THE SAVOLA GROUP: A DIFFERENT KIND OF A SAUDI ARABIAN OIL COMPANY

A CORPORATE GOVERNANCE CASE STUDY

DEVELOPED FOR THE SAAFAH CORPORATE GOVERNANCE AWARD WINNERS CEREMONY 2016

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September 2016

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Corporate origins

The Savola Group is one of the fastest-growing corporations in the Middle East and North Africa, operating also in Central Asia and Europe. The Group has a diverse portfolio of businesses and activities including edible oils, vegetable ghee, sugar, pasta, retail and plastics. It also has significant investments in listed and unlisted Saudi companies, investment funds and real estate. The Group history spans over three decades of diversifying, building and - more recently - consolidating brands and projects under the umbrella of a single holding company, headquartered in the Kingdom of Saudi Arabia.

The Savola Group was established in 1979 in Jeddah as a public joint stock company with the objective of manufacturing and marketing edible oil and vegetable ghee in Saudi Arabia. The company began its operations with 40 million SAR capital (equivalent to $10 million USD) and 200 employees, importing and refining raw vegetable oils under the original company name of Saudi Vegetable Oils & Ghee Co. The history of the company is unique as most companies in the Kingdom originated either as family- or state-controlled entities.

At the outset, the ownership of Savola was divided in equal measure among 25 shareholders, including 2 representatives of the Royal Family, members of prominent Saudi merchant families as well as 2 institutional investors (the General Authority for Social Security as well as the Saudi Economic and Development Company). The fact that the company was incorporated as a joint stock company with no majority shareholders and half of its capital open for public subscription was a distinctive and a decisive feature in its future and its governance structure.[1]

In these initial stages of the establishment, and in light of the limited financing which came principally from the founders, the focus of its operations was entirely domestic and the company faced robust competition from established multinationals operating in the local market. The initial seeds of the company’s success were sown through the visionary approach of its management and the board, notably the focus on unsatisfied consumer demand and tapping into the hereto unexploited consumer preferences.

Novel approach

While at the time, the concept of market research was novel to the Saudi market, the approach of Savola’s management - to have a close ear to the ground in its domestic market - was integral to the strategy and the emerging competitiveness of the company. The company’s early success also owes to the integration of the production process in its value chain, which helped to minimise the cost of raw materials, accounting for as much as 70% of product costs.

These principles, on which the company’s success was founded in the early 1980s, have proven integral to Savola's ethos - not only in the development of the edible oils operation, but in the subsequent diversification to other food products, retail, and real estate. For the first 15 years, the company was focused on edible oils, securing a 70% share in the edible oil market by 1990s. Acquisition of and investment in companies in its sector was a cornerstone of its expansion strategy.

The relationship with Swicorp, a private equity firm established in the Kingdom in 1987, was crucial as it facilitated acquisitions for the Group. Savola acquired a 15% stake in Swicorp at the time when private equity activity was virtually inexistent in the Kingdom. This acquisition resulted in a long term collaboration between the two companies as Swicorp arranged private placements, initial public offerings and private

[1] In fact, Savola became a publicly traded company before the official establishment of the Saudi Stock Exchange, Tadawul.

equity deals for Savola.[2] In a period when private equity funds did not exist in the Saudi market, acquisition and subsequent sale of companies through private equity funds formed a major part of Savola's activities.

A turning point in Savola's development was the acquisition of a 40% stake in Almarai, a Saudi beverage company, which jointly with PepsiCo operates International Diary and Juice.[3] Almarai was established in the Kingdom by H.H. Prince Sultan bin Mohammed bin Saudi Al Kabeer approximately at the same time as Savola with the idea of transforming the traditional diary industry in Saudi Arabia through more effective industrial technologies.[4] The Almarai acquisition proved instrumental to Savola's long term vision.

Expansion ambitions

The establishment of a sugar refinery in Jeddah in 1994 was a starting point for the Group's expansion to other sectors. The initial expansion of the Group was premised on a vertical integration of its operations in the food sector sector with plastics and distribution in order to generate inter-group value by limiting outsourcing. The initial sectoral diversification supported subsequent geographic expansion of the company as the sugar refining and edible oils businesses were developed at first in Egypt and later elsewhere in the region.

Retail operations of the Savola Group began in 1998 with the acquisition of the Panda Azizia United Group of grocery stores (later renamed Panda Stores), aimed to facilitate the distribution of Savola products through mass retail. The acquisition of Panda positioned Savola as an anchor tenant in shopping malls which brought an important source of revenue but also put the group in competition with leading real estate groups in the Kingdom and in the GCC more generally.

As part of the Panda takeover in 1998, Savola had also acquired a majority stake in the Herfy Group which operated principally a chain of fast food restaurants[5] as well as meat and bakery businesses. Savola become a shareholder with a 70% stake in Herfy, the balance held by the company's founder. With a subsequent listing of 30% of its shares, Herfy became a publicly listed company in 2010 and Savola's share was diluted to 48%.

Recognising that retail and real estate require different skills and oversight, Savola separated the two operations to form a real estate division operating alongside Panda. Kinan International Real Estate Company was established to own and operate Savola's mall properties. Retail operations grew to 181 stores by the end of 2012, demonstrating that the separation of the two business was an astute manoeuvre.

Building on its early success in Saudi Arabia, Savola continued to expand its operations, primarily in the Middle East and North Africa region with the focus on the Egypt, Algeria, Lebanon, Syria, Iran, Morocco, Turkey, Sudan and Kazakhstan. Most of the expansions were supported by acquisitions as opposed to organic growth. Savola purchased of a range of international targets such as an edible oil company in Turkey and a pasta business in Egypt.[6] In Sudan and Morocco, the company made greenfield investments, as opposed to acquiring targets.

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[2] In 1992, Swicorp advised Savola on the acquisition and a private placement of its snack foods business and in subsequent years on the acquisitions in Saudi Arabia and Egypt Savola Edible Oils.

[3] This stake which was subsequently diluted and increased again in 2012 to 37% in 2012. Today, Savola is the largest Almarai shareholder.

[4] Almarai was subsequently listed on the Saudi Stock Exchange and has expanded its operations beyond the GCC and in other sectors with the acquisition of companies in the bakery and poultry sectors.

[5] In recent years, approximately 85% of Herfy Food Services revenues were derived from the restaurant business (Arqaam, July 27, 2016).

[6] The acquisition of the pasta business in Egypt by Savola Foods was its most significant transaction to date.

Domestically, Savola acquired Geant supermarkets in order to reinforce its retail presence in the Kingdom. At the same time, the company used its resources to augment its ownership in existing strategic investments such as Almarai which Savola felt would contribute to its long-term performance considering the demographics in Saudi Arabia and other GCC countries where Almarai was operating. The company also purchased holdings of its Chairman, Sulaiman Al Muhaidib, in Savola Foods (10%) and in Panda supermarkets (18.6%). The financing of these acquisitions was supported by the issue of additional 7% of Savola shares through the public equity market.

Two decades after its establishment, the Savola Group was operating companies in retail, food and plastics sector across the Middle East and North Africa region. The company's diversification drive coupled with an opportunistic investment strategy resulted in the fact that in addition to to food and plastics businesses, it had sizeable investments in sectors as diverse as glass and paper manufacturing, bakery and snacks production. It had also accumulated a number of strategic portfolio investments in unrelated sectors (e.g. Dar Al Tamlik, Jordanian Tameer Company, etc.). In addition, it had significant land holdings which enabled it to be the founding shareholder of Knowledge Economic City in Madina and of the King Abdullah Economic City in Rabigh.

Divestment and consolidation

The Group's acquisition ambitions, which underpinned its growth since establishment, slowed down in past years, well before other groups in the Kingdom were driven to do the same due the economic contraction in the Gulf in 2015. Savola's the strategic focus shifted towards consolidation and strengthening of its core businesses which the company believes have a growing competitive advantage. As such, the company started to divest of its non-core investments accumulated in the past 3 decades.

Between 2009 and 2014, the company exited investments worth 3.9 billion SAR, most of which real estate projects. Notably, in November 2013, the Savola Group divested of its 80% stake in its land plots to the Knowledge Economic City (KEC) for SAR 631.3 million (equivalent to $168 million USD), realising a capital gain of SAR 231.4 million (equivalent to $62 million USD). A major non-real estate divestment was its sale of its packaging business (Savola Packaging Company) in 2015, raising close to 900 million SAR (approximately $250 million USD). At the same time, a number of Savola Group companies have also exited key strategic investments.

The only deviation from the consolidation and divestment strategy adopted by the Group has been its attempted acquisition – through a consortium with Singapore's sovereign wealth fund Tamasek - of the Kuwait Food company (Americana), a franchise operator of fast food restaurants in Kuwait.[7] The bid, involving the transfer of a majority stake in the company previously held by the prominent Kuwaiti Al Kharafi family, was subsequently won by a consortium of Emirati investors for $2.4 billion USD.

