked on its first mid-income housing project. The master-planned community located to the north of Jeddah will be developed in phases, becoming home to 55,000 people when completed in six to eight years.

The project is a joint venture between Kinan, Savola, and Binladen Group, covering more than 3.0 million m^2 and costing upwards of SR 2.4 billion. To support expansion and diversification, senior executives with property development expertise have been recruited, complementing a strong network of local and international consultants. As residential diversification gathers momentum, Kinan will add new revenue streams from development master planning, sale of sites to sub-developers, and sale of completed units, as well the existing yield from mall properties.

6.5 **Franchising**

The Franchising division is managed and operated by Al Batool International Company, 100 percent owned by the Savola Group, with the aim of using retail franchises to create business opportunities for young Saudi entrepreneurs.

The company holds the Saudi and, in same cases, the GCC franchises for a number of international brands in cosmetics, leather goods, ladies' casual wear, and fast food. These include *Bonia* and *Clarino* (leather goods), *Jacqueline Rio* (clothing), *Yves Rocher* (cosmetics), and *Mugg & Bean* (coffee shops).

Having identified the most promising of these brands, plans are now in hand to open 16 new *Yves Rocher* outlets during 2010. Pilot stores have proved very successful, contributing to Al Batool achieving positive cash flow in 2009. Revenues for 2009 amounted to SR 43.6 million, with a net loss of SR 17.2 million for the year, which included a provision of SR 7.5 million against under performing stores.

6.6 Other non-Managed Investments

a) Al-Marai Company

The Savola Group owns 26.5 percent of the share capital of Al-Marai (a Saudi joint stock company listed on the Saudi Stock Exchange). Al-Marai is one of the leading foods companies in the Middle East, with its brand enjoying an outstanding reputation for high-quality products.

Al-Marai achieved excellent results in 2009, thanks to distinguished efforts by the company's management to increase sales and market share across all sectors, to diversify the company's markets and income sources, and to improve operational efficiency in line with continuous investments. Net profits amounted to more than SR 1 billion, increasing by 20.5 percent. Total revenues also grew, to SR 5.8 billion, 16.7 percent higher than the previous year.

Al-Marai increased its share capital from SR 1.09 billion to SR 1.15 billion during the year, on the acquisition of Hail Agricultural Development Company (HADCO). Accordingly, the Savola Group's interest in Al-Marai was diluted from about 28 percent (prior to the capital increase) to 26.5 percent. Al-Marai also completed the 100 percent acquisition of Egypt's International Company for Agro-Industrial Projects (Beyti) for about SR 430 million and the 100 percent acquisition of HADCO .

b) Herfy Food Services Company

Established in 1981, Herfy Food Services Company operates a chain of 148 fast food restaurants across Saudi Arabia and 12 branches overseas. It also produces bakery and meat products with an extensive distribution network and a well-established supplies division. Herfy's net profits amounted to SR 114.6 million in 2009, against SR 91.3 million in 2009. Savola Group does not manage Herfy but has board representation.

Herfy completed the Initial Public Offering (IPO) of 30 percent of its 8.1 million shares at a price of SR 51 per share. The subscription process was successfully completed between 11 and 17 January 2010. All shares offered were covered. Savola's interest of 70 percent prior to the offering diluted to 49 percent after the subscription, resulting in net capital gains of approximately SR 200 million, to be reflected in financial statements for the first quarter of 2010.

c) Other Investments

Other investments held by Savola include:

c-1) Swicorp Saudi

With its distinguished team and expertise, Swicorp is well positioned to become the Middle East's leading financial advisory house. Savola holds a 15 percent stake in Swicorp, in return for an investment of SR 116 million. Swicorp has been profitable since its inception in 2007.

c-2) *Intaj Capital Ltd*

A private equity fund launched by Savola and managed by Swicorp, focusing on industries with high-growth potential in the MENA region. Savola's investment in this fund is SR 440 million, accounting for 49 percent of the SR 850 million invested in several profitable businesses.

c-3) *Swicorp Jossour*

A private equity fund that focuses on energy-intensive industries where Saudi Arabia has a competitive advantage. The Group's investment in this fund is SR 287, accounting for 14 percent. Savola made impairment provisions of SR 78 million against this fund in 2008, in line with declining markets affected by the global financial crisis. The fund has SR 1.9 billion invested in several promising businesses that are expected to enhance its value.

c-4) *Emerge Invest*

An open private equity partnership that seeks opportunistic growth investments, giving partners the option to participate or not as they arise. To date, Savola has invested SR 23 million in this fund.

7. **Saudization and Training Programs**

Numbering around 5,000, Savola's Saudi workforce represents a large and increasing proportion of the Group's total of 16,000 employees, about 12,500 of whom are employed in activities within the Kingdom. Efforts are continuing to accommodate more young Saudi nationals in the coming years.

Rapid expansion of the Savola businesses is a key driver for employing more Saudi nationals, with a view to achieving the objective of job Saudization. Through the Panda stores, the Group, in cooperation with the General Establishment for Technical Training and the Human Resources Development Fund, established the Saudi Institute for Sales and Marketing.

The institute began operating in 2009, training and qualifying large numbers of young Saudis to work in the retail sector, both in the Group and with other companies across the Kingdom. The institute has a target of 10,000 Saudis to be trained and employed within the next three years.

In view of the importance of providing training and improving the technical and management skills of employees, Group companies inside and outside Saudi Arabia continued their training programs throughout 2009. They benefited from the international experience of the workforce, conducting training courses for the management and technical staff of its new businesses in Algeria, Morocco, Sudan, and Egypt by capitalizing on qualified local resources to train new employees. This helped to reduce the cost per trainee and facilitated the transfer of knowledge, skills, and corporate values that need to be nurtured in the work environments of the Group's new companies.

8. **Special Programs for Employees**

In line with the Group's 'Birr' (Caring Justice) value, Savola has adopted a number of programs to enhance relations with employees. Key programs are:

a) **Employee Home Loan Scheme**

This program is designed to retain and motivate the Group's and subsidiaries' employees to continuously improve their performance. An interest-free loan of 50 basic salaries, at a minimum of SR 500,000 and maximum of SR 2.5 million, is provided by the Group to be paid back over 120 months, helping employees to buy their own homes after fulfilling certain requirements and criteria. The program was introduced in 1992, with more than 75 Saudi staff members benefiting to date. The program has greatly helped in retaining outstanding employees within the Group and its subsidiaries.

b) **Employee Cooperative Takaful program for Death and Permanent or Partial Disability**

Savola has contracted Bank Aljazira to pay compensation equivalent to two years' salary of any employee in the case of death and in case of permanent or partial disability. The minimum allocated amount for each employee is SR 50,000. Compensation paid by the Group for cases of death and disability during 2009 exceeded SR 1.7 million.

c) **Employee Takaful Fund**

This fund helps junior staff (non-managers) deal with financial emergencies they or their families may face that put them in urgent need of assistance. The fund is financed through voluntary nominal contributions made monthly by the different grades of staff in Saudi Arabia. The number of beneficiaries in 2009 was about 115 employees. The total fund (staff payments plus Savola's contribution) amounted to SR 295,000 in 2009, compared to SR 372,000 in 2008.

Launch of Al-Madina Institute of leadership & Entrepreneurship (MILE) first Training Program.

Notable CSR programs included the establishment of the Savola Center for Empowering People with Disabilities, aimed at training and securing employment for 2,000 disabled persons by the end of 2012.

9. Corporate Social Responsibility Programs

In line with Savola's commitment to serving the community, the Group continued its efforts in 2009 in adopting and implementing several community service programs through the 'Savola Bridges' initiative. Notable programs included the establishment of the Savola Center for Empowering People with Disabilities, aimed at training and securing employment for 2,000 disabled persons by the end of 2012. Practical steps to achieve this target included the launch of the Pilot Program, whereby the Group will appoint all disabled persons who undergo the pilot phase in its headquarters and subsidiaries. Further efforts are underway to improve work environments and accessibility for them. Workshops have been also conducted to raise awareness among the families of people with disabilities about the nature of support required for trainees.

Savola has also launched the Al-Madina Institute of Leadership and Entrepreneurship (MILE), based at Knowledge Economic City in Al-Madina. MILE aims to develop senior management resources in Saudi Arabia, as well as in other Arab and Muslim countries. Savola also participated in the Saudi Injaz Entrepreneurs Project that aspires to support young Saudi entrepreneurs, male and female. Savola will also introduce young disabled people into this program and provide various forms of assistance to them.

With the view to sharing Savola's experience with educational institutions and public and private sector organizations, a number of leadership programs have been launched. The Group's Managing Director, and a number of executives from Savola and its subsidiaries, conducted lectures and forums at several universities and academic organizations, as well as participating in various conferences. Key contributions included a lecture on the financial crisis and its implications at the Jeddah Chamber of Commerce and Industry, as well as presenting Savola's journey to a team of Saudi executives participating in the Advanced Management Program organized by Oxford University. Group experience in corporate governance was presented during the annual conference of the Hawkamah Institute in Dubai.

Savola and its subsidiaries adopted initiatives to relieve victims of the 2009 floods in Jeddah, and supported a number of public and private sector organizations in achieving their objectives.

Recognizing the importance of Savola's involvement in developing communities where it operates, the Group Board adopted a resolution to allocate 1.0 percent of annual operating profits to support Corporate Social Responsibility programs.

10. Corporate Governance

a) Shareholders' Rights and Communication

Savola pays special attention to the rights of shareholders and investors by including such rights in the Group's Articles of Association and its Corporate Governance Manual, which was developed in 2004 and has since been continually refined. These documents outline shareholders' rights, as detailed in the applicable rules and regulations, and which can be reviewed on Savola's website (www.savola.com). The company regularly publishes financial and non-financial reports and other data on the Tadawul and its own website, in daily newspapers, and in Savola's quarterly newsletter. A dedicated department deals with shareholders' affairs.

b) Savola Group Equity Profile, as at 31 December 2009

Authorized capital	SR 5,000,000,000
Issued shares (all are ordinary shares)	500,000,000 shares
Floated shares according to the Companies Register at the Tadawul*	345,342,357 shares
Paid-up capital	SR 5,000,000,000
Nominal value per share	SR 10.00
Paid-up value per share	SR 10.00

** The number of floated shares varies from time to time, according to daily movements of the Tadawul stock market.*

c) Key Dates for Shareholders, 2010

Refer to table 10-c, opposite.

d) Board of Directors

The main role of the Board is to establish overall corporate strategies, plans, policies, and financial objectives. The Board approves financial provisions and budgets, and oversees and monitors the performance and progress of Group subsidiaries, associates, and investments. The Board protects the interests of shareholders and other relevant parties by ensuring compliance with all applicable rules and regulations. The Group follows all requirements stipulated by its Articles of Association, its Corporate Governance Manual, and other internal policies.

d-1) *Board Composition, Membership, and Qualifications*

Article 16 of the Articles of Association stipulates that the Board of Directors will comprise 11 members, in line with Paragraph A of Article 12 of the Saudi Corporate Governance Regulations issued on 12 November 2006. The positions of Board Chairman and Chief Executive Officer are separate, as required by the regulations. The names, membership classifications, and qualifications of all Board members are shown in table 10-d-1, page 39.

d-2) *Board Meeting Attendance and Joint-stock Companies in which Board Directors are Members*

The Board of Directors held eight meetings in 2009, of which six were scheduled meetings and two were non-scheduled. The attendance of Board members at scheduled and non-scheduled meetings, along with details of other joint-stock companies where Savola Directors hold board positions are shown in table 10-5-2, page 39.

