

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

**UNAUDITED INTERIM CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS**  
For the three-month and year ended December 31, 2010



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## **REVIEW REPORT ON THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The Shareholders  
Savola Group Company  
Jeddah, Saudi Arabia.

### **Scope of Review**

We have reviewed the accompanying interim consolidated balance sheet of Savola Group Company (the Company) and its subsidiaries (the Group) as at December 31, 2010, the related interim consolidated statement of income for the three-month period and year ended December 31, 2010, the interim consolidated statement of cash flows for year then ended and the attached condensed notes 1 to 15 which form an integral part of these interim condensed consolidated financial statements. These interim condensed consolidated financial statements are the responsibility of the Group's management and have been prepared by them and submitted to us together with all the information and explanations which we required. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

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

### **Conclusion**

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

**For KPMG Al Fozan & Al Sadhan:**

Tareq Abdulrahman Al Sadhan  
License No. 352



January 17, 2011G  
Corresponding to Safar 13, 1432H

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

**INTERIM CONSOLIDATED BALANCE SHEET**

As at December 31, 2010

	<u>Note</u>	<u>2010</u> (SR 000) (Unaudited)	<u>2009</u> (SR 000) (Audited)
<b><u>ASSETS</u></b>			
<b>Current assets:</b>			
Cash and cash equivalents		660,449	1,091,044
Trade receivables		1,518,460	1,417,252
Inventories		2,513,453	2,296,601
Prepayments and other current assets		981,025	828,610
Assets classified as held for sale	4	184,926	--
<b>Total current assets</b>		<b>5,858,313</b>	<b>5,633,507</b>
<b>Non-current assets:</b>			
Investments	5	6,122,904	5,056,387
Intangible assets		1,020,232	1,029,869
Property, plant and equipment		4,718,576	5,536,761
<b>Total non-current assets</b>		<b>11,861,712</b>	<b>11,623,017</b>
<b>Total assets</b>		<b>17,720,025</b>	<b>17,256,524</b>
 <b><u>LIABILITIES AND EQUITY</u></b>			
<b>Current liabilities:</b>			
Short-term bank debts	6	2,074,248	2,227,181
Current portion of long-term debts	7	708,442	795,089
Trade payables		2,003,352	1,830,283
Accrued expenses and other current liabilities		1,689,079	1,460,879
Liabilities classified as held for sale	4	186,411	--
<b>Total current liabilities</b>		<b>6,661,532</b>	<b>6,313,432</b>
<b>Non-current liabilities:</b>			
Deferred gain		111,525	93,249
Long-term payables		59,407	61,031
Long-term debts	7	2,393,317	1,996,202
Employees' termination benefits		276,079	264,699
<b>Total non-current liabilities</b>		<b>2,840,328</b>	<b>2,415,181</b>
<b>Total liabilities</b>		<b>9,501,860</b>	<b>8,728,613</b>
 <b><u>EQUITY</u></b>			
<b>Equity attributable to the Company's shareholders:</b>			
Share capital	8	5,000,000	5,000,000
Statutory reserve		956,772	868,102
General reserve		4,000	4,000
Unrealized (loss) on investments		(81,979)	(21,601)
Effect of transaction with minority shareholders without change in control		(56,193)	49,370
Foreign currency translation account		(217,379)	(193,851)
Retained earnings		1,425,440	1,254,608
<b>Total shareholders' equity</b>		<b>7,030,661</b>	<b>6,960,628</b>
<b>Minority interests</b>		<b>1,187,504</b>	<b>1,567,283</b>
<b>Total equity</b>		<b>8,218,165</b>	<b>8,527,911</b>
<b>Total liabilities and equity</b>		<b>17,720,025</b>	<b>17,256,524</b>

The accompanying notes 1 to 15 form an integral part  
of these interim condensed consolidated financial statements.