[7] Acquiring Americana was thought to complement Savola's fast-food business, Herfy Food Services, which operates more than 200 burger fast food restaurants across Saudi Arabia.

ORGANISATION AND OWNERSHIP

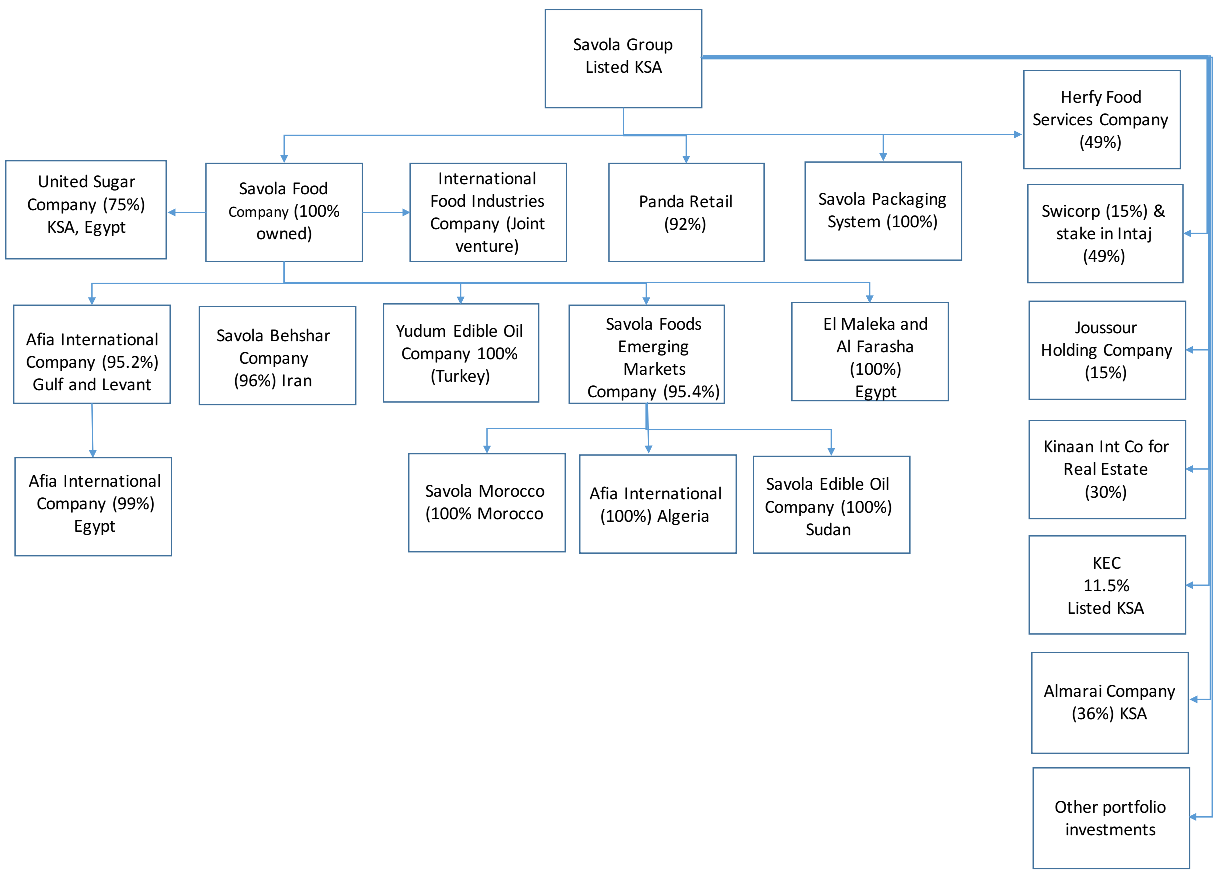
Corporate structure

Today, the Savola Group operates as a holding company listed on Saudi Arabia's stock exchange (Tadawul) with a range of food brands all over the region, in addition to a number of equity portfolio investments not directly related to its core business. While many of its real estate investments and non-food related businesses were divested, the Group still retains a number of portfolio investments. The management of the Group does not believe that there is a strong rationale to rapidly divest of its other investments, the value of which is estimated at 21 billion SAR (equivalent to $5.6 billion USD).

The organizational structure of the Group is complex with a number of direct holdings by the Savola Group and a number of investments under the Savola Food Company. Most of Savola's investments except Almarai and Herfy Foods are not listed on public equity markets either in Saudi Arabia or elsewhere. Almarai and Herfy Foods are listed on the Saudi Stock Exchange and are hence subject to the same listing and corporate governance rules as the Savola Group.

The detailed structure of the Savola Group is depicted in Figure 1 below. Apart from the company's financial investments, most of its subsidiaries are majority-owned. The number of non-core equity investments has been declining in recent years. Also, the Savola Group has in approximately 20 non-active subsidiaries which were not included in the Figure. Due to the recent revision of the Saudi Companies Law which now allows listed companies such as Savola to own directly joint stock and limited liability companies (without inviting additional shareholders), the Group is in the process of winding down these special purpose vehicles.

Figure 1. The Organisation Structure of the Savola Group



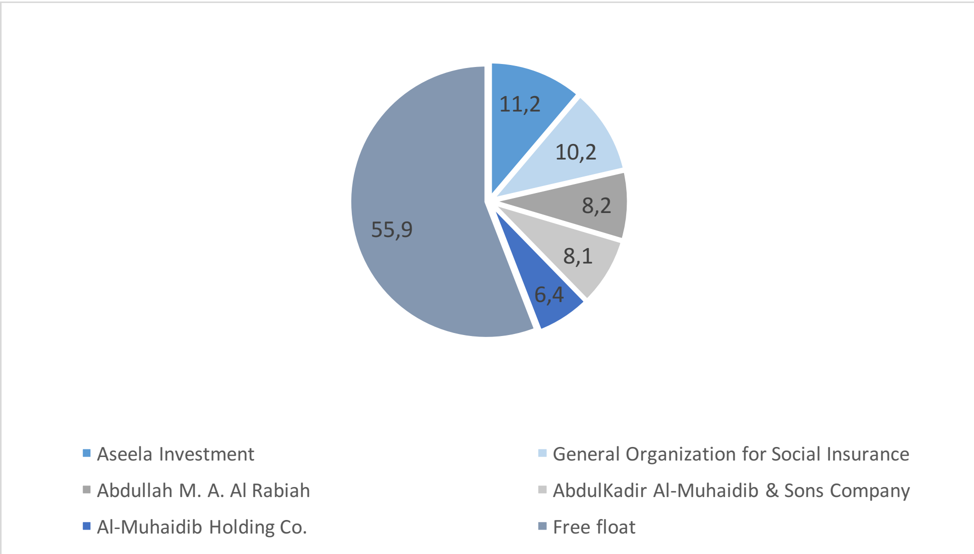
Source: Savola Annual Reports and website.

Ownership structure

The ownership structure of the Savola Group itself has changed over the years: although a number of founding shareholders are still present, their stakes have been diluted over the years. As can be seen from Figure 2, only 2 shareholders have a stake in the company exceeding 10% (GOSI and Aseela Investment), and most other large shareholders in the company are high net worth individuals, unsurprising considering that the Saudi market is dominated by retail investors.

The company counts a number of family offices such as Kingdom Holding among its investors and considering the sophistication of these investors and their knowledge of the capital market, they can effectively be considered as institutional actors. Foreign investment in the company is currently insignificant, despite the fact that the rules on qualified financial investors were amended in 2016 by the Saudi Capital Market Authority, allowing foreign ownership of up to 49%. Ownership by foreign investors has evolved slowly: for example, between 2015 and 2016, it rose from approximately 2.2% to 3.2%.

Figure 2. Savola Group Ownership Structure



Source: Savola Group, 2016.

Market performance

Savola's market capitalisation reached 44 billion SAR (equivalent to $12 billion USD) by end 2015, which makes it one of top five companies by market capitalisation listed on the Tadawul. It is currently one of the 15 listed companies in the food sector, alongside Herfy Food Services and Almarai in which it owns stakes (refer to Figure 3 below). The exchange currently has over 160 listed companies and is the largest and most liquid market in the Middle East and North Africa region. Refer to Annex I for a summary of food sector companies listed on the Saudi Stock Exchange, Tadawul.

While it is present across the region, its home market is still dominant in terms of the revenue structure with 35% of the revenues originating from the Kingdom, while Iran and Egypt each account for over 20%, the remainder distributed among other countries of the region. This is linked to fact that in Saudi Arabia Savola partially controls both the production and the distribution systems for its products through its ownership of close to 200 supermarkets and hypermarkets.