Table 10-c: Dates of Key Events for Shareholders, 2010

Dates	Events	Notes
18 April 2010	**Annual Ordinary General Assembly Meeting (AGM)**	AGM invitation announced in Tadawul, daily newspapers, and viewable on www.savola.com 25 days before the AGM date.
	First Quarter Events	
18 April 2010	Board of Directors meet to approve first quarter financial results and dividends	The Board approves the financial results and dividends based on the Audit Committee recommendations which are announced immediately in Tadawul.
18-21 April 2010	Publish financial results for the first quarter	Announced first in Tadawul, then published on www.savola.com and daily newspapers.
15 days after maturity date	Pay first quarter dividends to shareholders (expected date)	The maturity date will be detailed in the announcement.
7 May 2010	Publish Savola Newsletter for the first quarter (expected date)	Distributed with a daily newspaper and viewable on www.savola.com.
	Second Quarter Events	
During June 2010	AGM date for electing the new Board members for the new Office term.	The AGM date and the Nomination process will be announced in Tadawul, Newspapers and the Company website, after securing the Ministry of Commerce approval.
19 July 2010	Board of Directors meet to approve second quarter financial results and dividends	The Board approves the financial results and dividends based on the Audit Committee recommendations which are announced immediately in Tadawul.
19-21 July 2010	Publish financial results for the second quarter	Announced first in Tadawul, then published on www.savola.com and daily newspapers.
15 days after maturity date	Pay second quarter dividends to shareholders (expected date)	The maturity date will be detailed in the announcement.
7 August 2010	Publish Savola Newsletter for the second quarter (expected date)	Distributed with a daily newspaper and viewable on www.savola.com.
	Third Quarter Events	
17 October 2010	Board of Directors meet to approve third quarter financial results and dividends	The Board approves the financial results and dividends based on the Audit Committee recommendations which are announced immediately in Tadawul.
17-21 October 2010	Publish financial results for the third quarter	Announced first in Tadawul, then published on www.savola.com and daily newspapers.
15 days after maturity date	Pay third quarter dividends to shareholders (expected date)	The maturity date will be detailed in the announcement.
7 November 2010	Publish Savola Newsletter for the third quarter (expected date)	Distributed with a daily newspaper and viewable on www.savola.com.
	Fourth Quarter Events	
18-21 January 2011	Board of Directors meet to approve 2011 plan and budget	The Board approves the financial results and dividends based on the Audit Committee recommendations which are announced immediately in Tadawul.
18-21 January 2011	Publish financial results for the fourth quarter	Announced first in Tadawul, then published on www.savola.com and daily newspapers.
15 days after maturity date	Pay fourth quarter dividends to shareholders (expected date)	The maturity date will be detailed in the announcement.
7 February 2011	Publish Savola Newsletter for the fourth quarter (expected date)	Distributed with a daily newspaper and viewable on www.savola.com.

Note: Some dates above are approximate and may be changed according to circulars and notification received from the official authorities.

d-3) Annual Evaluation of Board Members

An evaluation of the Board was conducted during 2009, with the aim of ensuring that any strengths and weaknesses were identified and analyzed. A report containing the results of the evaluation was presented to the Board in June 2009, and this included proposals to address weak areas and enhance strengths of the Board. Consequently, a training workshop was conducted in December 2009, with other recommendations being observed and implemented as required.

d-4) Board of Directors and Senior Executive Remuneration

Savola pays annual remuneration, meeting attendance fees, and other expenses to its Board and sub-committee members based on rules and regulations issued by Government Authorities. It also pays salaries and benefits to its executives, based on the contracts in place with them. Summaries of the compensation and benefits paid to Board members and senior executives are as follows:

Board Members' Remuneration for 2009
Refer to table 10-d-4-1, opposite.

Savola's Chairman, His Excellency Eng Adel Fakeih, received no remuneration during 2009. Instead, his remuneration and meeting attendance fees totaling SR 235,000 were paid by certified cheque to the account of the General Investments Fund, which His Excellency Fakeih represents on the Savola Board. Total remuneration paid to the executive and non-executive Board members amounted to SR 2.7 million for 2009, compared with SR 2.5 million in 2008.

Senior Executives' Compensation for 2009
Refer to table 10-d-4-2, opposite.

Savola's Group Managing Director is paid a basic monthly salary of SR 225,000 plus 25 percent housing allowance and 10 percent transportation allowance, personal and family health insurance, and school fees for his children (at a maximum of SR 70,000 per year) as per his contract, as well as an annual performance bonus calculated as: 0.75 percent of net operational income (pre-capital gains) plus 0.35 percent of net capital gains made during the fiscal year. For 2009, the Group Managing Director's performance bonus amounted to SR 6.74 million, compared to SR 2.68 million in 2008 (when he donated the entire amount to the Group's Corporate Social Responsibility program).

The Group Managing Director's total earnings (for his Board membership and his allocations as CEO, as detailed above) amounted to SR 10.45 million in 2009, compared to SR 3.86 million for the previous year.

d-5) **Board Committees**

The Savola Group Board has six sub-committees, the membership of which comprises Board members, external independent specialists, and Savola senior executives.

d-5-1) Audit Committee

The Audit Committee comprises four non-executive members, including one specialist in financial and accounting affairs. The Committee held seven meetings in 2009, playing a vital role in helping the Board to meet its legal responsibilities. In 2009 the Committee supervised and coordinated the Group's internal and external auditing activities to ensure internal control systems and measures were effective and efficient.

The Audit Committee's key achievements during the year were:

- Auditing the quarterly accounts and balance sheet in cooperation with the external auditor and recommending this for approval by the Board.
- Monitoring the implementation of the 2009 internal audit plan.
- Developing the 2010 internal audit plan.
- Redevelopment of the Audit Committee's Charter.
- Auditing the Zakat situation for the Group and its subsidiaries.
- Presenting regular reports on the Committee's progress to the Board.

Last year, the Committee recommended that KPMG (Al Fozan & Al Sadhan) be appointed as external auditors against fees of SR 195,000 for auditing the Company's quarterly accounts and balance sheet, and this was subsequently approved by the Board of Directors and the General Assembly of shareholders. In addition to the Group's in-house auditing resources in various divisions, the Committee also seeks the assistance of Ernst & Young for the internal auditing services of certain Group subsidiaries. The results of these efforts demonstrated the effectiveness and efficiency of internal control measures in the Group and its subsidiaries. The Audit Committee also conducts continuous monitoring to improve efficiency and effectiveness. It provided the Board of Directors with a summary of internal control results and recommendations on the effectiveness of internal controls.

Table 10-d-1: Board Composition, Membership and Qualifications

	Member name	Membership type	Qualifications
1	Eng. Adel M. Fakeih (Chairman)	Non-Executive	Bachelor in Industrial Engineering with Honors, King Abdulaziz University, Jeddah; Former Managing Director of the Savola Group; Chairman of the Jeddah Chamber of Commerce & Industry (JCCI); Mayor of Jeddah city since May 2003.
2	Dr. Sami M. Baroum (Managing Director)	Executive	PhD in Operations Management and MIS from Indiana University; MBA with distinction from the Wharton School of Business, University of Pennsylvania.
3	Mr. Ibrahim M. Al Issa	Non-Executive	Bachelor in Business Administration, Chapman University, California, USA.
4	Mr. Abdulaziz K. Al Ghufaily	Non-Executive	Master in Economics, USA; Bachelor in Economics, King Saud University.
5	Dr. Abdullah M. Telmesani	Independent	PhD in Urban and Regional Planning, University of California, Berkeley; Master in Planning and Urban Design, Harvard; Bachelor of Architecture, Faculty of Engineering, King Abdulaziz University,
6	Mr. Ammar A. Al Khudairy	Independent	Master in Engineering Administration, George Washington University, USA, 1984; Bachelor in Engineering, George Washington University, USA.
7	Dr. Ghassan A. Al Sulaiman	Independent	PhD in Strategic Management, University of Hull in the UK; Master in Business Administration (Honor Degree), University of San Francisco, California, USA; Bachelor of Science in Business Administration, Menlo College, California.
8	Mr. Mohammad A. Al Fadl	Independent	Bachelor in Economics and Marketing Sciences, USA, 1977.
9	Mr. Mousa O. Al Omran	Independent	Master of Business Administration, Saint Edward; Bachelor in Industrial Engineering, King Saud University; Diploma of American Institute (AIB).
10	Mr. Yousef M. Alireza	Independent	Master of Business Administration, University of California, Berkeley.
11	Eng. Talal I. Al Maiman	Independent	Bachelor in Electrical Engineering, USA; Senior Management Program, Harvard University, 1987.

Table 10-d-2: Board Meeting Attendance and Joint-stock Companies in which Board Directors are Members

	Member name	Scheduled meetings	Exceptional meetings	Total attendances	Board membership in other joint stock companies
		(6)	(2)		
1	Eng. Adel M. Fakeih	5	2	7	–
2	Dr. Sami M. Baroum	6	2	8	Al-Marai, Arabian Cement
3	Mr. Ibrahim M. Al Issa	5	2	7	Taibah Co., Saudi Fransi Bank, Al-Marai, Yanbu Cement Co.
4	Mr. Abdulaziz K. Al Ghufaily	6	2	8	Al-Rajhi Bank, Herfy Food Co.
5	Dr. Abdullah M. Telmesani	6	2	8	–
6	Mr. Ammar A. Al Khudairy	4	2	6	Al Dera Al-Arabi Co., Kingdom Holding Co., Herfy Food Co.
7	Dr. Ghassan A. Al Sulaiman	6	1	7	Arabian Cement
8	Mr. Mohammad A. Al Fadl	6	2	8	Arabian Cement, Dar Al Tamleek Co.
9	Mr. Mousa O. Al Omran	5	1	6	Arabian Cement, Al-Marai, Banque Saudi Fransi
10	Mr. Yousef M. Alireza	6	1	7	–
11	Eng. Talal I. Al Maiman	1	1	2	Kingdom Holding Co., National Industrialisation Co., Herfy Food Co.

Table 10-d-4-1: Board Members' Remuneration for 2009

Description of remuneration and other benefits	Chairman (non executive)	Managing Director	Non-Executive and Independent Board Members
Salaries	None	See table below	None
Allowances include attendance fees and travel expenses for the Group Board and subsidiaries (SR 5,000 per meeting)	15,000	40,000	498,730
Regular and annual remuneration for Board membership (annually SR 200,000 per member)		200,000	1,800,000
Total	**15,000**	**240,000**	**2,298,730**

Table 10-d-4-2: Senior Executives' Compensation for 2009

Description of compensation and other benefits	Managing Director (as Chief Executive Officer)	**Senior executives (7 members including The Group CFO) 2009**	Senior executives (7 members including The Group CFO) 2008
Salaries	2,700,000	**6,700,000**	5,834,000
Allowances	991,000	**2,435,000**	1,551,900
Regular and annual performance bonus	6,758,963	**8,221,291**	3,121,486
Total	**10,449,963**	**17,356,291**	10,507,386

The Board reviewed the results and recommendations of the Audit Committee and instigated measures toward their implementation. The list of members, attendance records, and the role of the Committee are summarized in table 10-d-5-1, opposite.

Mr. Abdulhamid S. Al Moheideb, a new member appointed in October 2009, holds a Bachelor of Business Management (Financial Management) degree from Miami University, USA.

d-5-2) Compensation and Nominations Committee

The Committee has four members, all non-executives and independent Board members. The Committee held three meetings in 2009 and the list of members, attendance records, and the role of the Committee are summarized in table 10-d-5-2, opposite.

d-5-3) Risk Management Committee

Every economic sector has potential risks. As an economic entity, Savola is exposed to certain risks through the nature of commercial activities it practices in the areas of basic commodities and foods. Key risks can be represented in the probability of Group operations being exposed to fluctuation of raw material prices and acute competition in the prices of its products in local and regional markets. There are also risks related to entering new markets in line with the Group's geographical expansion strategy.

In this context, the Board of Directors formed a Risk Management Committee towards the end of 2008. Previously this role had been assigned to the Audit Committee. The Risk Management Committee comprises five members, each with relevant experience and qualifications, and began operating in January 2009, taking up its role in managing risks across the Group and its subsidiaries.

The Committee held two meetings in 2009 and the list of members, attendance records, and the role of the Committee are summarized in table 10-d-5-3, opposite.

Dr. Mazin Skaf, a new member appointed in October 2009, holds a PhD in Engineering Economic Systems from Stanford University, USA.

d-5-4) Investment Committee

The Investment Committee was formed with eight members to develop criteria, standards, and plans for the Group's investment activities. The Committee helps the Group to develop sound investment plans and then explore and pursue attractive opportunities. The Committee reviews opportunities before they are presented to the Board, makes recommendations to the Board accordingly, and then monitors progress on these recommendations. The committee meets only when required. The committee is chaired by His Excellency, Eng. Adel Fakeih and has a membership of Mr. Ibrahim Al-Issa, Dr. Sami Baroum, Mr. Ammar Al-Khudairy, Dr. Ghassan Al-Sulaiman, Mr. Mohammed Alfadl, Mr. Mousa Al-Omran and Mr. Yousef Alireza.

d-5-5) Corporate Social Responsibility Committee

The Corporate Social Responsibility Committee comprises five members, each with relevant experience. Fulfilling its roles and responsibilities, the Committee held two meetings in 2009 and the list of members, attendance records, and the role of the Committee are summarized in table 10-i, opposite.

Al-Shareef Al Ghaleb, MD, a new member appointed in October 2009, is an expert in the area of people with disabilities. He has been General Director of Jeddah Institute for Speech and Hearing for more than 10 years.

Dr. Mirvat Tashkandi, a new member appointed in October 2009, holds a PhD in Special Education – Early Intervention and Work with Mothers of Children with Special Needs – from the University of Pretoria, South Africa (2000). She is currently the Vice-Dean of Academic Affairs at Dar Al-Hekmah College.

d-5-6) Corporate Governance Committee

The Corporate Governance Committee was formed by the Board of Directors in 2004. It has since developed a Corporate Governance Code that outlines key international and local governance practices and standards. For more details on Savola's Corporate Governance Code, please visit www.savola.com.