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

**INTERIM CONSOLIDATED STATEMENT OF INCOME**

For the three-month and year ended December 31, 2010

	Note	<u>Three-month period ended</u>		<u>Year ended</u>	
		<u>Dec 31, 2010</u> (SR 000) (Unaudited)	<u>Dec 31, 2009</u> (SR 000) (Unaudited)	<u>Dec 31, 2010</u> (SR 000) (Unaudited)	<u>Dec 31, 2009</u> (SR 000) (Audited)
Revenues – net		<b>5,810,324</b>	4,821,686	<b>21,055,556</b>	17,917,202
Cost of revenues		<b>(4,839,586)</b>	(4,054,525)	<b>(17,723,463)</b>	(14,809,887)
<b>Gross profit</b>		<b>970,738</b>	767,161	<b>3,332,093</b>	3,107,315
Share of profits of associates and jointly controlled entity and dividend income – net		<b>106,510</b>	48,001	<b>457,171</b>	352,799
Other income – net		<b>17,273</b>	18,058	<b>156,364</b>	79,877
<b>Total income</b>		<b>1,094,521</b>	833,220	<b>3,945,628</b>	3,539,991
<b>EXPENSES</b>					
Selling and marketing		<b>(526,262)</b>	(324,176)	<b>(1,916,973)</b>	(1,533,574)
General and administrative		<b>(146,809)</b>	(233,515)	<b>(577,454)</b>	(628,783)
<b>Total expenses</b>		<b>(673,071)</b>	(557,691)	<b>(2,494,427)</b>	(2,162,357)
<b>Income from operations</b>		<b>421,450</b>	275,529	<b>1,451,201</b>	1,377,634
Gain on disposal of investments		--	217,148	<b>195,056</b>	318,116
Impairment loss on:					
- Assets and liabilities classified as held for sale	4	<b>(115,000)</b>	--	<b>(115,000)</b>	--
- Intangibles assets	9	<b>(102,369)</b>	--	<b>(102,369)</b>	--
- Available for sale investments	10	<b>(66,426)</b>	(147,355)	<b>(66,426)</b>	(221,596)
Financial charges – net		<b>(66,937)</b>	(58,327)	<b>(210,339)</b>	(227,337)
<b>Income before Zakat and income tax and minority interests</b>		<b>70,718</b>	286,995	<b>1,152,123</b>	1,246,817
Zakat and income tax		<b>(49,684)</b>	21,542	<b>(127,983)</b>	(63,323)
<b>Net income before minority interests</b>		<b>21,034</b>	308,537	<b>1,024,140</b>	1,183,494
Share of minority interests in the net income of consolidated subsidiaries		<b>(19,016)</b>	(39,918)	<b>(137,438)</b>	(231,929)
<b>Net income</b>		<b>2,018</b>	268,619	<b>886,702</b>	951,565
<b>Earnings per share (SR)</b>	11				
- Income from operations		<b>0.84</b>	0.55	<b>2.90</b>	2.76
- Net income		<b>0.00</b>	0.54	<b>1.77</b>	1.90

The accompanying notes 1 to 15 form an integral part of these interim condensed consolidated financial statements.

**SAVOLA GROUP COMPANY**  
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**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS**  
For the year ended December 31, 2010