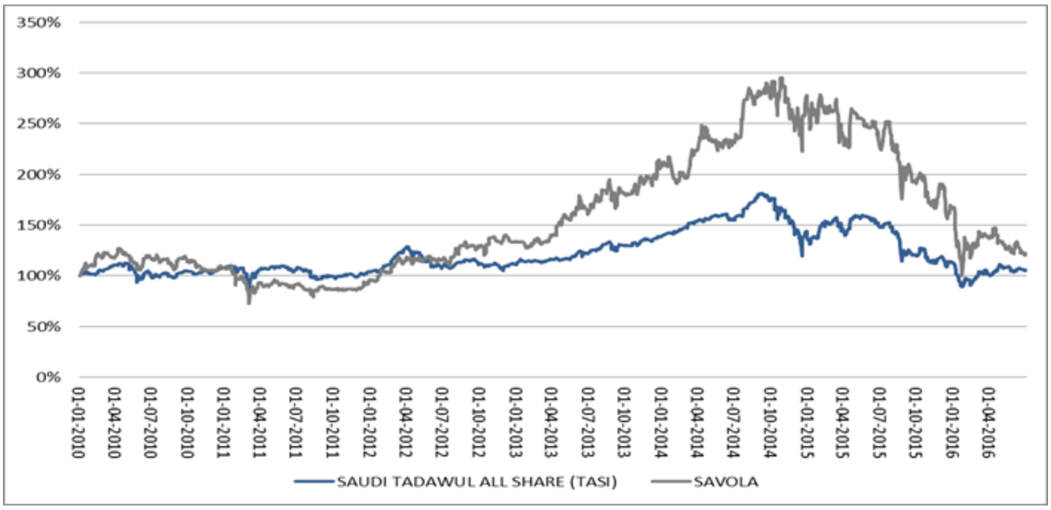
The company is still a leading producer, especially in the edible oils segment, in all markets it operates and it also leads in other products such as a ghee and sugar. Its products distribution relies on direct business-to-consumer model as well as on business-to-business sales domestically and internationally. The vast majority of company revenues (over 60%) are derived from the sale of edible oils, the core product which launched Savola's operations, whereas sugar contributes to approximately 30% and other products such as pasta to only 3%.

Today, the Savola Group, through the Savola Foods Company, owns top brands of high-quality edible oil, ghee, sugar, and pasta products marketed across 30 countries globally, with market leadership position in most of the countries in which it operates. As of 2016, the company had over 30,000 employees, most of them based in Saudi Arabia, the remainder across the region.[8]

After 30 years of success and experience across diverse business sectors, the Savola Group has positioned itself for a new phase of organic growth through its subsidiaries established under the holding company. The company is pursuing both organic growth, and to a lesser extent, acquisition opportunities, financing them through a mix of shareholder's equity, debt and public equity. The Group raised $400 million USD (1.5 billion SAR) through a sukuk issued in 2014 and $23.5 million USD through warrants issued in 2015.

Reflecting this, Savola Group share price has been increasing steadily and during 2012-2014 it has strongly outperformed the TASI index. While Savola's share performance appears to be generally correlated to the Tadawul all share index, in the past two years, it has seen some pressures. Figure 4 below demonstrates the evolution of Savola's Group's share price since 2010, highlighting the impact of macro-economic developments on market valuations. As of early 2016, Savola was trading at a price/equity ratio of 14 times.

Figure 4. Share price performance (relative to TASI)



Source: Tadawul data, January 2010=100%.

The company's stock price performance in 2014-2016 has been adversely affected by both domestic and international economic developments. Domestically, the company's performance has been affected by the macro-economic contraction which has impacted consumer spending patterns in the Kingdom.[9] Internationally, it has been affected by adverse developments in Iran and in Egypt in particular. In the past two years, the company has experienced significant currency exchange losses considering the devaluation of the Egyptian Pound and the shortages of foreign currency in Egypt. Savola has already faced similar

[8] The company prides itself on the increasing rates of Saudisation achieved in the Kingdom, currently estimated at 40% for the Group as a whole and 60% at the level of its headquarters.

[9] The IMF has estimated the cumulative fiscal deficits of the GCC countries (and Algeria) at almost $900 billion USD for the next five years, which equates to 3% budget deficit annually (IMF, 2016).

challenges in Iran and in Sudan and remains hopeful that in the long term, the macro-economic situation stabilizes. Savola's key financial performance metrics are presented in Annex II.

CORPORATE GOVERNANCE

Ethics and Values Framework

The ownership structure of Savola - which from the outset did not operate as a family or state-owned firm - has been defining for its organisational and corporate governance structure. The initial Articles of Association (AOA) signed in 1978 stipulated that half of the shares had to be offered for public subscription within 30 days of the Royal Decree licencing the incorporation of the company. The adoption of corporate governance standards by Savola was fundamentally driven by its origins as a listed joint stock company.

Savola's governance structure was rather advanced from the outset, especially compared with practices adopted in privately-held companies that it was competing with at the time. Fundamentally, the diverse shareholder base of the company required the introduction of provisions to deal with agency problems that were not prevalent in other Saudi companies that were majority controlled by a single or a few shareholders.

At the same time, the relatively dispersed ownership structure of the company ensured a balance of shareholder interests and a wide representation of experience on the board. Savola's complex organisational structure, with multiple subsidiaries and investments, resulted in significant intra-company transactions and necessitated the development of a robust oversight framework. Savola's ownership in companies which are effectively its competitors in some sectors (i.e. Almarai), has required the introduction of checks and balances to address potential conflicts of interest.

Savola's governance trajectory started essentially with the introduction of the "Ethics and Values Framework" in 2004, a result of 3 year deliberations of an internal taskforce. "The Framework was Savola's governance DNA, adopted in response to international corporate governance failures" comments Tarik Ismail, the Corporate Secretary of the Group. While this Framework was conceptual in nature, its introduction preceded the introduction of the Corporate Governance Guidelines for listed companies by the Saudi Capital Markets Authority in 2006. The "Ethics and Values Framework" contributed to instilling a governance culture throughout the Group by setting the tone at the top and seeking to percolate it throughout the organisation.

These initial ethics standards, on which the current framework continues to be based, were premised on four key concepts which capture the group's ethos: honesty (Amanah), conscientiousness (Taqwa), caring and justice (Birr), and personal control (Mujahadah). These concepts speak to the governance culture of the company and were also used as building blocks on which Savola's governance but also corporate social responsibility frameworks were developed over the years.

Ethics and Values Framework

Amanah (Honesty) means responsibility towards shareholders, through maximizing profits and commitment to transparency and disclosure of the company's performance.

Birr (Caring and justice) means responsibility toward colleagues, through developing capabilities, motivation, guidance, sharing of ideas.

Taqwa (Contentiousness) means responsibility to customers and the community at large by providing high-quality products and services at reasonable prices, acknowledging our suppliers' and stakeholders' rights.

Mujahadah (Personal control) is the drive towards self-improvement and self-discipline, so as to realize full potential and achieve greater distinction and excellence.

The formal corporate governance structures and processes of the company were initially set by the company's Articles of Association since at the time, the securities laws were not developed and there were virtually no specific corporate governance provisions contained in the Companies Law (issued in 1964). A number of the initial articles, such as the right for the managing director to hold the role of the Chairman at the same time were subsequently amended as the Saudi corporate law and corporate governance guidelines for listed companies evolved.

At the same time, a number of provisions contained in the original Articles of Association were remarkably advanced from a corporate governance perspective, especially relative to market practices prevalent in the 1980-1990s in the Kingdom. For instance, the AOA stipulated a quorum of half of the board is required to adopt any decisions, while even the Saudi Corporate Governance Code did not address board participation until much later. Likewise, the AOA address shareholder rights, notably the right to attend AGM and the authorise another shareholder to vote by proxy.

Organisation and regulatory drivers

The maturity of Savola's corporate governance framework was subsequently driven by the increasing complexity of its own operations on the one hand, and by the increasing sophistication of the regulatory framework for listed companies on the other. First, as Savola's operations have developed in terms of sectors and geographies, with over 20 business units to manage, the increasing organisational complexity propelled management to consider a unified corporate governance framework which would cascade to its various listed and unlisted subsidiaries.

Second, the introduction of a comply-or-explain corporate governance code by the Saudi Capital Market Authority in 2006 motivated further amendments to Savola's corporate governance framework which previously was more abstract. After the introduction of the Code, Savola had appointed an international audit firm to carry out an independent review of Savola's compliance and disclosure. In fact, during 2007-2009, these assessments were commissioned on an annual basis to ensure the company was in compliance with the regulatory requirements.

During this period, Savola has developed its own formal Corporate Governance Manual which comprehensively addresses its corporate governance framework, including shareholder rights, the conduct of annual shareholder meetings, board composition and responsibilities as well as disclosure. The Manual summarises applicable requirements for board members, setting out the content of board reports to be published on an annual basis. Most of the concepts of the Manual are premised on the CMA regulations which apply to Savola as a listed company. However, a number of provisions go further than the applicable legal requirements.