The Corporate Governance Committee has four members, all non-executives and independents. Fulfilling its roles and responsibilities, the Committee held two meetings in 2009 and the list of members, attendance records, and the role of the Committee are summarized in table 10-d-5-6, opposite.

Dr Adel Boshnaq, a new member, holds a PhD in Civil Engineering from the University of Michigan (1977). He has broad experience in engineering education, research, and consultancy, as well as in establishing and managing businesses. He is the committee head of the Saafah Role Model Award for Transparency and Integrity.

Table 10-d-5-1: Audit Committee Members, Meeting Attendance and Roles

	Member name	Position	Meetings attended	Main roles and responsibilities
1	Mr. Ibrahim M. Al Issa	Chairman	6	• To supervise the Group's internal audit department to ensure its effectiveness in executing the activities and duties specified by the Board of Directors. • To review the internal audit procedure and prepare audit reports and recommendations, and to review the internal audit report and pursue the implementation of any corrective measures necessary. • To recommend to the Board of Directors the appointment, dismissal and fees of external auditors, and to review the quarterly and annual financial statements prior to presentation to the Board, providing opinions and recommendations with respect thereto.
2	Mr. Abdulaziz K. Al Ghufaily	Member	7	
3	Mr. Mohammad A. Al Fadl	Member	4	
4	Mr. Abdulhamid S. Al-Muhaidib	Member	2	
5	Mr. Majed D. Kareem	Coordinator	7	
6	Mr. Mahmoud M. Abdul Ghaffar	Secretary	7	

Table 10-d-5-2: Compensation and Nominations Committee Members, Meeting Attendance and Roles

	Member name	Position	Meetings attended	Main roles and responsibilities
1	Mr. Yousef M. Alireza	Chairman	3	• Draw clear policies regarding the indemnities and remuneration of the Board members and senior executives; insuring that such policies meet standards related to performance; and follow-up the implementation of these policies. • Recommend to the Board of Directors appointments to membership of the Board in accordance with the approved policies and standards. • Conduct annual reviews of the requirement of suitable skills for membership of the Board and prepare descriptions of the required capabilities and qualifications for such membership. Review the structure of the Board, determine areas of strength and weakness in the Board, and recommend changes. • Ensure on an annual basis the independence of the independent members and the absence of conflicts of interest to the Board members.
2	Dr. Ghassan A. Al Sulaiman	Member	1	
3	Mr. Mohammad A. Al Fadl	Member	2	
4	Mr. Mousa O. Al Omran	Member	3	
5	Mr. Mahmoud M. Abdul Ghaffar	Secretary	3	

Table 10-d-5-3: Risk Management Committee Members, Meeting Attendance and Roles

	Member name	Position	Meetings attended	Main roles and responsibilities
1	Mr. Ammar A. Al Khudairy	Chairman	2	• To continuously improve Risk Management policies and monitor their implementation, refining the policies where necessary. • Supervise all plans and strategies concerning any risks that the Group might face, and the effects thereof. • Prepare terms of reference for the purchase of raw materials and monitor its implementation at all levels. • Provide advice to the Board of Directors on the risks facing Group businesses and how to manage these risks. • Regularly report to the Board on all work and performance of the Committee.
2	Dr. Sami M. Baroum	Member	2	
3	Dr. Mazin Skaf	Member	2	
4	Mr. Majed D. Kareem	Member	2	
5	Eng. Zuhair A. Lafshoush	Member	2	
6	Mr. Mohammed H. Al Kulaibi	Secretary	2	

Table 10-d-5-5: Corporate Social Responsibility Committee Members, Meeting Attendance and Roles

	Member name	Position	Meetings attended	Main roles and responsibilities
1	Eng. Adel M. Fakeih	Chairman	2	• Activate the role of the Savola Group in the adoption of policies and initiatives for community development and service. • Develop the Group's principles, criteria and plans for CSR programs and monitor their implementation. • Develop and implement programs that contribute to a deeper sense of social responsibility within the Group's subsidiaries and their employees.
2	Dr. Abdullah M. Telmesani	Member	2	
3	Dr. Al-Shareef Z. Al Ghaleb	Member	1	
4	Mr. Mohammad A. Al Fadl	Member	1	
5	Dr. Mirvat A. Tashkandi	Member	1	
6	Mr. Mahmoud M. Abdul Ghaffar	Coordinator & Secretary	2	

Table 10-d-5-6: Corporate Governance Committee Members, Meeting Attendance and Roles

	Member name	Position	Meetings attended	Main roles and responsibilities
1	Eng. Adel M. Fakeih	Chairman	2	• Ensure Group compliance with corporate governance regulations issued periodically by the Capital Market Authority (CMA) • Enhance the Groups' adherence to the disclosure, transparency and best practices, locally and internationally. • Supervise and follow-up on the execution of Savola's Corporate Governance Code and update it regularly.
2	Dr. Ghassan A. Al Sulaiman	Member	2	
3	Dr. Abdullah M. Telmesani	Member	2	
4	Dr. Adel A. Bushnaq	Member	0	
5	Mr. Mahmoud M. Abdul Ghaffar	Coordinator & Secretary	2	

d-5-7) Grievance Committees for Employees and Shareholders

In its belief in justice and the protection of the rights of Savola shareholders and stakeholders, the Board of Directors developed a grievance policy and formed two committees: the Employees Grievance Committee and the Stakeholders Grievance Committee. These committees separately (or together if needed) investigate all cases referred to them with respect to employees' or stakeholders' grievances, and settle all cases according to the appropriate mechanisms approved by the Board.

e) **Executive Management Board**

The Savola Group's Executive Board comprises eight members. They include each sector CEO, Senior Vice-Presidents at the Group Headquarters, and the Group's Chief Financial Officer and The Chief Investment Officer. The responsibilities of the Executive Board include implementing the strategies, plans and policies approved by the Board of Directors. It also monitors the performance of Group sectors and ensures their adherence to plans, policies, regulations, and ethical standards of the Group. The Executive Board held 12 meetings during 2009 and details of its members and their qualifications are detailed in table 10-e, opposite.

f) **Major Shareholders and Changes in 2009**

Shareholders owning 5.0 percent or more of the Savola Group's shares, along with 2009 changes in their holdings, are summarized in table 10-f, opposite.

Risks Related to Changes in Major Shareholding Ratios

As per Article 30 of the Registration and Listing Rules, the Savola Group reports that it has received written notices from:

• Kingdom Holding Company, on 15 February 2009, stating that by the close of the same day's trading, it sold 6,835,888 of its shares in Savola Group, accounting for 1.37 percent of the total issued shares.

• Abdulqader Al-Muhaideb & Sons Company, on 28 March 2009, stating that by the close of the same day's trading, its holding changed to become 41,946,388 shares in Savola Group, accounting for 8.39 percent of the total issued shares.

g) **Shares Owned by Board Directors and Changes in 2009**

Refer to table 10-g, opposite.

h) **Shares Owned by Executive Board Members and Changes in 2009**

Refer to table 10-h, opposite.

i) **Board Declaration, as per the Capital Market Authority (CMA) Corporate Governance Code**

Published by the Savola Group, the report follows the 'comply or explain approach' for disclosures on corporate governance issued by the Capital Market Authority (CMA). The following subjects were not applicable for 2009 and the Board will begin to disclose these as they become applicable:

1. No Board member owns a shareholding in any one of the Group Subsidiaries. In addition, the Savola Group has not entered into any contract that involves material interest with any Board member or Senior executive, including the CEO and CFO, nor to any party related to them.

2. The company has not granted any cash loans whatsoever to any of its Board members or render guarantee in respect of any loan entered into by a Board member with third parties.

3. Savola does not currently have an employee stock option plan. However, the Group is considering the adoption of such a plan in the future, and will make the relevant disclosure as required.

4. Savola does not have debt instruments transferable to shares.

5. No contract, agreement or arrangement has been made for a shareholder, Director, senior executive or employee of Savola to waive his or her dividends, emoluments or compensation.

6. No punishments, penalties or preventative restrictions have been imposed on Savola by the CMA, or by any other supervisory, regulatory or judiciary body.

7. Savola does not have preferential shares or shares with special priority in voting, whether to shareholders, directors or employees. All are ordinary shares of equal nominal value, ranking equally in voting and other rights, in accordance with the regulations.

8. The Board of Directors confirms that Savola's books and records comply with the accounting standards issued by the Saudi Organization for Certified Public Accountants (SOCPA). The Board is committed to providing the CMA with any additional information that may be required, in the case of auditors expressing any reservations on the annual financial statements.

9. Savola's internal control systems and procedures are properly developed and effectively executed.

Table 10-e: Executive Board Team, Composition, Membership and Qualifications

	Member name	Membership type	Qualifications
1	Dr. Sami M. Baroum	Managing Director	PhD in Operations Management and MIS from Indiana University; MBA with distinction from the Wharton School of Business, University of Pennsylvania.
2	Dr. Mohammad Amin Kashgari	CEO - Retail and Plastics Sectors	PhD and Masters degree in Chemical Engineering at Stanford University, California, USA; Bachelor in Chemical Engineering from KFUPM, Dhahran
3	Eng. Zouhair Eloudghiri Lafshoush	CEO - Foods Sector	Masters Degree in Telecommunications from Ecole des Telcom, Paris, and Diploma in Industrial Engineering from Ecole des Mines
4	Dr. Mohammad Amin Jefri	President - Franchising Division	PhD and Masters degree in Chemical Engineering, Michigan State University, USA; Bachelor in Chemical Engineering, KFUPM, Dhahran
5	Eng. Nidal Abdulmajeed Jamjoom	CEO - Kinan International Real Estate Development	Bachelor in Industrial Engineering, KAAU, Jeddah 1991
6	Mr. Majed Diauddin Kareem	Chief Financial Officer	Bachelor in Financial Management, King Saud University, Riyadh
7	Mr. Mahmoud M. Abdul Ghaffar	SVP, Corporate Affairs and Board Secretary	Bachelor in Industrial Safety & Security, San Francisco University, USA
8	Mr. Nafez Riad Al-Morhabi	CEO for investments	MBA in Finance & Accounting, University of Lancaster, UK 1997; Bachelor in Business Administration

Table 10-f: Major Shareholders and Changes in 2009

	Name	Nationality	Shares at the beginning of 2009	Ownership at the beginning of 2009	Shares at the end of 2009	Ownership at the end of 2009
1	Mr. Mohammed I. Al Issa	Saudi	59,999,999	12.00%	59,999,999	12.00%
2	General Organization for Social Insurance	Saudi Government institution	26,708,525	5.43%	52,143,113	10.43%
3	Mr. Abdullah M. A. Al Rabiah	Saudi	43,750,000	8.75%	43,750,000	8.75%
4	Abdul Kadir Al-Muhaidib & Sons Co.	Saudi company	22,058,388	4.41%	42,366,794	8.47%
5	Kingdom Holding Co.	Saudi company	50,815,888	10.16%	1,000	0.0002%

Table 10-g: Shares Owned by Board Directors and Changes in 2009

	Name (all Saudi nationals)	Shares at the beginning of 2009	Shares at the end of 2009	Variance	Immediate relatives' ownership and changes in 2009
1	Eng. Adel M. Fakeih	4,166	4,166	0	None
2	Mr. Ibrahim M. Al Issa	2,000,000	1,997,000	(3,000)	None *
3	Dr. Sami M. Baroum	2,667	2,667	0	His son Abdulkareem owns 625 shares His son Omar owns 13 shares His daughter Amna owns 41 shares His daughter Albatool owns 137 shares
4	Eng. Talal I. Al Maiman	0	0	0	None
5	Mr. Abdulaziz K. Al Ghufaily	0	0	0	None
6	Dr. Abdullah M. Telmesani	5,000	5,000	0	None
7	Mr. Ammar A. Al Khudairy	2,790	100,000	97,210	None
8	Dr. Ghassan A. Al Sulaiman	34,594	34,594	0	None
9	Mr. Mohammad A. Al Fadl	6,304	6,304	0	His wife owns 144 shares
10	Mr. Mousa O. Al Omran	6,304	6,304	0	None
11	Mr. Yousef M. Alireza	3,180	3,180	0	None

** Except for his father, as shown in table 21.*

Table 10-h: Shares Owned by Senior Executives and Changes in 2009

	Name (all Saudi nationals)	Shares at the beginning of 2009	Shares at the end of 2009	Variance	Immediate relatives' ownership andchanges in 2009
1	Dr. Mohammad Amin Kashgari	0	20,000	20,000	His wife owns 10,000 shares
2	Eng. Zouhair Eloudghiri Lafshoush	0	484,570	484,570	None
3	Dr. Mohammad Amin Jefri	26	26	0	None
4	Mr. Majed D. Kareem	0	0	0	None
5	Mr. Nafez Riad Al-Morhabi	0	0	0	None
6	Mr. Mahmoud M. Abdul Ghaffar	21,707	21,707	0	His wife owns 5,054 shares

10. There are no doubts about Savola's capability to continue its business activities.

11. The Savola Group is subject to Zakat, according to regulations of the Department of Zakat & Income Tax (DZIT). The Group records its Zakat provision and charges it to the Income Statement. Any amendments resulting from the final assessment are recorded at the time the assessments are finalized and agreed with the DZIT.