	<u>2010</u> (SR 000) (Unaudited)	<u>2009</u> (SR 000) (Audited)
<b>Cash flows from operating activities:</b>		
Net income	886,702	951,565
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortisation and impairment	845,566	696,454
(Gain) on sale of property, plant and equipment	(3,075)	(7,191)
(Gain) on disposal of investments	(195,056)	(318,116)
Financial charges – net	210,339	227,337
Share of minority interests in net income of consolidated Subsidiaries	137,438	231,929
Changes in operating assets and liabilities:		
Trade receivables	(161,741)	82,086
Inventories	(347,389)	232,215
Prepayments and other current assets	(115,510)	32,633
Trade payables	218,841	335,365
Accrued expenses and other current liabilities	258,413	(148,438)
Employees' termination benefits	33,794	25,827
Total adjustments	881,620	1,390,101
Net cash provided by operating activities	1,768,322	2,341,666
<b>Cash flows from investing activities:</b>		
Net change in investments	(601,271)	(291,916)
Net change in intangible assets	(156,826)	(426,524)
Net change in property, plant and equipment	(477,296)	(944,684)
Cash effect of consolidation of a subsidiary	--	162,750
Effect of deconsolidation of Herfy	(20,062)	--
Net cash (used in) investing activities	(1,255,455)	(1,500,374)
<b>Cash flows from financing activities:</b>		
Net change in short-term bank debts	(32,229)	(1,571,768)
Net change in long-term debts	347,933	1,516,776
Net changes in minority interests	(422,202)	440,199
Financial charges –net	(210,339)	(227,337)
Net change in restricted deposits against financing	57,029	(88,802)
Dividends paid	(626,624)	(513,002)
Net cash (used in) financing activities	(886,432)	(443,934)
Net change in cash and cash equivalents	(373,565)	397,358
Cash and cash equivalents at beginning of the year	1,001,185	603,827
Cash and cash equivalents at end of the year	627,620	1,001,185
<b>Non cash items:</b>		
Unrealized (loss) gain on available for sale investments	(60,378)	105,652
Foreign currency translation account	(23,528)	(32,924)
Directors' remuneration	2,200	2,200

The accompanying notes 1 to 15 form an integral part of these interim condensed consolidated financial statements.

**SAVOLA GROUP COMPANY**  
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**NOTES TO INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS (UNAUDITED)**

For the three-month and year ended December 31, 2010

**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 commercial registration number 4030019708 was issued in Jeddah on Rajab 21, 1399H (June 16, 1979). The objectives of the Company along with its subsidiaries includes the manufacturing and marketing of vegetable oils and to set up related industries, retail outlets, dairy products, fast foods, packing materials, exports and imports, commercial contracting, trade agencies, development of agricultural products and real estate related investment activities

At December 31, the Company has investments in the following subsidiaries (collectively referred as "the Group").

<b><u>Direct and indirect subsidiaries</u></b>	<u>Country of incorporation</u>	<u>Ownership interest (%) at December 31</u>	
		<b><u>2010</u></b>	<b><u>2009</u></b>
Savola Packaging Systems Limited ("SPS")	Saudi Arabia	<b>100</b>	100
Utur Packaging Materials Company Limited	Saudi Arabia	<b>100</b>	100
Savola Trading International Limited	British Virgin Islands	<b>100</b>	100
Tayseer FZCO	UAE	<b>100</b>	100
Batool International Trading Company Limited	Saudi Arabia	<b>100</b>	100
Al-Azizia Panda United Company ("APU")	Saudi Arabia	<b>74.4</b>	74.4
Savola Foods Company ("SFC")	Saudi Arabia	<b>90</b>	90
Herfy Food Services Company Ltd. ("Herfy")	Saudi Arabia	<b>--</b>	70
Savola Industrial Investments Co. ("SIIC")	Saudi Arabia	<b>4.5</b>	4.5
United Properties Development Company ("UPDC")	Saudi Arabia	<b>100</b>	100
Adeem Arabia Company Ltd. ("AAC")	Saudi Arabia	<b>80</b>	80
Kamin Al Sharq for Industrial Investments ("Kamin")	Saudi Arabia	<b>100</b>	100
Arabian Sadouk for Telecommunications Co. ("Sadouk")	Saudi Arabia	<b>100</b>	100
Al Maoun International Holding Company	Saudi Arabia	<b>100</b>	100
Al Matoun International for Real Estate Investment Holding Company	Saudi Arabia	<b>80</b>	80
AFIA Foods Arabia	Saudi Arabia	<b>100</b>	100
United Sugar Company, Egypt	Egypt	<b>19.1</b>	18.9
Giant Stores Trading Company ("Giant")	Saudi Arabia	<b>8</b>	8
United Company for Central Markets ("UCCM")	Lebanon	<b>8</b>	8