In addition, the company has also developed its own Corporate Governance Code, the focus of which is on shareholder rights and the conduct of general assemblies, board responsibilities and duties, and transparency and disclosure. The board of the Savola Group had established a dedicated Corporate Governance Committee charged with ensuring the company's compliance with the code. Unlike the Corporate Governance manual, the code is not addressed specifically to the board of directors.

As a result of its early adoption of good governance standards and the company's willingness to adapt them to market and regulatory developments, the Savola Group has been a recognised leader in corporate governance and its governance framework in Saudi Arabia. Savola has received multiple awards, including the Golden Peacock Award for Excellence in Corporate Governance in 2014. Savola also ranked as second in the Arab world and first among Saudi listed companies in a corporate governance and transparency ranking by the Standard and Poor's and the Hawkamah Institute in 2014.

Board composition

The Corporate Governance Guidelines introduced by the Capital Market Authority of Saudi Arabia[10] apply to listed companies on a comply-or-explain basis and are a key source of requirements concerning the composition and responsibilities of the board. Notably, the code requires that the majority of the board be non-executive and a third shall be independent. The positions of the Chairman and the CEO must be separate.[11] The same provisions apply to some of the investments of the Savola Group that are listed (i.e. Almarai and Herfy).[12] Savola's non-listed subsidiaries and investments are naturally subject to less rigorous requirements with respect to board composition.[13]

Savola Group's board is comprised of 11 board members as per the AOA[14], the maximum currently permitted by the Saudi Companies Law. The majority of the board is non-executive and close to half (5 out 11 members) are independent members. The Chairman of the Board is non-executive. A number of board members hold multiple other board seats and some board members sit on both the board of the Savola Group and its subsidiary companies. This could potentially present a number of conflict of interests that board members are working to address.

The General Assembly appoints board members for a term not exceeding 3 years, however it is generally expected that each board member should be available to extend his mandate if re-appointed. While there is a limitation for any board member not to act on boards of more than 5 joint stock companies (i.e. listed companies), a number of board members, including the Chairman, have multiple mandates in listed and not listed firms (refer to Annex III). As a result, dedicating sufficient time to their multiple board appointments is challenging, especially considering that most board members apart from the Chairman are also members of board committees.

Savola has made a number of changes to its board committees over the years, notably merging some of them. Currently, the board has 4 committees, including Audit and Risk Management; Compensation, Nominations, and Corporate Governance Committee; Investment Committee; and Corporate Social Responsibility Committee. The composition of board committees varies, with the Audit and Risk Committee being the most independent in terms of its composition.[15] On the other hand, the Investment Committee and the Corporate Social Responsibility Committees are comprised of executive board members, which reflects the view of the board in terms of their mandate.

The Compensation, Nomination and Corporate Governance Committee has a particularly wide mandate, including oversight of all corporate governance frameworks and protocols. A Grievances subcommittee has been established with the participation of the Head of Savola's Legal Department in order to assess any complaints or whistleblowing by stakeholders at the level of the Group or its subsidiaries. Any issues or complaints are submitted to the Committee through the Corporate Secretary and are invested by the Head of the Legal Department.

The Audit and Risk Management Committee consists of 5 non-executive members (3 of which are independent), most of whom are specialists in finance, accounting, auditing, and risk management. The Audit

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[10] The government is currently in the process of revising the Guidelines, an updated version of which is expected to be released in 2016.

[11] Although this is a recommendation contained in the code, it is mandatory for all listed firms.

[12] Today, Savola is the largest shareholder in Almarai and Herfy, where it holds 37% and 49% ownership, respectively. Savola also owns 11.5% (directly and indirectly) in the Knowledge Economic City, listed on the Tadawul.

[13] Considering that some of Savola Group subsidiaries are incorporated in other jurisdictions of the Middle East, they are subject to the national laws and regulations in the respective countries.

[14] The Articles of Association stimulate the the company should have a board of 11 members and that every board member shall be a shareholder with having shares worth no less 10,000 Saudi Riyals (Articles of Association, 16 and 17).

[15] In July 2016, as a result of changes to the Saudi Companies Law, the Audit and Risk Committee was separated into two separate board committees on the instruction of the Capital Market Authority and this was subsequently ratified by the AGM.

Committee includes 2 external members, 1 independent, the other non-executive.[16] The Compensation, Nominations and Corporate Governance Committee consists of 4 non-executive members (2 of which independent), all members of the Group Board. The Investment Committee consists of four members, all from the Group Board, most of whom are non-executive. The Corporate Social Responsibility Committee consists of 5 members, mostly non-executive (only one member is external).

The Board has a diverse set of skills including: industry related, administrative, strategic planning, accounting, legal, marketing, corporate governance, human resources, risk management, and mergers and acquisitions. The effectiveness of the board owes to the diversity of its skills and to the resources made available to the board by the management. The board believes that the addition of external members who are not members of the main board is positive for enhancing the skill set of individual committees. External members of the board are selected using headhunters who recommend industry experts which are in turn proposed to the board, however they are not subject to the shareholder approval (except for the Audit Committee). In addition, each new board member must take part in an induction programme to be organised maximum two months following the beginning of their term.

Conflicts of interest

Each board member is required to be a shareholder, a common practice in Saudi Arabia and indeed in many other Arab countries considering that company laws were premised on the assumption that firms are established by family founders represented on company boards. The minimum number of shares a board member should hold is 1000[17], although few board members' shareholdings exceed this.[18] Furthermore, a number of board members have additional significant holdings through companies which they own or control. This raises the possibility of conflicts of interest but also supports the alignment of interests between the board and the long-term interests of the company.

At the level of the board, the Group seeks to deal with conflicts and potential conflicts of interest through a number of formal and informal mechanisms. In particular, the fact that Savola board members sit on boards of other private and public companies (i.e. Almarai, Herfy), may create a tension in terms of their duties and responsibilities.[19] In fact, a number of potential candidates to Savola board were not accepted due to the conflicts of interests they may have. As one board member put it, the board needs "protect ourselves from ourselves."

The company believes that a qualified board with experience in sectors in which it operates is necessary not only to support the development of its strategy, but also to help identify strategic opportunities for the company. As a result, the board prefers to attract most experienced members and to introduce certain limitations such as for instance preventing certain members from participating in the Audit and Risk Management Committee.[20]

To deal with similar situations, the Corporate Governance Manual contains extensive provisions regarding dealing with conflicts of interests. Savola has also introduced an anti-corruption policy which outlines specific recommendations for its board, management and employees. These policies and the Board Charter address specific situations that might arise for individual board members. For instance, it prevents board

[16] The Group established an Internal Audit and Risk Management function at Group level as well as at subsidiaries. The Group's internal auditor reports to the Audit and Risk Committee.
[17] Considering the Aug 2016 share price of 33 SAR, this equates to approximately 9,000 USD.

[18] Notably, while most board members hold only the minimum required number of shares, one of the board members holds in excess of 46,000 shares as noted in Annex III.
[19] For instance, Savola has 3-4 directors who represent its interests on the board of Almarai.
[20] The Saudi Companies Law adopted in 2015 stipulated that audit committees shall be comprised of 3-5 members and they may not be composed of executive members of the board members (whether from the shareholders or not).

members from individually approving specific transactions[21] or to have any direct or indirect interest in the company's business or contracts, except when a bidding process is involved.

A board member shall notify the board of any personal interest he/she may have in the business and contracts for the company.[22] A Board member who is an interested party shall not be entitled to vote on resolutions concerning them. Informal mechanisms and understanding are also important in addition to the formal policies and procedures. It is implicitly understood that Savola board members will bring any opportunities first to the attention of Savola before pursuing them through companies where they have executive responsibilities.

Savola board members all have insurance which is still relatively rare in Saudi Arabia, apart from large listed companies. Considering the competition for qualified board members in the Kingdom and the increasing legal liability arising from stricter laws governing board operations, insurance has in recent years become increasingly important. Experienced board members in Saudi Arabia now have a choice of boards on which they may sit, and insurance is becoming an important criteria considering the liability risk.

"Board members choose to be a part of Savola's board for its reputation", comments the Chair of the company's Audit Committee. Effectively, board remuneration is relatively modest by international standards considering the company size and complexity. The remuneration of the members of the board as a collective set at 7.5% of the net profits by the AOA. Individual board member remuneration is capped at 200,000 SAR per board member (equivalent to $53,000 USD), unless the board member is also a member of the committee (for each an additional committee 100,000 SAR is provided).[23] Subsidiary company's board and executive remuneration is set at their board level, so long as it does not exceed that of the Savola Group board.

Board effectiveness

Board members commented that their responsibilities are generally more onerous for Savola than for other companies where they have directorships. The board is required to convene at least 4 meetings annually, in addition to an annual retreat. Board meetings are not considered valid unless attended by the majority of the board. Additional meetings are held at the level of the board committees, each of which has a set meeting frequency as per the Group Governance Manual. The Savola Group board has five board committees to govern their scope of work and related procedures. Each committee is required to meet 2-4 times annually and has a dedicated secretary serving the committee.