12. The cumulative voting system was presented to the General Assembly Meeting on 25 March 2008. The system was not approved by the General Assembly, possibly due to being a new concept and to a lack of awareness about implementation of such a system. Later It will again be presented to the General Assembly Meeting for discussion and voting.

j) **Results of Annual Review and Assessment of Savola's Compliance with Corporate Governance standards**

Savola has developed its own corporate governance system since 2004, which conforms to the requirements of the competent authorities in Saudi Arabia. This system aspires to direct and monitor the Group's activities, protect shareholders' and stakeholders' rights, and enhance transparency. It comprises the 'Corporate Governance Code', which includes all principles set out in regulations issued by the Capital Market Authority, as well as international best practices, and practices developed and adopted by Savola. Therefore, Savola has fulfilled the requirements of the corporate governance regulations issued by the Capital Market Authority on 12 November 2006, in terms of the numbers and membership structure of committees, numbers and independence of Board members, and various requirements stated in the regulations.

In committing to the principle of independent evaluation of compliance with corporate governance standards, Savola has engaged Ernst & Young over the past three years to compare and benchmark the Group's practices against corporate governance regulations issued by the Capital Market Authority in November 2006. The results of this process are shown in table 10-j, opposite. They number 91 items including 'fully applied', 'partially applied', 'inapplicable' and 'not applied' items, and reasons for non-application. The 'applied items' percentage was 96.7 percent, compared with 92.3 percent last year.

Recommendations at the Ordinary General Assembly Meeting at 5pm on 18 April 2010 at Jeddah Hilton Hotel, Al Qasr Ballroom.

1) Approval of the Board of Directors' Report for the year ended December 31, 2009.

2) Approval of the Final Accounts and Auditors' Report for the year ended December 31, 2009.

3) Ratification of the Board of Directors' recommendation to distribute SR 125 million (SR 0.25 per share) as dividends for the fourth quarter of 2009, in addition to the total dividends distributed to shareholders for the first three quarters of 2009 at the rate of SR 0.75 per share (SR 375 million). Therefore the total dividend for 2009 amounts to SR 1 per share, raising the total dividends paid to SR 500 million, which is equal to 10 percent of the company's capital.

The maturity date for the fourth-quarter dividend will be for shareholders registered in the company books at the close of trading on the date of the General Assembly Meeting, scheduled for Sunday 18 April 2010.

4) Absolve the Board of Directors from any liability pertaining to the management of the company for the year 2009.

5) Appointing, and specifying fees of the Group's external auditor, nominated by the Audit Committee, for auditing the Group's quarterly accounts and balance sheet for the 2010 fiscal year.

Thanks and appreciation

The Board of Directors takes this opportunity to extend thanks and appreciation to the Custodian of the Two Holy Mosques and to His Royal Highness the Crown Prince for their special endeavors in furthering the welfare and the stability of the country. The Board also extends its appreciation and thanks to the Government of the Custodian of the Two Holy Mosques for its continuous support and encouragement of the industrial and private sector in the Kingdom. The Board would also like to thank all our customers for the trust and loyalty they have placed in Savola and its products. The Board further thanks Savola's shareholders, the Group's management, subsidiaries and employees for their efforts, support, and commitment during 2009. The Board looks forward to further achievements in 2010.

We pray to Almighty God for continuous success.

The Savola Group Board of Directors
23 February 2010

Independent assessment of Savola's compliance with corporate governance regulations Percent

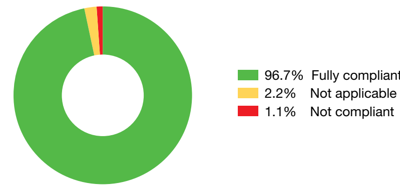


Table 10-j: Savola's Corporate Governance Compliance

Article number in accordance with Corporate Governance regulations	Number of clauses	Complied	Partially complied	Not complied	N/A	Comments
Article 3. General Rights of Shareholders	1	1				
Article 4. Facilitation of Shareholders' Exercise of Rights and Access to Information	2	2				
Article 5. Shareholders Rights Related to the General Assembly	10	10				
Article 6. Voting Rights	4	2		6 (b)	6 (d)	Article 6 (b): The cumulative voting technique was presented to the General Assembly on 25 March 2008. It was rejected, but the Board will present it again to the General Assembly for discussion and voting. Article 6(d): No shareholders who represent a judicial person have provided their annual reports or voting policies.
Article 7. Dividends Rights of Shareholders	2	2				
Article 8. Policies and Procedures Related to Disclosure	1	1				
Article 9. Disclosure in the Board of Directors Report	7	7				
Article 10. Main Functions of the Board	17	17				
Article 11. Responsibilities of the Board	8	8				
Article 12. Formation of the Board	9	8			12 (t)	Article 12(t): Not applicable because none of the Board members have been appointed for another term during the year ended 31 December 2009. The current term ends on 30 June 2010.
Article 13. Board Committees	3	3				
Article 14. Audit Committee	11	11				
Article 15. Nomination and Remuneration Committee	8	8				
Article 16. Board Meetings	4	4				
Article 17. Remuneration and Indemnification of Board Members	1	1				
Article 18. Conflict of Interest within the Board	3	3				Savola conducts an annual review of potential conflicts of interest where Board members sign declarations and pledges to confirm each case. All cases have been reviewed.
Total	**91**	**88**	**-**	**1**	**2**	
Percentage	100%	96.70%	-	1.10%	2.20%	

INDEPENDENT AUDITORS' REPORT

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Jeddah 21534, Kingdom of Saudi Arabia

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Fax +966 2 605 0597
Internet www.kpmg.com.sa

The Shareholders
Savola Group Company
Jeddah, Saudi Arabia

We have audited the accompanying consolidated financial statements of Savola Group Company and its subsidiaries ("the Group") which comprise the consolidated balance sheet as at December 31, 2009 and the consolidated statements of income, changes in equity and cash flows for the year then ended and the attached notes 1 through 31 which form an integral part of the consolidated financial statements.

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and in compliance with Article 123 of the Regulations for Companies and the Company's Articles of Association. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. Management has provided us with all the information and explanations that we require relating to our audit of these financial statements.

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in Saudi Arabia. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

1) present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2009, and the results of its consolidated operations and cash flows for the year then ended in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Group; and

2) comply with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of the financial statements.

For KPMG Al Fozan & Al Sadhan

Tareq Abdulrahman Al Sadhan
License No. 352

Jeddah, February 22, 2010G
Corresponding to Rabi-ul-Awwal 08, 1431H

Consolidated Financial Statements

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CONSOLIDATED BALANCE SHEETS

As at December 31, 2009

	Note	2009 (SR 000)	2008 (SR 000)
ASSETS			
Current assets:			
Cash and cash equivalents	5	**1,091,044**	604,884
Trade receivables	6	**1,417,252**	919,791
Investments	9(a)	**-**	147,853
Inventories	7	**2,296,601**	2,039,358
Prepayments and other current assets	8	**828,610**	1,017,262
Total current assets		**5,633,507**	4,729,148
Non-current assets:			
Investments	9(a)	**5,056,387**	4,771,371
Intangible assets	10	**1,029,869**	794,664
Property, plant and equipment	11	**5,536,761**	4,250,663
Total non-current assets		**11,623,017**	9,816,698
Total assets		**17,256,524**	14,545,846
LIABILITIES AND EQUITY			
Current liabilities:			
Short-term debts	12	**2,227,181**	3,293,565
Current portion of long-term debts	16	**795,089**	139,641
Trade payables		**1,830,283**	1,216,246
Accrued expenses and other current liabilities	13	**1,460,879**	1,323,834
Total current liabilities		**6,313,432**	5,973,286
Non-current liabilities:			
Deferred gain	14	**93,249**	34,014
Long-term payables	15	**61,031**	74,033
Long-term debts	16	**1,996,202**	1,117,136
Employees termination benefits		**264,699**	210,697
Total non-current liabilities		**2,415,181**	1,435,880
Total liabilities		**8,728,613**	7,409,166
EQUITY			
Equity attributable to the Company's shareholders:			
Share capital	17	**5,000,000**	5,000,000
Statutory reserve	18	**868,102**	772,946
General reserve		**4,000**	4,000
Unrealized (loss) on investments		**(21,601)**	(127,253)
Foreign currency translation account		**(193,851)**	(160,927)
Retained earnings		**1,303,978**	900,399
Total shareholders' equity		**6,960,628**	6,389,165
Minority interests		**1,567,283**	747,515
Total equity		**8,527,911**	7,136,680
Total liabilities and equity		**17,256,524**	14,545,846

The accompanying notes 1 through 31 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME
For the year ended December 31, 2009

	Note	2009 (SR 000)	2008 (SR 000)
Revenues – net		17,917,202	13,821,377
Cost of revenues		(14,809,887)	(12,007,054)
Gross profit		3,107,315	1,814,323
Share of profits (loss) of associates and jointly controlled entities and dividend income – net		352,799	335,174
Other income – net	19	79,877	110,526
		3,539,991	2,260,023
EXPENSES:			
Selling and marketing	20	(1,533,574)	(1,123,033)
General and administrative	21	(628,783)	(465,491)
Total expenses		(2,162,357)	(1,588,524)
Income from operations		1,377,634	671,499
Gains on disposal of investments	9(e)	318,116	147,980
Impairment of assets	22	(221,596)	(442,406)
Financial charges – net	23	(227,337)	(153,658)
Income before Zakat and income-tax and minority interests		1,246,817	223,415
Zakat and income-tax	24	(63,323)	(53,387)
Net income before minority interests		1,183,494	170,028
Share of minority interests in the net (income) loss of consolidated subsidiaries		(231,929)	32,330
Net income		951,565	202,358
Earnings per share – Income from operations	25	2.76	1.34
– Net income	25	1.90	0.40

The accompanying notes 1 through 31 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2009

	2009 (SR 000)	2008 (SR 000)
Cash flows from operating activities:		
Net income	**951,565**	202,358
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation, amortisation and impairment	**696,454**	809,237
(Gain) on sale of property, plant and equipment	**(7,191)**	(2,810)
(Gain) on disposal of investments	**(318,116)**	(147,980)
Financial charges – net	**227,337**	153,658
Share of minority interests in net income (loss) of consolidated subsidiaries	**231,929**	(32,330)
Changes in operating assets and liabilities:		
Trade receivables	**82,086**	(178,732)
Inventories	**232,215**	(657,776)
Prepayments and other current assets	**32,633**	(373,947)
Trade payables	**335,365**	262,104
Accrued expenses and other current liabilities	**(148,438)**	404,658
Employees' termination benefits	**25,827**	33,236
Total adjustments	**1,390,101**	269,318
Net cash provided by operating activities	**2,341,666**	471,676
Cash flows from investing activities:		
Additions to investments	**(400,655)**	(2,207,749)
Proceeds from sale of investments	**242,350**	1,336,352
Net change in other investments	**(133,611)**	(35,974)
Cash effect of consolidation of a subsidiary	**162,750**	-
Net change in intangible assets	**(426,524)**	(506,924)
Addition to property, plant and equipment	**(1,264,536)**	(1,009,902)
Proceeds from sale of property, plant and equipment	**319,852**	72,734
Net cash (used in) investing activities	**(1,500,374)**	(2,351,463)
Cash flows from financing activities:		
Net change in short-term debts	**(1,571,768)**	1,979,508
Net change in long-term debts	**1,516,776**	656,927
Net changes in minority interests	**440,199**	162,131
Financial charges –net	**(227,337)**	(153,658)
Net change in restricted deposits against financing	**(88,802)**	3,347
Dividends paid	**(513,002)**	(494,770)
Net cash (used in) provided by financing activities	**(443,934)**	2,153,485
Net change in cash and cash equivalents	**397,358**	273,698
Cash and cash equivalents at beginning of the year	**603,827**	330,129
Cash and cash equivalents at end of the year (Note 5)	**1,001,185**	603,827
Non-cash items:		
Unrealized gain (loss) on available for sale investments	**105,652**	(578,182)
Foreign currency translation account	**(32,924)**	(68,845)
Directors' remuneration	**2,200**	2,200

The accompanying notes 1 through 31 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2009

	Equity attributable to the Company's shareholders								
	Capital (SR 000)	Statutory reserve (SR 000)	General reserve (SR 000)	Foreign currency translation account (SR 000)	Unrealized gains/ (loss) on investments (SR 000)	Retained earnings (SR 000)	Total shareholders equity (SR 000)	Minority interests (SR 000)	**Total equity (SR 000)**
Balance at December 31, 2007	3,750,000	902,710	4,000	(92,082)	450,929	2,141,344	7,156,901	615,776	7,772,677
Bonus shares issued	1,250,000	(150,000)	-	-	-	(1,100,000)	-	-	-
Dividends	-	-	-	-	-	(500,000)	(500,000)	-	(500,000)
Net income	-	-	-	-	-	202,358	202,358	(32,330)	170,028
Transfer to reserve	-	20,236	-	-	-	(20,236)	-	-	-
Unrealized (loss) on investments adjustments	-	-	-	-	(578,182)	-	(578,182)	-	(578,182)
Foreign currency translation adjustments	-	-	-	(68,845)	-	-	(68,845)	-	(68,845)
Directors' remuneration	-	-	-	-	-	(2,200)	(2,200)	-	(2,200)
Gain on dilution of interest in consolidated subsidiaries (Note 4)	-	-	-	-	-	179,133	179,133	-	179,133
Other changes in minority interests	-	-	-	-	-	-	-	164,069	164,069
Balance at December 31, 2008	**5,000,000**	**772,946**	**4,000**	**(160,927)**	**(127,253)**	**900,399**	**6,389,165**	**747,515**	**7,136,680**
Dividends		-	-	-	-	(500,000)	(500,000)	-	(500,000)
Net income		-	-	-	-	951,565	951,565	-	951,565
Transfer to reserve		95,156	-	-	-	(95,156)	-	-	-
Unrealized gain on investments adjustments		-	-	-	105,652	-	105,652	-	105,652
Foreign currency translation adjustments		-	-	(32,924)	-	-	(32,924)	-	(32,924)
Directors' remuneration		-	-	-	-	(2,200)	(2,200)	-	(2,200)
Gain on dilution of interest in consolidated subsidiaries (Note 4)		-	-	-	-	49,370	49,370	-	49,370
Other changes in minority interests		-	-	-	-	-	-	819,768	819,768
Balance at December 31, 2009	**5,000,000**	**868,102**	**4,000**	**(193,851)**	**(21,601)**	**1,303,978**	**6,960,628**	**1,567,283**	**8,527,911**

The accompanying notes 1 through 31 form an integral part of these consolidated financial statements.

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 Rabi-ul-Awal 29, 1398H (March 9, 1978). The Company’s comercial 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

At December 31, the Company has investments in the following consolidated subsidiaries (collectively described as “the Group”), which are principally engaged in the manufacturing and marketing of vegetable oils, food products, retailing, packaging materials and fast food operations. In addition, the Group is also involved in real estate related investment activities:

		Ownership interest (%) at December 31	
Direct and indirect subsidiaries	**Country of in corporation**	**2009**	**2008**
Savola Packaging Systems Limited (“SPS”)	Saudi Arabia	**100**	100
Utur Packaging Materials Company Limited	Saudi Arabia	**100**	100
Savola Trading International Limited	British Virgin Islands	**100**	100
Tayseer FZCO	UAE	**100**	100
Batool International Trading Company Limited	Saudi Arabia	**100**	100
Al-Azizia Panda United Company (“APU”)	Saudi Arabia	**74.4**	80
Savola Foods Company (“SFC”)	Saudi Arabia	**90**	85
Herfy Food Services Company Limited. (“Herfy”)	Saudi Arabia	**70**	70
Savola Industrial Investments Co. (“SIIC”)	Saudi Arabia	**4.5**	4.25
United Properties Development Company (“UPDC”)	Saudi Arabia	**100**	100
Adeem Arabia Company Limited. (“AAC”)	Saudi Arabia	**80**	100
Kamin Al Sharq for Industrial Investments (“Kamin”)	Saudi Arabia	**100**	100
Arabian Sadouk for Telecommunications Company (“Sadouk”)	Saudi Arabia	**100**	100
Al Maoun International Holding Company	Saudi Arabia	**100**	100
Al Matoun International for Real Estate Investment Holding Company	Saudi Arabia	**80**	100
AFIA Foods Arabia	Saudi Arabia	**100**	100
United Sugar Company, Egypt	Egypt	**18.9**	18.8
Giant Stores Trading Company	Saudi Arabia	**8**	8
United Company for Central Markets (“UCCM”)	Lebanon	**8**	-

1. THE COMPANY, ITS SUBSIDIARIES AND NATURE OF BUSINESS (continued)

Entities controlled through subsidiaries	Country of incorporation	Subsidiary ownership interest (%) 2009	2008
SFC			
Afia International Company ("AIC")	Saudi Arabia	95.19	95.19
Savola Industrial Investment Company ("SIIC")	Saudi Arabia	95	95
Savola Foods Emerging Markets Company Limited ("SFEM")	British Virgin Islands	95.4	95.4
AIC			
Savola Behshahr Company (SBeC)	Iran	80	80
Malintra Holdings	Luxembourg	100	100
Savola Foods Limited ("SFL")	British Virgin Islands	100	100
Afia International Company – Jordan	Jordan	97.4	75
Inveskz Inc.	British Virgin Islands	90	90
Afia Trading International	British Virgin Islands	100	100
Savola Food International	British Virgin Islands	100	100
KUGU Gida Yatum Ve Ticaret A.S (KUGU)	Turkey	100	100
SFL			
Afia International Company, Egypt	Egypt	94.5	94.5
Inveskz Inc.			
Turkuaz Edible Oils	Kazakhstan	100	100
KUGU			
Yudum Gida Sanayi ve Ticaret A.S ("Yudum")	Turkey	100	100
SIIC			
United Sugar Company ("USC")	Saudi Arabia	64.8	64.8
USC			
United Sugar Company Egypt ("USCE")	Egypt	53.45	53.2
SFEM			
Savola Morocco Company	Morocco	100	100
Savola Edible Oils (Sudan) Limited	Sudan	100	100
AFIA International Company – Algeria	Algeria	100	100
SPS			
New Marina for Plastic Industries	Egypt	100	95
Al Sharq Company for Plastic Industries. Ltd ("Al Sharq")	Saudi Arabia	93	99
APU			
Giant Stores Trading Company("Giant")	Saudi Arabia	90	90
United Company for Central Markets ("UCCM")	Lebanon	14	-
Giant			
Lebanese Sweets and Bakeries ("LSB")	Saudi Arabia	95	95
United Company for Central Markets ("UCCM")	Lebanon	76	76

1. THE COMPANY, ITS SUBSIDIARIES AND NATURE OF BUSINESS (continued)

The Group subsidiary, Afia International Company acquired an additional 31% stake in SBeC, an existing jointly-controlled entity, from BIDC through a Share Purchase Agreement ("the SPA") during the second quarter of 2008 after which its ownership interest in SBeC has increased from 49% to 80%. Upon completion of all conditions for this additional acquisition; effective April 1, 2009 the group started to consolidate SBeC in its consolidated financial statements.

During 2009, the group formed Akwan, (a 62% effectively owned Special Purpose Vehicle "SPV") and Diyar Al Mashreq, (a 37.7% effectively owned jointly controlled entity) with other partners for the purpose of carrying out a real estate project. (See also Note 9 (b) (i))

On June 03, 2009, the Group entered into an agreement with A. K. Al Muhadib & Sons Company ("Al Muhadib"), to acquire certain real estate properties (leased to APU). The Group acquired these assets through its wholly owned subsidiary, Al Matoun International for Real Estate Investment Holding Company for SR 336 million and in exchange paid SR 97 million in cash and issued 20% stake in the acquiring company to Al Muhadib.

Effective September 16, 2009, the Group acquired through APU, the operations of Saudi Géant Company Limited ("Géant"), a limited liability company registered in Saudi Arabia. The net assets of such operations having a fair value of SR 245.54 million were acquired at a total consideration of SR 469.3 million. Accordingly, the acquisition resulted in recognition of goodwill in the Company's books of SR 223.76 million. See note 4(a)(ii) for details.

Effective October 24, 2009, APU acquired direct ownership interest of 14% in United Company for Central Markets (UCCM), Lebanon (an existing subsidiary of Gaint). The net assets of such operations having a fair value of SR 1.27 million were acquired at a total consideration of SR 2.49 million. Accordingly, the acquisition resulted in recognition of goodwill in the Company's books of SR 1.22 million.

On 22nd October 2009, the Group entered an agreement with Tate & Lyle Limited to buy their minority interest in United Sugar Company, Saudi Arabia (10.33%) and United Sugar Company Egypt (3.58%) for a net settlement of US$ 48.337 million.

In connection with Group's acquisition of Al-Sharq (through SPS) in 2005 and subsequent legal proceedings of a minority shareholder owning 1% in Al-Sharq, against SPS and existing shareholders; in view of the court's decision in favour of the minority shareholder, the Group sold 6% shareholding of SPS in Al- Sharq to the minority shareholder for SR 10.5 million at a loss of SR 344 thousand.

2. BASIS OF PREPARATION

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the generally accepted accounting standards in Saudi Arabia issued by the Saudi Organization for Certified Public Accountants (SOCPA).

The consolidated financial statements were authorized for issue by the Board of Directors on February 21, 2010.

Certain comparative figures have been reclassified to conform to the current year's presentation.

b) Basis of measurement

The consolidated financial statements are prepared under the historical cost basis (except for available-for-sale investments which are stated at their fair values), using the accrual basis of accounting and the going concern concept.

c) Functional and presentation currency

These consolidated financial statements are presented in Saudi Arabian Riyals (SR) which is the functional currency. All financial information presented in SR has been rounded to the nearest thousand.

d) Critical accounting judgements and estimates

The preparation of consolidated financial statements requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future period affected.

2. BASIS OF PREPARATION (continued)

d) Critical accounting judgements and estimates (continued)

Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

i) Valuation of investments in unquoted private equity funds

Investments in unquoted private equity funds classified under available for sale investments, are carried at cost in the absence of reliable fair value (see Note 9)

ii) Impairment of available for sale investments

The Group exercises judgement to consider the impairment of available for sale investments as well as their underlying assets. This includes the assessment of objective evidence which causes an other than temporary decline in the value of investments. Any significant and prolonged decline in the fair value of equity investment below its cost is considered as objective evidence for the impairment. The determination of what is 'significant' and 'prolonged' requires judgement. 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.

iii) Impairment of non-financial assets

The Group assesses, at each reporting date or more frequently if events or changes in circumstances indicate, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less cost to sell, and its value in use, and is determined for the individual asset, unless the asset does not generate cash inflows which are largely independent from other assets or groups. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are 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. In determining the fair value less costs to sell, an appropriate source is used, such as observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets exist, it is based on discounted future cash flow calculations.

Impairment for goodwill is determined by assessing the recoverable amount of each cash-generating unit (or group of cash generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than its carrying amount an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods for subsequent increases in its recoverable amount.

iv) Provision for impairment of trade receivables

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 on an 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 past recovery rates.

v) Provision for slow moving inventory items

The Group makes a provision for slow moving inventory items. Estimates of net realizable value of inventories are based on the most reliable evidence at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly related to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in the financial statements.

a) Basis of consolidation

These consolidated financial statements include the financial statements of the Company and its subsidiaries set forth in Note 1 above. Associates and Jointly Controlled Companies are accounted for using the equity method.

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases.

All intra-group balances and financial transactions resulting from transactions between the Company and the subsidiaries and those arising between the subsidiaries are eliminated in preparing these consolidated financial statements. Any unrealized gains and losses arising from intra-group transactions are also eliminated on consolidation.

(ii) Minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interest, if any, result in gains and losses for the Group that are recorded in the income statement if control is lost. Purchase of minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary

b) Foreign currency translation

The consolidated financial statements are reported into SR, which is the Group's functional and presentation currency. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions denominated in foreign currencies are translated to the functional currencies of the Group at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currencies of the Group at the foreign exchange rate ruling at that date. Exchange differences arising on translation are recognized in the consolidated statement of income currently.

Assets and liabilities of foreign subsidiaries, associates and jointly controlled companies are translated into Saudi Arabian Riyals at the exchange rates in effect at the date of the consolidated balance sheet. The components of foreign subsidiaries, associates and jointly controlled companies' equity accounts, with the exception of retained earnings of subsidiaries, are translated at the exchange rates in effect at the dates of the related items originated. The elements of foreign subsidiaries' income statement are translated using the weighted-average exchange rate for the period. Adjustments resulting from the translation of foreign subsidiaries' financial statements into Saudi Arabian Riyals are reported as a separate component of equity (foreign currency translation account) attributable to shareholders of the Company in the consolidated financial statements.