The board has a dedicated corporate secretary responsible for coordinating and supporting the board's and committee deliberations. The corporate secretary is responsible for providing the board with the relevant documents no less than 5 days ahead of the board meeting. Although this appears as a relatively short deadline, in reality documents are provided to the board typically 3 weeks in advance in order to allow time to examine them.

This excludes the annual reports which must be approved by the board during hours when the market is closed to entirely eliminate the risk of trading by board members or any related parties. This precaution exists, explains the Corporate Secretary Tariq Ismail, in addition to the existing legal provisions established by the CMA which preclude dealing in company shares by board members and senior executives around the announcement of annual results. Another restriction that exists is for Savola board members who also sit on the boards of its investee companies (i.e. Almarai and Herfy) not to divulge or discuss any matters discussed there.

[21] These include merger and acquisitions in excess of 4 million SAR, changing the structure of the Group capital, accepting banking facilities on behalf of the company, changing the Group's legal status, or selling/renting trademarks. Although this policy sets out specific situations which require the consensus of the board, these rules do not go beyond the Saudi capital market and corporate governance rules which already require the board to act as a collegial body.

[22] In addition, such notification shall be entered in the minutes of the meeting.

[23] Attendance fees are minimal as per the Group policy.

Board interactions are supported by a dedicated electronic portal serviced through the company's intranet. The site contains minutes of the holding board and committee meetings, as well as those of subsidiary companies. The site also enables board members to interact electronically between board meetings. Board members commented that while the portal is useful, the volume of information to examine and react to is significant, requiring considerable time investment. In general, while the current framework in Saudi Arabia does not address when documents should be provided to the board, this is an important consideration to ensure board effectiveness.

Independent board evaluations are carried out at least twice during each term of the board (i.e. twice every 3 years), in addition to self-assessments and peer assessments carried out using various techniques such as structured questionnaires, interviews and other methods. The fact that last evaluation was conducted by a third party as an anonymous 360 degree evaluation allowed individual board members to comment on each other's performance, comments Fahad Al Kassim, Savola's Chair of the Audit Committee.

Subsidiary boards

The two major subsidiaries of the Savola Group, the Savola Food Company and Panda Retail which are both unlisted companies each have a board constituted in line with their own Corporate Governance Manuals, developed with reference to the Holding Company Corporate Governance Manual. Both subsidiaries are incorporated as joint stock companies, each with a board of 9 members of which 5 are non-executive, 3 independent and 1 executive. The boards of Savola Group's unlisted subsidiaries are subject to slightly less rigorous requirements and evaluations.

The risk management and audit processes are virtually identical to those which exist at the level of the Group, points out the Head of Savola's Corporate Governance, Compliance and Legal Affairs, Alnour Ali Saad. Subsidiaries' Internal Audit and Risk Management functions are required to maintain all reports, working paper files and supporting audit evidence for an indefinite period unless specified by the the Group's Audit and Risk Management Committee for review at the level of the Group. The boards of these companies have an Audit and Risk Committee as well as a Nomination and Compensation Committee.

Independence of subsidiary boards is assured in part by prohibiting independent board members of Savola Group to sit on the boards of subsidiaries where Savola has over 30% ownership or effective control.[24] In the case of Savola Foods Company, considering that the company is fully owned by the Savola Group, a number of board decisions are divided between the board of the parent company and the subsidiary as per the authority matrix.[25] The same is also the case for the Aziza Panda stores which are 92% controlled by the Savola Group. The Group is seeking to improve the autonomy of its subsidiary boards, while maintaining its presence on the boards of its strategic investments (i.e. Almarai, Herfy, etc.)

The management structure

Savola's board as well as the management team has seen a number of important changes in recent years. As a result, the management and the executive team of Savola are quite "young" in terms of their time with the firm. A new Chief Executive Officer, Rayan Mohammed Fayez, took over the company's operations in June 2016. As he assumes his duties, the new CEO faces a range of challenges to redress the company's financial performance. He is supported by the Executive Committee is comprised of 7 members of top management.

The CEO and the board are following the performance of the Group and its subsidiaries closely to be able to react to any developments rapidly, receiving regular updates from the Chief Financial Officer (CFO), who in turn is closely monitoring financial metrics and benchmarking them to plans set by the management and approved by the board. Close monitoring of financial performance is assured through both rigorous quarterly plans developed for each subsidiary and through frequent assessment and reporting to the CEO.

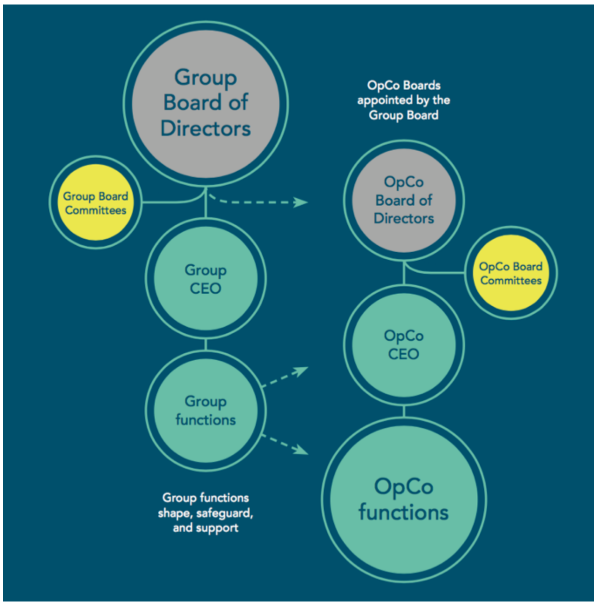
[24] Executive board members can however sit on boards of Savola subsidiaries.

[25] For instance, public or private placements by Savola Food is supposed to be endorsed by its own board and subject to a final approval by Savola Group.

An important current priority of the Committee is the introduction of the Enterprise Risk Management System (ERM) to monitor risks across the organisation. According Ali Barakat, the Head of Savola's Internal Audit, "an important part of the introduction of an ERM system will be a common risk language across all Savola subsidiaries." The CFO of the Group stresses the importance of rigorous monitoring of performance of subsidiaries through monthly performance reviews, in addition to the development of detailed forecasts for every quarter which are verified at the subsidiary level, before being approved by the Savola Group.

The communication channels between the Savola Group and its subsidiaries are strengthened not only through executive representation on the board, but also through an annual retreat with the presence of senior management of Savola Group (CEO, CFO, CIO, etc.) as well as CEOs of its major subsidiaries to consider strategic directions for the following year. The Chief Financial Officer (CFO), Nouman Farrukh Abdulsalam, also reports regularly to the board and to the Audit Committee, which holds 5 meetings annually.

Figure 5. Holding and Subsidiary Boards Structure



Source: Savola Annual Report, 2015.

Furthermore, the Group's management structure seeks to streamline its risk, governance, audit and compliance functions through the creation of key posts, including the Director of Internal Audit and Risk Management, the Chief Investment Officer, Chief Financial Officer and Chief of Corporate Affairs, responsible for the implementation of good governance practices, corporate communications and corporate social responsibility. They participate in the annual board retreat and have a regulator dialogue with the board of Savola.

Disclosure and transparency practices

The disclosure and transparency policy of the Savola Group is outlined in the company's Corporate Governance Manual. The disclosure provided by the Savola Group consists principally of its audited annual report and is complemented by periodic sustainability reports which present information on its strategy and its linkage with social responsibility. Annual, quarterly reporting and immediate material announcements are disseminated through the website of the Saudi Stock Exchange, Tadawul.

Most, but not announcements, are available in English and considering that the shareholder base is domestic investors, comprehensive disclosure in English has not been a priority. The company quarterly investor presentations targeted specifically at investors in English. Overall, information for investors produced by the

Group could be improved in several ways: by ensuring the timelines of annual reports, by improving the relevance of the content of its periodic newsletter, and by providing further management commentary on directions of different business units. An update of Savola's website in August 2016 is moving in this direction.

The company has been leading the market in terms of disclosure practices and disclosure on corporate governance has improved significantly in the 2015 Annual Report of the Company which provides detailed information on board and composition and mandates, remuneration and share ownership by members, resolutions adopted by the board and its committees and other corporate governance matters. On some issues, such as the publication of remuneration of the board, Savola has been ahead of the Saudi market were such information has historically not been disclosed publicly.

In addition to the required consolidated financial reporting, the company provides significant non-financial reporting, including on the performance of individual business units, and forward looking forecasts by business sector and unit. Important improvements in the clarity of information provided were made in 2015 when better disclosure was made in relationship to Savola's subsidiaries and investments. A few new features were introduced, including for example a summary of transactions with related parties the disclosure of which is crucial considering Savola's organisational structure.