Any goodwill arising on the acquisition of a foreign subsidiaries and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign subsidiaries and translated at the closing rate.

c) Trade receivables

Trade receivables are carried at original invoice amounts less provision made for doubtful accounts. A provision for doubtful accounts is established when there is a significant doubt that the Group will be able to collect all amounts due according to the original terms of agreement.

d) Inventories

Inventories are valued at the lower of cost (determined principally by using the weighted average method) and net realizable value. Cost of finished goods and work-in-process includes the cost of raw materials, direct labour and appropriate production overheads. Inventories in transit are valued at cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Investments

i) Investments in associates and jointly-controlled companies

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Jointly controlled companies are those where the Group shares effective controls with other shareholders of the investee company.

The Group's investments in its associate and jointly controlled companies are accounted for using the equity method of accounting from the date that significant influence or joint-control commence until the date that such influence or joint-control ceases. Under the equity method, investments in associates and jointly controlled companies are carried in the balance sheet at cost (including goodwill paid on acquisition, net of any impairment losses), plus post-acquisition changes in the Group's share of net assets of the investee company. Where there has been a change recognised directly in the equity of the associate or jointly controlled company, the Group recognises its share of such changes in its consolidated statement of changes in shareholders' equity.

When the Group's share of losses exceeds its interest in an associate or jointly-controlled company, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

ii) Available-for-sale investments

Investments which are not held for trading purposes and where the Group does not have significant influence or control, are classified as investments available for sale. These primarily include the Group's investment of less than 20% in certain locally listed and unlisted companies

These investments are initially recorded at cost and then re-measured and stated in the consolidated balance sheet at their fair values. Fair value is determined by reference to the market value in the open market if an open market exists. In the absence of an open market and if a reliable estimate of the fair value cannot be established by other means the cost is considered to be the fair value for those investments. Any gain or loss arising from a change in their fair value is reported as a separate item under shareholders' equity until the investments are derecognized or impaired. On de-recognition, cumulative gains or losses previously recognized in shareholders' equity are included in the consolidated statement of income. On impairment, the difference between cost and fair value is included in the consolidated statement of income as Impairment of assets. Reversals of impairment loss in respect of equity instruments classified as available-for-sale are not recognised in the consolidated statement of income. Dividend income from such investments is recorded when declared.

Investments which management intends to dispose of within a period of one year are classified as current assets.

iii) Other investments

These include Group's investment in Real estate projects which are under development. These are carried at cost.

f) Business combinations

Business combinations are accounted for using the purchase 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 and 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Intangible assets

i) Goodwill
Goodwill represents the excess cost of investments over the fair value of the net assets acquired in a business combination. Goodwill is tested annually for impairment and is carried at cost net of accumulated impairment losses. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to these units.

If the cost of the acquired investment is less than its fair value as of the acquisition date, such difference is adjusted by reducing the fair values of the non-current assets of the acquired investee in proportion to their book values.

ii) Deferred costs
Deferred costs mainly consist of expenses incurred by the Group on setting up new retail outlets and other projects. Such expenses are amortized using the straight-line method over the related estimated economic lives not exceeding five years.

Deferred costs also include Saudi Industrial Development Fund (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.

h) Property, plant and equipment
Property, plant and equipment are stated at cost, less accumulated depreciation and impairment loss if any. Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of individual item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

	Years
Buildings	12.5 – 33
Leasehold improvements	3 – 25
Plant and equipment	3 – 30
Furniture and office equipment	4 – 11
Motor vehicles	4 – 10

Finance costs on borrowings to finance the construction of the assets are capitalized during the period of time that is required to complete and prepare the asset for their intended use.

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

i) Provisions
Provisions are recognized when the Group has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be measured reliably.

j) Employees' termination benefits
Employees' termination benefits, calculated in accordance with labour regulations of the countries of incorporation of the Group member companies, are accrued and charged to interim consolidated statements of income.

k) Revenue recognition

Revenues are recognized upon delivery or shipment of products or providing services to the customers, and are recorded net of trade discounts. Revenues also include: (a) rental income which is recognized over the lease terms, and (b) promotional and display income which is recognized as earned.

Revenues are principally derived from manufacturing, wholesale and retail business in food and related products.

l) Expenses
Selling, marketing, general and administrative expenses include direct and indirect costs not specifically part of cost of revenues as required under generally accepted accounting principles. Selling and marketing expenses are those arising from the Group's efforts underlying the marketing, selling and distribution functions. All other expenses are classified as general and administrative expenses. Allocations of common expenses between cost of revenues and selling, marketing, general and administrative expenses, when required, are made on a consistent basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Derivative financial instruments - Hedge accounting

The company uses derivative financial instruments (commodity future contracts as well as OTC arrangements) to hedge its price risk of raw material in the Sugar business. Derivatives are measured at fair value, and changes in the fair value of a derivative hedging instrument are recognized in statement of income under cost of sales as an adjustment to the carrying amount of hedged item – the inventory.

n) Operating leases

Payments under operating leases are recognized in the statement of income on a straight-line basis over the lease terms.

o) Zakat and income tax

The Company and its Saudi Arabian subsidiaries are subject to Zakat and income-tax 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 are charged to consolidated statement of income currently.

Deferred tax liabilities and assets are recognized for temporary differences at current rates of taxation. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available in the near future to allow all or part of the deferred tax asset to be utilized.

p) Dividends

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

q) Cash and cash equivalents

Cash and cash equivalents for cash flows purposes comprise cash on hand, cash with banks and other short-term highly liquid investments, if any, with original maturities of three months or less, which are available to the Group without any restrictions.

r) Offsetting

Financial assets and liabilities are offset and reported net in the consolidated balance sheet when there is a legally enforceable right to set off the recognized amounts and when the Group intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

s) Segment Reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services, which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segmental reporting is based on business segments. The business segments are determined based on the Group's management and internal reporting structure.

4. BUSINESS COMBINATIONS

The Group had following acquisitions during the year:

i) Savola Behshahr Company (SBeC), Iran

As explained in Note 1, the Group subsidiary, Afia International Company acquired an additional 31% stake in SBeC, an existing jointly-controlled entity, from BIDC through a Share Purchase Agreement ("the SPA") for a total consideration of SR 265 million. The Group's interest in SBeC has increased from 49% to 80% effective July 1, 2008. However, Afia and BIDC mutually agreed that until all conditions of the SPA were met, SBeC will continue to be treated as jointly controlled entity and managed by BIDC in line with the terms of the existing joint venture agreement dated March 5, 2004. Upon completion of all conditions of SPA relating to the additional acquisition; the group started to consolidate SBeC effective from April 1, 2009.

ii) Saudi Géant Company Limited

As explained in Note 1, effective September 16, 2009, the Group acquired through APU, the operations of Saudi Géant Company Limited ("Géant"), a limited liability company registered in Saudi Arabia. The consideration comprised of cash of SR 232 million and a deferred equity consideration of SR 237.3 million. APU paid the cash consideration on October 12, 2009 and the deferred equity component will be paid in the form of issue of 45,699 new shares (approximately) of APU with a par value of SR 1,000 per share. APU has recorded this amount in its balance sheet under shareholders' equity as 'Proposed increase in share capital; hence the group's shareholding is diluted by 5.6%. The proposed new shares will be issued at a premium of APU's shareholders have also agreed to convert APU into a closed joint stock company at the time of issuance of the aforementioned equity shares. The legal formalities for such process have been initiated as of the year end.

4. BUSINESS COMBINATIONS (Continued)

The fair values of the assets and liabilities of the aforementioned companies as at the date of their acquisition are as follows:

	SBeC (SR 000)	Géant (SR 000)
Current assets	1,341,235	7,788
Non-current assets	699,891	294,245
Total assets	**2,041,126**	**302,033**
Current liabilities	(1,205,659)	(51,071)
Non-current liabilities	(33,938)	(5,423)
Total liabilities	**(1,239,597)**	**(56,494)**
Net assets	801,529	245,538
Add: Goodwill	-	223,764
Total purchase price	**801,529**	**469,302**

In line with the requirements of generally accepted accounting principles and group policies (See Note 3f); the Group carried out a valuation of SBeC identifiable net assets with the assistance of external experts. The carrying values of these assets have been adjusted for consolidation purposes with corresponding goodwill recognized on acquisition. Adjustment in the consolidated statement of income have also been made effective from April 1, 2009. The Group management has also appointed an independent firm to evaluate the appropriateness of such allocation and believes that this study will confirm management's current understanding and no material adjustment will be required in the fair values of net identifiable assets reflected in these consolidated financial statements.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31 comprise the following:

	2009 (SR 000)	2008 (SR 000)
Cash on hand	**25,113**	20,285
Cash in transit	**3,398**	2,014
Cash at bank in current accounts	**972,674**	581,528
Cash and cash equivalents for cash flow statement purposes	**1,001,185**	603,827
Restricted deposits	**89,859**	1,057
	1,091,044	604,884

Restricted deposits represent time deposits, which are blocked against bank facilities granted to overseas subsidiaries by commercial banks.

6. TRADE RECEIVABLES

Trade receivables at December 31 comprise the following:

	2009 (SR 000)	2008 (SR 000)
Related parties (Note 27(a))	**82,329**	62,844
Other customers	**1,417,821**	905,866
Total	**1,500,150**	968,710
Provision for doubtful accounts	**(82,898)**	(48,919)
	1,417,252	919,791

7. INVENTORIES

Inventories at December 31 comprise the following:

	2009 (SR 000)	2008 (SR 000)
Raw and packing materials	**984,770**	925,254
Work-in-process	**92,547**	88,513
Finished goods	**1,063,912**	914,580
Spare parts and consumables	**196,247**	150,937
Materials in-transit	**70,087**	19,981
Total	**2,407,563**	2,099,265
Provision for slow moving items	**(110,962)**	(59,907)
	2,296,601	2,039,358

8. PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets at December 31 comprise the following:

	2009 (SR 000)	2008 (SR 000)
Non-trade receivables	**174,134**	84,098
Prepayments	**159,317**	124,007
Due from related parties (Note 27(a))	**149,524**	482,843
Supplier advances	**101,276**	88,254
Receivable from government authorities	**65,918**	92,821
Employee housing and other advances	**56,929**	35,498
Balance relating to commodity future contracts	**49,000**	30,085
Assets classified as held for sale	**16,119**	16,119
Rental income receivable	**4,747**	26,805
Deferred tax asset of foreign subsidiaries	**3,029**	-
Other	**48,617**	36,732
	828,610	1,017,262

Receivable from government authorities represent claims of foreign subsidiaries from various governments on account of value added tax, custom duties and advanced taxes.

9. INVESTMENTS

a) Investments at December 31 comprise of the following:

	2009 (SR 000)	2008 (SR 000)
Investments in associates and jointly controlled companies – net	**3,373,922**	3,205,042
Available for sale (AFS) investments	**835,438**	764,077
Other investments carried at cost	**847,027**	950,105
Total	**5,056,387**	4,919,224
Less: AFS investments held for short-term period classified under current assets	**-**	(147,853)
	5,056,387	4,771,371

b) Investments in associates and jointly controlled companies at December 31 comprise the following:

		Effective Ownership interest (%)			
	Sector	2009	2008	2009 (SR 000)	2008 (SR 000)
Al Marai Company Ltd. - Saudi Arabia (“Al-Marai”)	Food	**26.5**	28	**1,842,089**	1,447,336
Kinan International for Real Estate Development Company	Real Estate	**30**	30	**546,499**	536,599
Intaj Capital Limited – British Virgin Islands	Private Equity Fund	**49**	49	**393,324**	422,379
Savola Behshahr Company Iran (“SBeC”)	Food	**68.5**	68.5	**-**	594,018
Al-Seara City Company For Real Estate Development	Real Estate	**40**	40	**134,800**	134,800
Diyar Al Mashreq (See note (i))				**234,684**	-
Alexandria Sugar Company (See note (ii))	Food	**45.5**	45.5	**175,372**	30,976
Knowledge Economic City Development Company (KECD)	Real Estate	**17**	17	**13,200**	13,200
Emerge Investment Ltd	Private Equity Fund	**20**	20	**23,233**	18,755
Kinan Arabia for Real Estate	Real Estate	**20**	20	**400**	10,000
Others	Various	**-**	-	**10,321**	6,075
Total				**3,373,922**	3,214,138
Less: Provision for permanent diminution in value of investments in associates				**-**	(9,096)
				3,373,922	3,205,042

i) During the year, the Parent Company transferred its investments in a plot of land carried at cost (included as other investments in the comparative period) to a 62% owned SPV (Akwan). Akwan subsequently disposed of this land to a 37.7% jointly controlled entity (Diyar Al Mashreq) at fair value. This has resulted in the Group realising a net capital gain of SR 85.8 million from disposal of land to the partners in the jointly controlled entity.