Over the years, the company has focused on improving its non-financial disclosure the quality of which is generally a significant challenge in the MENA region. For instance, Savola is seeking to have a better alignment with the format proposed by the Global Reporting Initiative and has in 2015 obtained the GRI-G4 certification. So far, the Group has issued two sustainability reports (2009 and 2011) as a voluntary effort since such reporting is not currently required in the Saudi Arabia.

Management considers that transparency practices have helped build long-term relationships with its shareholders, limiting stock fluctuations at the announcement of challenging results. For instance, in 2008, the significant decline in the prices of raw materials in the food sector, combined with a decline of the global financial markets, presented a challenging situation. Savola communicated to investors in a transparent manner on the loss of $670 million USD which made Q4 of 2008 on the first loss making year in the company's history.

An interesting initiative adopted by Savola is an effort to improve its transparency to its shareholders and stakeholders called Transparency Screen. The Screen, updated on the monthly basis, provides information on the top shareholders of the company and their investment levels as well as the ownership of Savola stock by the board and executive management of the company. While these practices are in many ways ahead of the market, the website of the company should be further updated to reflect similar metrics and information on its subsidiaries.[26]

Sustainability reporting

The sustainability reports of the Group provide expensive information on a range of issues, including information on employee training and turnover, compliance with laws and regulations, stakeholder relations, philanthropic activities and community programmes, all generally with the focus on Saudi Arabia. The report also provides detailed information on risks such as employee injury and customer satisfaction rates. Savola also reports on its efforts to limit its environmental impact, notably through training programmes provided to employees and its recycling efforts, although detail metrics on the reduction of environmental impact are not yet provided.

Current sustainability reporting appears oriented towards describing company initiatives in the corporate social responsibility (CSR) space without necessary linking them to company performance. Instead, it is oriented towards the philanthropic activities of the Group. It it also rather focused on company operations in

[26] For instance, the last annual report made available for the Group is for 2015.

the Kingdom whereas the firm currently operates in 30 markets and will benefit from considering its sustainability efforts on the whole. In addition, sustainability reporting could better reflect the risks facing the company and how it is addressing them.

Corporate Social Responsibility Reporting at Savola

Savola reports on its corporate social responsibility (CSR) efforts in its sustainability reports which present all the company's philanthropic and social activities. Corporate social responsibility is a key part of Savola's management policy and the board of the company has resolved to allocate 1% of annual net operating profits from core sectors to support various CSR programs.

Savola supports a range of other initiatives related to the development of young Saudis and persons with disabilities and its CSR activities. In 2015, the Company has become a member of the Ambassadors Group of Qaderoon, the business and disability network. The Ambassadors Group is a voluntary committee comprising people with various disabilities – hearing, vision, mobility, or intellectual – who share their successful career stories and varied experiences to influence and inspire others.

The Group introduced the Makeen Programme with a view to provide training and employing persons with disabilities, with the result that today over 200 people have graduated from the Programme. While in absolute terms this is a small percentage relative to the Savola workforce, there are few Saudi firms that have so far implemented similar initiatives.

CSR activities of the Group are focused on the Saudi market with the focus on the education of young Saudis, which is indeed a national priority reflected in the 2030 Saudi Government Strategy. Saudisation is a continuing priority considering that the number of Saudi based employees in the Group is significant (approximately over 23,000 out of the 29,000 employees as of 2014). It also supported Injaz, a non-profit organization dedicated to educating students and preparing them for the workplace, of which it is one of the founding members in Saudi Arabia.

Both Savola and its subsidiary companies report on their own CSR efforts. For instance, Panda's reports on its own CSR activities, which included an environmental initiative aimed at the reduction of water consumption and paper waste, and community initiatives around better eating habits. One of the programmes which encouraged customers to donate small change from their purchases in ten years (2006-2015) raised SAR 55 million (equivalent to $15 million) which were distributed to the Disabled Children's Association and other charities.

Managing disclosure

Disclosure of information is strictly controlled considering it may have an impact on the market: only the Chairman and the CEO are authorized to speak on behalf of the company. All other parties receiving requests for information must forward them through due process. Material information is treated carefully and addressed specifically because a number of Savola's subsidiaries are unlisted but their performance and announcements regarding their operations it may be material from the perspective of the regulator for the Savola Group.[27]

Disclosure practices at the level of Savola's subsidiaries are varied considering that they are unlisted and that they operate in different jurisdictions. The two main subsidiaries, the Savola Food Company and the Panda subsidiaries both disclose annual reports in Arabic in the two main newspapers. Key aspects of their performance are also integrated in the Group's annual report which has grown increasingly more informative over the years.

[27] Savola has never been fined by the CMA, except in 2013 for late disclosure of its dividends prior to the market opening.

For instance, in its 2015 Annual Report, Savola has published a detailed Board Declaration relative to the company's compliance with the Corporate Governance Code of the Capital Market Authority, explaining in detail any deviations from the existing recommendations. For instance, while the CMA recommends cumulative voting to be adopted in board elections, the company explains that this has been rejected by the AGM despite board recommendations. Cumulative voting will be introduced in 2017 due to changes to the Saudi Companies Law.

The management is seeking to align the Group's disclosure standards to the regulatory guidelines set by the Saudi Capital Market Authority and the Ministry of Commerce and Investment (MOCI), as well as guidelines of the Standard and Poor's disclosure standard which contains 110 disclosure items. A further transition will be the change from the Saudi Accounting Standards (SOCPA) to the International Financial Reporting Standards (IFRS) required by the Saudi CMA of all listed companies as of 2017.

The Group's Corporate Affairs Department is responsible for defining a template for each of the subsidiaries to complete on a semi-annual basis. This reporting is submitted to the CEO of the Group to share with the Board. Going forward, it may be preferable for the board to receive information such information from the company secretary. The Finance Department at the executive level and the Audit Committee at the board level are charged with improving disclosure practices of the Group.

FUTURE DIRECTIONS

Three decades after its launch, the Savola Group is one of the most successful and fastest-growing food and retail groups in the Middle East, North Africa region. In the last 3 years, the Group worked to implement its new strategic directions, focusing on increasing concentration on its core businesses (the food and retail sectors), as well as continuing to focus on the value of its long-term strategic investments such as Almarai and Herfy.[28] At the same time, the Group continued to exit from non-core investments (i.e. in plastics investment funds, etc.)

Today, Savola operates as a strategic investment holding company focused on two sectors: food and retail. It is continuing to divest peripheral business interests and to align its operating companies and financial investments to a coherent new strategy and operating model. It is doing so without conducting any "fire sales" as it has adequate liquidity to seek to maximize the value of its investments. The divestment process is proceeding gradually, notably with the sale of Savola Packaging Systems Company in 2015 which generated a capital gain of SAR 265 million (approximately $70 million USD).

Despite the consolidation of its business lines and focus on specific core sectors, Savola's operating performance in the past two years has been challenged by geopolitical factors both in the Kingdom and in its international operations, notably in Egypt and Iran. As mentioned, the company's performance has been affected by volatile currency movements, especially the Egyptian Pound which was significantly devaluated in 2016, as a well as a decline in the value of its investments such as Almarai and Herfy, both listed on Tadawul. At the same time, lower domestic spending has at the same time affected its retail outlets.

Overall, the financial results for 2015 summarised in the Figure below demonstrate a profit decline in the order of 12%, primarily driven in the decline in the food segment (-8.6% ytd) and to a lesser extent a decline in the distribution segment (2.5% ytd). Operating income is lower mainly due to increased operating expenses, which were higher primarily as a result of opening of new Panda stores.[29]

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[28] Savola Foods and Almarai continue to be the most significant contributors to the Group's net income, with 38 and 39% respectively.
[29] Panda's retail network in Saudi Arabia grew by 151 outlets during 2015: 127 convenience stores, 20 supermarkets, and 4 hypers.

Figure 7. Interim Financial Results for 2015 (in USD)

	Q4 2015	Q4 2014	% Change
Net profit (loss)	515.3	434.4	18.62
Gross profit (loss)	1,305.7	1,368.7	-4.6
Operational profit (loss)	531.2	604.6	-12.14

Source: Tadawul, accessed August 2016.

In 2015, Savola recorded net profit of SAR 1.792 billion (equivalent to $477 million USD), lower than its 2014 performance (2.07 billion SAR). As the performance of the Group has suffered in the past 2 years, it is the priority of the the management team as well as the board to navigate the company through the tumulus macro-economic climate in the region. Further economic reforms introduced in Saudi Arabia may have an adverse impact on Savola but also on its competitors and companies operating in similar sectors. For instance, in order to decrease the public deficit, the Saudi government has reduced subsidies including on water.

The management and the board are looking to demonstrate to the investors that recent share price performance is a temporary phenomenon, and one that the company is well positioned to address by pursuing its core competencies and identifying strategic opportunities that could enhance existing footprint in sectors where Savola already has a strong competitive edge. "At the heart of our strategic direction is the principle of leveraging our strengths in food and retail", confirms the Group Chairman, Sulaiman Al Muhaidib.

Despite recent instability, the executive team and the board are not looking to fundamentally alter the Group strategy, consistently moving towards a strategic investment holding company model focused on retail and food components. As such, the management has developed and the board has approved specific directions for Savola Foods and Panda subsidiaries. The company is not looking to withdraw from any of the markets where it is currently operating as it sees significant long-term opportunities in each of them.[30]

Figure 8. Peer Valuation: Savola vs Peers

	P/E		EV/EBITDA	
At market price	FY 16e	FY 17e	FY 16e	FY 17e
Savola	13.7	10.9	10.2	9.1
SADAFCO	16.5	15.4	10.9	10.1
Almarai	23.8	20.2	17.0	15.4
Halwani	14.1	12.9	9.1	8.2
Juhayna	16.3	11.4	7.9	6.1
Agthia	17.6	14.3	12.8	10.5
Average regional peers	26.8	22.5	19.1	17.1
Premium/(discount)	(49%)	(52%)	(46%)	(47%)

Source: Arqaam Research, July 2016.

Optimism about Savola's prospects is also underpinned by key developments domestically, not least the Saudi 2030 Plan which specifically mentioned the food sector as being of strategic importance: "our priority will be to fully support major national companies, which have already gained a leading market share, by promoting their products and services regionally and globally, especially in the fields of oil, petrochemicals, banking, telecommunications, food, health care, and retail."

[30] For instance, despite the difficult operating environment in Egypt, Savola is still a leader in the edible oil and pasta segments and considers its investment worthwhile considering market potential (i.e. Egypt is a 90 million people country).

Divestments in core subsidiaries or investment companies is not currently being contemplated. Although the company has not diluted its control in subsidiaries in favour of any other shareholders, it has sought to raise capital for its activities from outside sources to strengthen its balance sheet and that of its subsidiaries. For instance, in March 2016, one of Savola's subsidiaries in Egypt, the United Sugar Company of Egypt has received an injection of 50 million from the EBRD as well as the conversion of existing debt of $50 million to equity.

Instead, it is looking to transpose the Group strategy at the level of the subsidiaries. For instance, there is a vision to transform Savola Foods from commodity-based to a value-added and brand-focused company though four core principles: defend, extend, build, and incubate (refer to Box below). This does not preclude Savola from actively identifying and pursuing new expansion opportunities. To the contrary, the company is establishing new alliances: notably, it established a joint venture with the global seafood leader Thai Union, beginning with a regional launch of the famous John West brand.

Savola Food Strategy: Key Pillars

The defend strategic principle applies to protecting core businesses and growing faster than the market. A key initiative in 2015 was consolidating the Group's three sugar businesses in Saudi Arabia and Egypt under one management team

The extend strategic principle takes the core – edible oil, sugar, and pasta – to adjacent areas of products, seeking better margins, capitalizing on existing strengths, and replicating successes.

The build strategic driver mandates Savola Foods to invest in new food categories in which it can create more value. During 2015, this aspect of the strategy swung into action with the formation of a joint venture with Thai Union, a leading global player in the seafood category.

The incubate strategic principle is still at an early stage but is equally important in the rationale, identifying categories with growth potential, analyzing market trends, and developing innovative products that t well with existing market strengths.

Source: Savola Group 2015 Annual Report.

This approach, characterized by careful expansion, is also adopted at the level of the the Panda subsidiary. Currently, Panda is Saudi Arabia's leader in grocery retail, with turnover of SAR 13.5 billion in 2015 (up from SAR 12.2 billion a year earlier) and market share of around 12%. While Panda is a newer incumbent in other markets it operates, it is seeking to expand its presence. In 2015, Panda began its expansion in Egypt with the opening of a first supermarket in Cairo. According to some analysts, while the retail segment may continue to face pressures due to new store roll outs and international competition, it is well positioned to benefit from the shift towards modern retail.

Going forward, the Group is also looking to leverage the value of its existing brands by enhancing the economies of scale in marketing and establishing a foothold in new markets. In particular, it sees an opportunity in being near large markets such as Iraq where there is currently no comparable players. Organic growth is expected to materialise in markets where Savola operates due to the large and fast growing population (380 million) which is an important consumer of oil and sugar and to a smaller extent, due to exports to neighbouring countries.

Furthermore, management is seeking to diversify product segments which would be accomplished by Savola entering into adjacent and complementary new product categories and targeting new retail and wholesale customers to drive revenue growth. Select upstream integration is likewise seen as a strategic opportunity especially in Egypt and Sudan where the company's management sees particularly interesting opportunities. Strategic mergers and acquisitions are seen as continuing to be important.

While the management and the board have decided to steer Savola's strategy in the same direction as in previous years, they are well aware of the need to prudently address domestic and international risks that the Group and its subsidiaries face. Despite changing market conditions, the CEO affirms that Group's strategy will continue on a steady path with a focus on its core competencies (i.e. food and retail sectors) and a consistent disposal of non-core assets, without resorting to "fire sales".

The Group operations continue to be exposed to geopolitical risks, as well as fluctuations in raw material prices, currencies, speculation, and price competition in the local and international markets where it operates. There are also economic and political risks in the countries where Savola operates and risks arising from the Group's geographic expansion strategy. The company is ready to address these challenges, as other risks that may arise in its strategic non-managed investments such as Almarai and Herfy.

Governance in support of strategic challenges

The Chairman considers that Savola's governance structure has kept pace with emerging challenges and opportunities. Notably, it seeks to recruit board members with in depth experience in sectors where the Group is active, while at the same time recruiting directors for board committees who are not part of the Group board but who have the necessary independence of mind and/or technical skills to add value in specific areas of the board. Effectiveness of the board has been enhanced through external board evaluations. A number of board members have noted also the value of the annual retreat.

At the level of its investments and subsidiaries, Savola plans to continue to contribute to better governance through formal representation on subsidiary boards (i.e. Almarai, Herfy, etc.) At the same time, the Group decided to continue to give its subsidiaries (Savola Foods Company and Panda Retail Company) more autonomy, flexibility and independence in making their decisions and managing their operations within the terms of the governance model and the levels of authority that define their relationship with the holding company.

In terms of oversight, each of the subsidiaries is expected to develop its own Corporate Governance Manual and must assign its implementation to a designated person. Board meeting minutes of each of the operating companies shall be submitted to the Group Corporate Affairs Department responsible for firm-wide corporate governance to ensure all resolutions are in line with governance guidelines and group strategy. Financing and risk management functions are also expected to report to the relevant departments at the Group level and eventually to the Audit and Risk Committee of the Board.

A dedicated Governance and Compliance Officer at the level of executive management, in addition to the post of the Corporate Secretary at the board level, are also seen as instrumental to coordinating corporate governance practices, ensuring proper implementation of board and committee's resolutions. While his role extends to the oversight of all subsidiaries, the focus remains on the Savola Group as it is a listed company with increasing governance and reporting obligations.

In addition to the uncertain operating environment that Savola Group faces which necessitates strategic and governance adjustments, additional change has and will be spurred by regulatory change. Notably, the revision of the Saudi Companies Law[31] and the forthcoming revision of the governance guidelines for listed companies will need to be integrated in the Corporate Governance Manual. The new Companies law provides enhanced powers to the MoCI such the ability to form a temporary board if the AGM fails to appoint one or if the board resigns.

At the level of the Group, the company is anticipating further change with the forthcoming amendments of the corporate governance guidelines for listed companies in Saudi Arabia, on which Savola has provided inputs and comments. These will be reflected in the new Articles of Association at the Group and the

[31] The law will come in force in 2017 as companies were given one year from the time of its introduction to comply with its provisions.

subsidiary levels, developed under the oversight of the Head of Corporate Governance, Compliance and Legal Affairs of the Savola Group. The board believes that it is ready to adapt to the new requirements considering the mechanisms put in place to monitor and report on the governance structures of the company. Notably, the board of Directors' Report outlines in great detail the level of compliance and also the reasons for any deviations from the requirements.

Savola looks forward to continue acting as an ambassador for good governance in the Saudi market both by being active in regulatory consultations and through less formal mechanisms. For instance, with the permission of the board, Savola board members are using the company best-in-class practices to introduce similar procedures in other companies where they are board members. Informal sharing of best practices has proven an important mechanism for improving corporate governance among leading companies in Saudi Arabia.

In terms of formal requirements, Savola is continuing to adapt its governance structure to the changes required by the new Saudi Companies Law and the forthcoming Corporate Governance Code, which the board is confident would not be challenging to implement given the robust governance framework already in place. In addition to the local requirements, Savola continuously strives to improve its standards, including by benchmarking itself to international standards such as the British Standard 13500 on governance, Standard and Poor's benchmarks and other international codes and principles.