The Group expects to receive shares in Diyar Al Mashreq through Akwan as consideration for disposal of this land (to Diyar Al Mashreq) with a face value equivalent to the fair value of the land transferred amounting to SR 231.5 million. Therefore, this amount is reflected as part of investment in jointly controlled entity in these consolidated financial statements.

9. INVESTMENTS (continued)

ii) Alexandria Sugar Company (ASC) is a jointly controlled project in which Savola Foods Company is participating with other shareholders to develop a Beet sugar refinery in Egypt. The company is currently under pre-operating phase and its business conduct is governed by the shareholders agreement. Under the terms of this agreement, shareholders have resolved that USCE shall temporarily hold all shares of ASC on behalf of other shareholders, until legal formalities for the share transfer are concluded. The legal transfer process has started and expected to complete in the first half of 2010. All significant business decisions of ASC require consent of all shareholders.

c) Available for sale investments at December 31 comprise the following:

	2009 (SR 000)	2008 (SR 000)
Cost:		
Quoted securities	**394,253**	828,199
Unquoted investments	**585,945**	473,797
Total Cost	**980,198**	1,301,996
Impairment loss on:		
Quoted securities	**(127,893)**	(355,875)
Unquoted investments	**(16,867)**	(78,075)
Total impairment loss	**(144,760)**	(433,950)
Revised cost	**835,438**	868,046
Unrealized (loss) on quoted securities	**-**	(103,969)
Carrying value	**835,438**	764,077

Unquoted investments include the Group's ownership of 14% in Swicorp Joussour Company amounting to SR 209 million (2008: SR 209 million), 15% in Swicorp Company, Saudi Arabia amounting to SR 116 million (2008: SR 116 million), 5% in Dar Al Tamleek SR 26.5 million (2008: SR14 million), and 6.4% Knowledge Economic City SR 217 million (2008: 217million).

d) Other investments at December 31, 2009 mainly represent investments in real estate projects amounted to SR 804 million (2008: SR 941 million) in Saudi Arabia and the Group's (100%) investment in Savola Snack Foods Company Ltd – under liquidation. ("SSFC")- a company in liquidation. No significant gain or loss is expected upon liquidation of SSFC. It also includes long term bank deposits of Savola Behshar Company amounting to SAR 31 million.

e) Gain on disposal of investments:

During the year, the Group has recognised a net gain of SR 194.9 million on account of dilution of its ownership interest in Al-Marai. This gain has resulted due to Al-Marai's issuance of its shares to other parties as a consideration of acquiring a business at a premium. The amount of gain represents the difference between the carrying amounts immediately before and after the acquisition transaction of Al-Marai.

Gains on disposal of investments for the year ended December 31, 2009 also include the Group's disposal of interest in Azizia Commercial Investment Company (ACI) realizing gain of SR 33 million.

10. INTANGIBLE ASSETS

Intangible assets at December 31 comprise the following:

	2009 (SR 000)	2008 (SR 000)
Deferred costs	**112,258**	140,291
Goodwill	**917,611**	654,373
	1,029,869	794,664

a) Deferred costs

The movement in deferred costs for the year ended December 31 is as follows:

	2009 Total (SR 000)	2008 Total (SR 000)
Cost:		
Balance at beginning of the year	**390,559**	273,890
Additions during the year	**30,719**	116,669
Balance at end of the year	**421,278**	390,559
Accumulated amortization:		
Balance at beginning of the year	**(250,268)**	(195,456)
Charge for the year	**(58,752)**	(54,812)
Balance at end of the year	**(309,020)**	(250,268)
Net balance at December 31	**112,258**	140,291

Additions to deferred charges principally represent expense incurred on setting up new retail outlets in Saudi Arabia and amount paid to acquire rights for leased land.

10. INTANGIBLE ASSETS (continued)

b) Goodwill

The movement in goodwill for the year ended December 31 comprise the following:

	2009 (SR 000)	2008 (SR 000)
Balance at beginning of the year	**654,373**	238,414
Additions during the year		
- KUGU Gida Yatum Ve Ticaret A.S	-	200,368
- Giant Stores Trading Company	-	83,452
- Savola Industrial Investments Company	-	116,150
- AFIA International Company	**56,368**	64,204
- Savola Foods Company	**25,981**	-
- New Marina for Plastic Industries	**9,080**	-
- Saudi Géant Company Limited	**224,482**	-
- United Company for Central Markets	**1,225**	-
	317,136	464,174
	971,509	702,588
Adjustments due to exchange rate fluctuation and Impairment losses	**(53,898)**	(48,215)
Balance at end of the year	**917,611**	654,373

11. PROPERTY, PLANT AND EQUIPMENT

a) The movement in property, plant and equipment during the year ended December 31, 2009 is analyzed as under:

	Land (SR 000)	Buildings (SR 000)	Leasehold improvements (SR 000)	Plant and equipment (SR 000)	Furniture and office equipment (SR 000)	Motor vehicles (SR 000)	Capital work in progress (SR 000)	Total (SR 000)
Cost:								
Balance at January 1, 2009	423,489	1,425,488	520,649	3,034,496	763,184	174,211	316,398	6,657,915
Additions	16,228	77,853	139,344	160,583	128,758	69,022	47,936	639,724
Transfers from capital work in progress	-	-	-	-	-	-	-	-
Assets acquired in business combinations	483,152	459,247	-	303,854	174,513	14,979	84,170	1,519,915
Disposals	(32,472)	(215,191)	(1,581)	(24,017)	(33,569)	(15,122)	(1,736)	(323,688)
Balance at December 31, 2009	890,397	1,747,397	658,412	3,474,916	1,032,886	243,090	446,768	8,493,866
Accumulated depreciation:								
Balance at January 1, 2009	-	317,406	187,157	1,398,814	405,609	98,266	-	2,407,252
Charge for the year	-	76,812	28,224	169,276	104,050	37,746	-	416,108
Assets acquired in business combinations	-	51,227	-	129,633	13,223	9,924	-	204,007
Disposals	-	(12,181)	(646)	(16,669)	(28,088)	(12,678)	-	(70,262)
Balance at December 31, 2009	-	433,264	214,735	1,681,054	494,794	133,258	-	2,957,105
Net book value:								
At December 31, 2009	**890,397**	**1,314,133**	**443,677**	**1,793,862**	**538,092**	**109,832**	**446,768**	**5,536,761**
At December 31, 2008	423,489	1,108,082	333,492	1,635,682	357,575	75,945	316,398	4,250,663

11. PROPERTY, PLANT AND EQUIPMENT (continued)

b) Additions include SR 1.7 million in respect of interest capitalized during 2009 (2008: SR 12.9 million). The rate used to determine the amount of finance costs capitalized during 2009 was 4% (2008: 6%).

c) Capital work in progress relates to the construction of super markets and hyper markets for APUC and upgrading and enhancing the production facilities of AIC, SPS and some of their subsidiaries.

d) Under the terms of land lease agreements with Jeddah Industrial City, Jeddah Islamic Port and Riyadh Industrial City, certain subsidiaries have renewable operating leases for lands on which their production facilities are located. Annual lease and service charge payments to the lessor are nominal.

e) See Note 16 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 DEBTS

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

13. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities at December 31 comprise of the following:

	2009 (SR 000)	2008 (SR 000)
Accrued expenses	**246,587**	218,803
Accrued Zakat and income tax (Note 24(b))	**203,948**	88,358
Balances related to forward contracts	**226,030**	200,891
Employee related accrual	**218,847**	137,932
Due to related parties (Note 27 (a))	**189,933**	112,247
Unclaimed dividend	**167,822**	160,347
Accrued advertising	**37,535**	88,520
Directors› remuneration (Note 27 (b))	**6,722**	6,406
Deferred tax liability	**6,207**	-
Other	**157,248**	310,330
	1,460,879	1,323,834

14. DEFERRED GAIN

During 2009, the Group's real estate subsidiary, Al Matoun sold some of its land and buildings (leased to APU) having a net book value of SR 231.22 million (2008: SR 48.3 million) and realized a net capital gain of SR 62.78 million (2008: SR 34.99 million) from such sale. Concurrently, the third party entered into an operating lease agreement with APU for the lease of same assets for a period of eighteen (2008: ten) years. Accordingly, the Group has deferred the gain of SR 62.78 million (2008: SR 34.99 million) over the lease period.

15. 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 amounts have not yet been claimed by the respective shareholders for several years. In the opinion of management, such amounts are unlikely to be paid during 2010 and, accordingly, they have been classified under non-current liabilities.

16. LONG-TERM DEBTS

Long-term debts at December 31 comprise the following:

	2009 (SR 000)	2008 (SR 000)
Saudi Industrial Development Fund ("SIDF")	21,134	32,239
Commercial banks and financial institutions	2,770,157	1,224,538
	2,791,291	1,256,777
Presented in the balance sheet:		
Current portion included under current liabilities	795,089	139,641
Non-current portion included under non-current Liabilities	1,996,202	1,117,136
	2,791,291	1,256,777

SIDF loans

SIDF has provided loans to Herfy, and SPS to finance the manufacturing facilities and expansion projects. The loans are secured by a charge on property, plant and equipment and personal/corporate guarantees of the shareholders. At December 31, 2009, property, plant and equipment having a value of SR 651 million (2008: SR 1,757 million) were charged as security against SIDF loans. The SIDF loan agreements include certain covenants, which among other things require that certain financial ratios be maintained.

Commercial banks and financial institution debts

The Group has obtained loans and Murabaha financing from various commercial banks and financial institutions in order to finance capital projects, investments and for working capital requirements. Finance charges on these debts are based on prevailing market rates.

At December 31, 2009, the loan of SR 1,257 million (2008: SR 170 million) owed by subsidiaries are secured by a corporate guarantee of the Savola Group and a letter of understanding issued to the commercial banks. At December 31, 2009, certain foreign subsidiaries' loans amounting to SR 336 million (2008: SR 269 million) are secured by a lien over property, plant and equipment of such subsidiaries.

The financing agreements include certain covenants, which, among other things, require certain financial ratios to be maintained.

17. SHARE CAPITAL AND DIVIDENDS

At December 31, 2009, the Company's share capital of SR 5 billion consists of 500 million fully paid shares of SR 10 each (December 31, 2008: SR 5 billion consists of 500 million fully paid shares of SR 10 each).

The details of interim dividends approved and final dividend proposed by the Board of Directors are as follows:

Date	Dividend rate	Interim / Final	Amount SR (Million)
April 19, 2009	SR 0.25 per share	Interim	125
July 18, 2009	SR 0.25 per share	Interim	125
October 17, 2009	SR 0.25 per share	Interim	125
January 17, 2010	SR 0.25 per share	Final	125

18. STATUTORY RESERVE

In accordance with the Company's Articles of Association and the Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required to transfer each year 10% of its net income to a statutory reserve until such reserve equals 50% of its share capital.

Statutory reserve is not available for distribution to the shareholders. However, the statutory reserve can be used for meeting the Company's losses or for increasing its capital. If the reserve exceeds one half of the company's capital, the general meeting may resolve to distribute such excess as dividends among the shareholders in the years during which the Company fails to achieve sufficient net profits for distribution of the minimum dividends prescribed in Company's articles of association.

19. OTHER INCOME – NET

Other income for the year ended December 31 comprises the following:

	2009 (SR 000)	2008 (SR 000)
Product listing and opening fees	**30,008**	52,967
Scrap sales	**34,120**	15,881
Rental income	**1,844**	988
Others – net	**13,905**	40,690
	79,877	110,526

Product listing fee represents the fee received from suppliers to list their products in new retail store openings and is recognized in the period it is earned.

20. SELLING AND MARKETING EXPENSES

Selling and marketing expenses for the year ended December 31 comprise the following:

	2009 (SR 000)	2008 (SR 000)
Staff costs	**565,210**	454,200
Rent	**188,486**	134,990
Advertising and sales promotion	**256,214**	198,515
Depreciation	**192,650**	109,036
Utilities	**110,948**	78,759
Repairs, maintenance and consumables	**50,565**	31,205
Bad and doubtful debts	**8,074**	3,491
Other	**161,427**	112,837
	1,533,574	1,123,033

21. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the year ended December 31 comprise the following:

	2009 (SR 000)	2008 (SR 000)
Staff costs	**378,338**	296,944
Amortization and impairment of intangible assets	**43,329**	27,521
Depreciation	**18,870**	23,037
Rent	**18,994**	12,789
Technical and professional fees	**24,118**	28,671
Utilities, telephone and communication	**14,001**	12,814
Travel	**13,918**	12,459
Repairs and maintenance	**7,272**	8,651
Training	**6,772**	6,945
Insurance	**6,280**	8,817
Computer-related	**3,958**	3,569
Other	**92,933**	23,274
	628,783	465,491

22. IMPAIRMENT OF ASSETS

During the year, the Group has re-assessed the fair valuation of investments available for sale and made an impairment loss adjustment of SR 145 million (2008: SR 432 million) representing the difference between carrying value and fair value at December 31, 2009.

In accordance with the requirement of SOCPA standard on “Intangibles Assets”, Group management has carried out an impairment test in respect of the Goodwill carried in the Group’s consolidated financial statements in respect of certain overseas operations. The recoverable amounts have been determined based on “value in use” and other financial performance indicators.

The key assumptions used for value-in-use calculations are as follows:

1. Budgeted gross margin.
2. Weighted average growth rate
3. Discount rate applied to the cash flow projections.

Management determined budgeted gross margin and weighted average growth rates based on past performance and its expectations of relevant economic development. The discount rates used are pre-Zakat / tax and reflect specific risks relating to the industry. The results of impairment tests at December 31, 2009 resulted in an impairment charge of SR 44.96 million in these consolidated financial statements.

23. FINANCIAL CHARGES- NET

Financial charges-net for the year ended December 31 comprises the following:

	2009 (SR 000)	2008 (SR 000)
Bank commission on loans and other borrowings	**244,468**	162,800
Income earned on short-term bank deposits	**(17,131)**	(9,142)
	227,337	153,658

24. ZAKAT AND INCOME TAXES

a) Charge for the year

The Company and its subsidiaries file separate Zakat and income tax declarations, which are filed on an unconsolidated basis using the equity method of accounting. Significant components of Zakat base of each Saudi 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 property, plant and equipment, investments and certain other items. In case of negative Zakat base, no Zakat is payable by the Company for the year.

Zakat and income-tax charge for the year ended December 31 comprise the following:

		2009 (SR 000)	2008 (SR 000)
Zakat	– current year	23,564	16,982
	– prior years	-	10,175
Income-tax	– current year	39,759	26,230
		63,323	53,387

b) Accrued Zakat and income-tax

The movement in the accrued Zakat and income-tax for the year ended December 31, is analyzed as under:

	2009 (SR 000)	2008 (SR 000)
Balance at beginning of the year	88,358	112,449
Adjustment due to consolidation of a subsidiary	111,251	-
Charge for the year	63,323	53,387
Payments and adjustments during the year	(58,984)	(77,478)
Balance at end of the year	203,948	88,358

c) Zakat Status

The Company has obtained final Zakat certificates up to the year ended December 31, 1998 and has obtained the provisional Zakat certificate up to the year ended December 31, 2007. The Company has submitted final Zakat return for the year 2007.

During 2004, the Department of Zakat and Income Tax (DZIT) assessed an additional Zakat liability of SR 16.8 million for the years 1999 to 2002, against which the Company filed two objection letters with the Zakat Objection Committee ("ZOC"). The Zakat Objection Committee (ZOC) issued its decision for the years 1999 & 2000 in favour of the Company according to which the Zakat differences of SR 4.9 million were reduced to SR 292 thousand. However, the DZIT filed an appeal with the Higher Zakat Appeal Committee (HZAC) against the ZOC decision. The HZAC issued its decision in favour of the DZIT on March 10, 2007. The Company filed a petition against the HZAC decision with the Board of Grievances, the result of which has not been declared yet. In respect of the years 2001 and 2002, ZOC issued its decision based on which the Zakat differences have been reduced from SR 11.8 million to SR 3 million. However, the Company filed an appeal with HZTAC against the remaining balance of SR 3 million, together with the bank guarantee of the said balance. The HZTAC issued its decision in favour of the Company, which resulted in waiving the remaining balance of SR 3 million.

In respect of the years 2003 and 2004, the DZIT issued its assessment and claimed Zakat differences of SR 4.3 million. The Company filed an objection against the said Zakat differences, to the Second Preliminary Objection Committee (SPOC), which issued its decision and reduced differences of SR 4.3 million to SR 3.5 million. The Company has filed the appeal with HZTAC against SPOC decision and submitted the bank guarantee for SR 3.5 million. The outcome of the above pending appeals has not been finalized at the time of issuance of these consolidated financial statements.

24. ZAKAT AND INCOME TAXES (continued)

c) Zakat Status (continued)

In respect of the years 2005, 2006 and 2007, the DZIT has not issued its assessments yet.

The Saudi 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 / will be filed by the respective companies.

Some Saudi consolidated subsidiaries received assessments from the DZIT concerning their Zakat declarations for the open years, in which the DZIT assessed additional Zakat liabilities of approximately SR 36.6 million. This amount mainly resulted from application of ministry of Ministerial Resolution No. 1005 against consolidated financials of one of the subsidiaries for the years 2005 and 2006.

The companies objected to such assessments and filed their cases and the matter is pending with the DZIT and Appeal Committees.

d) 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 subsidiaries are currently tax exempt. Tax paying subsidiaries determine their liabilities based on applicable corporate rates to the adjusted taxable income for the year. Certain subsidiaries are also obliged to pay quarterly advances tax determined on prior year tax liability bases.

Certain 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.

25. EARNINGS PER SHARE

Earnings per share for the year ended December 31, 2009 have been computed separately by dividing the income from operations (including minority's share) and net income for such period by the weighted-average number of ordinary shares outstanding during the year 2009 of 500 million shares.

26. COMMITMENTS AND CONTINGENCIES

The Group has outstanding bank guarantees and letters of credit amounting to SR 786 million at December 31, 2009 (2008 - SR 338 million), which were issued in the normal course of business. Also see Note 11 with respect to guarantees given for certain loans, Note 23 with respect to Zakat contingencies, and Note 28 with respect to leases.

The Company has also given a corporate guarantee against an SIDF loan to an associated company in proportion to its ownership interest in the associated company.

At December 31, 2009, one of the subsidiaries had commitments to sell in 2010 refined sugar of approximately 196,731 tons (2008: 371,725 tons to sell in 2009) at prices, which would approximate the prevailing market prices at the contract date. The raw sugar price of committed sale contracts is hedged through forward contracts.

At December 31, 2009, the Group had outstanding commitments of SR 204 million (2008: SR 419 million) for investments.

27. RELATED PARTY TRANSACTIONS AND BALANCES

Related party transactions mainly represent sale of products in the ordinary course of business to entities related to certain consolidated subsidiaries. The terms of such transactions are mutually agreed between the parties. One of the consolidated subsidiaries was provided technical services by its foreign shareholder. The Company arranges for credit facilities to its affiliated entities through local commercial banks. The Group has some investment related transactions and current account balances with some affiliate companies. All related party transactions are approved by the management.

27. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

During the year ended December 31, the Group had the following significant transactions with its related parties.

	2009 (SR 000)	2008 (SR 000)
Shareholders of subsidiaries:		
Revenues – net	**588,863**	547,070
Purchase of technical services	**7,138**	3,750
Rent Charged by subsidiary shareholder	**600**	300
Salaries and management fee charged by subsidiary shareholder	**4,815**	3,713

a) The balances with related parties at December 31, principally resulting from the aforementioned transactions, are as follows:

	2009 (SR 000)	2008 (SR 000)
Due from related parties (included under trade receivables):		
Certain shareholders of USC	**82,329**	62,844
Due from related parties (included under prepayment and other current assets):		
Dividend receivable from Savola Behshahr Company	**-**	104,479
Seerah City for Real Estate Development	**30,265**	90,958
Savola Behshahr Company	**-**	25,644
Shareholders of an associate	**40,000**	40,000
Net receivable from Muhadib Holding Company	**-**	146,544
Intaj Capital Limited	**70,560**	70,560
Afia Wings International Company Limited	**2,757**	2,757
Saudi Retail	**3,736**	-
Pronto Digital	**569**	-
Akwan	**142**	-
Hasoon	**1,107**	-
Others	**388**	1,901
Total	**149,524**	482,843
Due to related parties (included under accrued expenses and other current liabilities):		
Behshahr Industrial Development Company ("BID")	**-**	39,399
Current account with Kinan International for Real Estate Development Company	**19,395**	12,521
Kinan Arabia for Real Estate	**50,000**	50,000
Savola Snacks Foods Company (see Note 9 (d))	**10,327**	10,327
Ahmed Hammad Al Saeed	**1,330**	-
Al-Mohadib Holding company	**21,942**	-
Abdul Qadir Mohadib Company	**23,316**	-
Mohadib and Sons	**59,800**	-
Diyar Al Mashreq	**3,823**	-
Total	**189,933**	112,247

27. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

b) Board of Directors' remuneration for the years ended December 31, 2009 amounting to SR 2.2 million (2008: 2.2 million) has been calculated in accordance with the Company's Articles of Association and is considered as appropriation shown in the statement of changes in shareholders' equity. Attendance allowances to the directors and members of various board committees for the year ended December 31, 2009 amounting to SR 554 thousand (2008: SR 365 thousand) are charged to expenses and included under general and administrative expenses.

28.SEGMENT REPORTING

During the years ended December 31, 2009 and 2008, the principal activities of the Group were related to the manufacturing, wholesale, marketing and retail trading in various types of food and related products. Selected financial information as of December 31, 2009 and 2008, and for the years then ended, summarized by business segment area, are as follow:

	Manufacturing / wholesale (SR 000)	Retail (SR 000)	Investment and other activities (SR 000)	Total (SR 000)
2009				
Property, plant and equipment – net	**2,881,190**	**2,650,149**	**5,422**	**5,536,761**
Other non-current assets – net	**824,648**	**417,860**	**4,843,748**	**6,086,256**
Revenue – net	**9,997,106**	**7,920,096**	**-**	**17,917,202**
Net income	**477,573**	**136,783**	**337,209**	**951,565**
2008				
Property, plant and equipment – net	2,244,188	2,000,514	5,961	4,250,663
Other non-current assets – net	1,299,256	224,292	4,042,487	5,566,035
Revenue – net	7,701,736	6,119,641	-	13,821,377
Net income	46,773	177,374	(21,789)	202,358

The Group's operations are conducted in Saudi Arabia, Egypt, Iran and certain other geographical areas. Selected financial information as of December 31, 2009 and 2008 and for the years then ended, summarized by geographic area, is as follows:

	Saudi Arabia (SR 000)	Egypt (SR 000)	Iran (SR 000)	Other countries (SR 000)	Total (SR 000)
2009					
Property, plant and equipment - net	**3,674,247**	**793,471**	**658,118**	**410,925**	**5,536,761**
Other non-current assets – net	**5,111,511**	**294,589**	**-**	**680,156**	**6,086,256**
Revenue – net	**11,817,035**	**2,100,731**	**1,822,149**	**2,177,287**	**17,917,202**
Net income	**832,118**	**41,567**	**134,376**	**(56,496)**	**951,565**
2008					
Property, plant and equipment - net	3,114,793	788,415	-	347,455	4,250,663
Other non-current assets – net	4,662,511	60,467	594,018	249,039	5,566,035
Revenue – net	10,485,597	1,743,635	-	1,592,145	13,821,377
Net income	376,267	(54,317)	67,318	(186,910)	202,358

29. 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, 2009 amounted to SR 236 million (2008: SR 180 million).

At December 31, 2009, the Group's obligations under operating leases are analyzed as under:

	2009 (SR 000)
Within one year	331,276
Between two and five years	313,876
More than five years	1,924,189
Total	2,569,341

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments carried on the consolidated balance sheet include cash and cash equivalents, trade receivables, investments, short-term bank debts, accounts payable, certain other assets and 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.

Fair value and cash flow interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's financial position and cash flows. The Group's interest rate risk arises mainly from short term bank deposits and bank debts and long term debts, which are at floating rates of interest. All deposits and debts are subject to re-pricing on a regular basis. Management monitors the changes in interest rates and believes that the fair value and cash flow interest rate risks to the Group are not significant.

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value.

Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet the Group's future commitments.

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 Riyal, United States dollar, Iranian Riyal, Turkish Lira and Egyptian Pound. Against some of these group is exposed to currency risk. Other transactions in foreign currencies are not material.

Market price risk is the risk that the fair value of a Group's available for sale investments fluctuates due to changes in market prices. The Group's holds investment in certain listed equities in Saudi and Jordanian stock exchange which carries market price risk. The Group endeavours to minimize risk through diversification across various sectors of the Saudi stock market and limiting its exposures to segments which are related to Group activities.

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 accompanying consolidated financial statements are prepared under the historical cost method, except for the revaluation of the available-for-sale securities at fair value through equity, and the consolidation of foreign subsidiaries at fair values; differences may 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.

31. SUBSEQUENT EVENTS

On January 17, 2010, the group completed an initial public offering in the Saudi capital market of 30% of its share capital in Herfy raising SR 413.1 million. The shares are listed on the Tadawul securities market on February 2, 2010.

THE SAVOLA GROUP AND SUBSIDIARIES CONTACTS AND ADDRESSES

The Savola Group welcomes your constructive comments and suggestions that might enhance the quality of services provided to our valued shareholders and customers.

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