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ANNEX I. FOOD SECTOR COMPANIES LISTED ON TADAWUL

Company	Date of Establishment	Area of activity
Al-Jouf Agricultural Development Co.	1988	Agricultural production, both plant and animal, manufacture and marketing of agricultural and animal products
Almarai Co.	1977	Dairy company, food and beverage manufacturing and distribution across the GCC
Anaam International Holding Group	2006 (merged and renamed)	Trading, import and distribution, of frozen and dry food, third party logistic services, warehousing and transportation, trading of feed stock
Ash-Sharqiyah Development Co.	1986	Development, implementation and marketing of agricultural animal and industrial projects, wholesale and retail trade in foodstuff agricultural fodders and fertilizer
Bishah Agricultural Development Co.	1990	Canning and manufacture of dates, reclamation of agricultural land, trade grain and seed, feed, trade, manufacture of agricultural equipment, etc.
Halwani Bros. Co.	1998	Production of food products including includes halwa, tahena, meat, diary, juices, etc. Also active in catering and Auxiliary Manufacturing.
Herfy Food Services Co.	1981	Operating restaurants, food catering, production and sales of sweets and breads, acquiring and selling of land and buildings
Jazan Development Co.	1993	Owning and reclaiming agricultural land and well drilling to be used for agricultural projects, establishment of agricultural, animal and agro-industrial projects, fish farming, marketing of vegetables, fruits and animal products
National Agricultural Development Co.	2001	Vegetable production, food production, food industrialisation, operation of distribution centers
Qassim Agricultural Co.	1965	Production of agricultural crops, dairy products manufacturing, production and processing of dates, investment in the agricultural field, agro processing, establishment of units for cooling and refrigerated transport s and hotels
Saudi Airlines Catering Co.	2008	Catering and support services to the local and international airlines operating within and out of Kingdom of Saudi Arabia, providing the same to other segments which include big corporations and business entities, educational institutions, etc.
Saudi Fisheries Co.	1980	Fishing and investing in aquatic organisms at Saudi Arabia and other regional and international marine, manufacturing and marketing, preparing the cooked seafood, packaging, and preservation and canning of fish and shrimp, etc.
Saudia Dairy and Foodstuff Co.	1976	Manufacturing diary and its derivatives including ice cream, tomato paste, cheeses, mineral water, hummus, snacks, etc.
Tabuk Agricultural Development Co.	1983	Production, manufacturing and marketing of the agricultural products, including notably producers of stone fruits, pears and grapes
Wafrah for Industry and Development Co.	1989	Agricultural production, processing and marketing of food, land and real estate investment and maintenance for the company, operation and ownership of industrial projects, etc.

Source: Tadawul, 2016.

ANNEX II. SAVOLA FINANCIAL STATEMENTS (2010-2015, IN MILLIONS SAR)

	2010	2011	2012	2013	2014	2015
Revenue	21 029,47	25 195,70	27 391,49	26 369,97	26 587,84	26 425,42
Total revenue	21 029,47	25 195,70	27 391,49	26 369,97	26 587,84	26 425,42
Cost of revenue	-16 801,44	-20 666,75	-22 065,92	-20 776,65	-21 096,58	-20 698,43
Cost of revenue, total	-16 801,44	-20 666,75	-22 065,92	-20 776,65	-21 096,58	-20 698,43
Gross profit	4 228,03	4 528,96	5 325,58	5 593,32	5 491,27	5 726,98
General & admin. exp.	-603,14	-562,47	-590,32	-633,27	-663,13	-605,15
Selling & distribution exp.	-1 870,15	-2 144,81	-2 367,29	-2 476,48	-2 723,49	-3 458,55
Total selling, general & admin exp.	-2 473,29	-2 707,29	-2 957,61	-3 109,75	-3 386,62	-4 063,70
Finance & investments interest income	--	--	--	231,41	--	--
Share in result of associates	459,52	440,61	578,57	760,38	977,59	796,11
Other operating income	97,34	96,77	73,72	--	--	--
Total other operating income (exp.)	-1 916,43	-2 169,91	-2 305,32	-2 117,96	-2 409,03	-3 267,59
EBITDA	2 311,60	2 359,05	3 020,25	3 475,36	3 082,24	2 459,40
Depreciation exp.	-812,79	-558,23	-564,01	-657,01	-627,55	-623,78
Depreciation, amortization, total	-812,79	-558,23	-564,01	-657,01	-627,55	-623,78
Operating income (EBIT)	1 498,81	1 800,82	2 456,25	2 818,35	2 454,69	1 835,62
Finance cost	-244,26	-317,47	-427,38	-258,96	-236,55	-207,29
Net investment income (loss)	195,06	152,78	46,65	--	209,70	265,15
Other non-operating income (expense)	-283,72	-35,37	--	-100,00	-67,40	155,32
Total other non-operating income (expenses)	-332,92	-200,06	-380,73	-358,96	-94,25	213,18
Net Income (loss) Before tax	1 165,89	1 600,76	2 075,52	2 459,39	2 360,44	2 048,81
Income tax for the year	-140,15	-132,02	-268,15	-312,22	-180,43	-137,70
Total taxes & Zakat	-140,15	-132,02	-268,15	-312,22	-180,43	-137,70
Net Income (loss) after tax	1 025,74	1 468,74	1 807,37	2 147,17	2 180,01	1 911,10
Discontinued operations	--	--	--	--	50,29	--
Minority interest	-139,04	-266,36	-405,16	-442,69	-157,98	-119,36
Net income (loss)	886,70	1 202,38	1 402,21	1 704,48	2 072,32	1 791,75
Reported EPS, basic	1,77	2,40	2,80	3,37	3,88	3,36

Source: Decrypta, accessed 28 July, 2016.

Annex III. Savola Group Board of Directors

Board Member	Status	Serving Since	Committees	Shares held	Other board positions
Suliaman A.K. Al-Muhaidib	Chairman Non-executive	01/07/2010	None	1,000	Saudi British Bank (SABB) The National Industrialization Company Al Marai Company A. Abdulgadir Al Muhaidib & Sons Co. Joussour Holding Co. Rafal Real Estate Co. The Middle East Co for Paper Industry Tatweer Al Aoula Real Estate Co. The Arabian Co. for Energy and Water Development Energy and Water Businesses Co.
Abdullah M. N. Rehaimi	Non - Executive	21/09/2010	Compensation, Nomination & Governance Committee	46,762	Knowledge Economic City Co. Almarai Co. Al Lujain co. Saudi Cable Company Savola Foods Co.
Abdulaziz K. Al Ghufaily	Non-Executive	01/07/2004	Audit Committee Investment Committee	1,000	Al Rajhi Bank Herfy Foods Services Co.
Essam A. Al-Muhaidib	Non-Executive	01/07/2013	Compensation, Nomination & Governance Committee	2,500	Herfy Foods Services Co. Bawan Co. A. Abdulgadir Al Muhaidib & Sons Co. Masdar Building Materials Al Rafal Real Estate Co. Zohoor Alreef Co. Al Balad Al Ameen Co. Emdad for Labour Co. Al Oula Real Estate Development Arabian Co. for Energy and Water Development Panda Retail Co.
Badr Abdullah Al-Issa	Non-Executive	10/08/2011	Compensation, Nomination & Governance Committee	1,025	Dur Aldeyafa Co. Knowledge Economic City Co. Savola Foods Co. Panda Retail Co. Afia International Co. Assila Investment Co.
Mutaz Kusai H. Alazzawi	Non-Executive	01/07/2016	Investment Committee	1,000	Arabian Cement Co. Qatrana Cement Co. Merril Lynch Saudi Arabia Co. Savola Foods Co. United Sugar Co. Afia International Egypt Co. United Sugar Co. Egypt Alexandria Sugar Co. A lMalika Food Industries Co. Al Farasha Food Insdustries Co.
Mohammad A. Al Fadl	Independent	01/07/2004	Compensation, Nomination & Governance Committee (Chairman)	6,304	Jeddah Holding Co. Kinan International Co. Dar Al Tamlik
Fahad A. Al Kassim	Independent	01/07/2013	Investment	2,000	Dallah Healthcare Services Co.

			Committee		Jarir Marketing Co. Dur Aldeyafa Co. Abdulatif Al-Issa Holding Co. Fahad A. Al Kassim & Sons Co. for Investment and Trade Saudi Co. for Heritage Hospitality
Omar Hadir Nasrat Al-Farisi	Independent	04/05/2013	Investment Committee (Chairman)	1,000	Gulf International Bank
Sami Mohsen A. Baroum	Independent	01/04/2007 to 30/06/2013 01/07/2016-present	Investment Committee	1,000	Arabian Cement Co. Saudi Arabian Investment Co. Jeddah International College Co. Saudi Stock Exchange Co.
Abdul Aziz Ibrahim M. Alissa	Independent	01/07/2016	Audit Committee CSR Committee (Chairman)	6,000	Herfy Foods Services Co. Saudi Transportation and Investment Co. Global Investment Co. Al Dera Arabia Insurance Co.