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

### Entities controlled through subsidiaries

	Country of incorporation	Subsidiary ownership interest (%)	
		2010	2009
<u>SFC</u>			
Afia International Company ("AIC")	Saudi Arabia	<b>95.19</b>	95.19
Savola Industrial Investment Company ("SIIC")	Saudi Arabia	<b>95</b>	95
Savola Foods Emerging Markets Company Limited ("SFEM")	British Virgin Islands	<b>95.4</b>	95.4
Savola Foods for Sugar Company ("SFSC")	Saudi Arabia	<b>95</b>	95
<u>AIC</u>			
Savola Behshahr Company (SBeC)	Iran	<b>80</b>	80
Malintra Holdings	Luxembourg	<b>100</b>	100
Savola Foods Limited ("SFL")	British Virgin Islands	<b>100</b>	100
Afia International Company – Jordan Inveskz Inc.	Jordan	<b>97.4</b>	97.4
	British Virgin Islands	<b>90</b>	90
Afia Trading International	British Virgin Islands	<b>100</b>	100
Savola Food International	British Virgin Islands	<b>100</b>	100
KUGU Gida Yatun Ve Ticaret A.S (KUGU)	Turkey	<b>100</b>	100
<u>SFL</u>			
Afia International Company, Egypt	Egypt	<b>99.92</b>	94.5
<u>Inveskz Inc.</u>			
Turkuaz Edible Oils	Kazakhstan	<b>100</b>	100
<u>KUGU</u>			
Yudum Gida Sanayi ve Ticaret A.S ("Yudum")	Turkey	<b>100</b>	100
<u>SIIC</u>			
United Sugar Company ("USC")	Saudi Arabia	<b>74.8</b>	64.8
<u>USC</u>			
United Sugar Company Egypt ("USCE")	Egypt	<b>56.75</b>	53.45
<u>SFEM</u>			
Savola Morocco Company	Morocco	<b>100</b>	100
Savola Edible Oils (Sudan) Ltd.	Sudan	<b>100</b>	100
AFIA International Company – Algeria	Algeria	<b>100</b>	100
<u>SPS</u>			
New Marina for Plastic Industries	Egypt	<b>100</b>	100
Al Sharq Company for Plastic Industries. Ltd.	Saudi Arabia	<b>93</b>	93
<u>APU</u>			
Giant Stores Trading Company	Saudi Arabia	<b>90</b>	90
United Company for Central Markets ("UCCM")	Lebanon	<b>90</b>	14
<u>Giant</u>			
Lebanese Sweets and Bakeries ("LSB")	Saudi Arabia	<b>95</b>	95
United Company for Central Markets ("UCCM")	Lebanon	<b>--</b>	76

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

During the first quarter of 2010, the Group's subsidiary, Herfy Foods Services Company was offered to public subscription through Initial Public offering (IPO) of its 30% existing shares. This resulted in dilution of Group's interest in Herfy from 70% to 49% and loss of control. The Group received SR 289 million in consideration of its 5.67 million shares at a price of SR 51 per share and realised a net gain on disposal of SR 196 million. Herfy was deconsolidated from the date of its listing and has been recognised as an associate in these interim condensed consolidated financial statements.

During the third quarter, the Group has reached preliminary agreements with certain minority shareholders in its Retail and Foods businesses to acquire their respective stakes against issuance of 46.34 million new shares of the Group along with a net cash settlement of SR 20 million, payable on the closing of the said transaction. The proposed transaction is subject to approvals by regulatory authorities and by the shareholders of the Group.

## **2. BASIS OF PREPARATION**

### **(a) Statement of compliance**

The accompanying interim condensed consolidated financial statements have been prepared in accordance with the Standard for Interim Financial Information issued by the Saudi Organization for Certified Public Accountants (SOCPA).

These interim condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements of the Group for the year ended December 31, 2009.

### **(b) Basis of measurement**

The interim condensed 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**

The accompanying interim condensed 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.



## 2. **BASIS OF PREPARATION (continued)**

### (d) **Critical accounting judgements and estimates**

The preparation of 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 judgment in the process of applying the Group's accounting policies. Such estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances.

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.

## 3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies adopted by the Group for the preparation of these interim condensed consolidated financial statements are consistent with those used for the preparation of the annual consolidated financial statements. Significant accounting policies adopted by the Company for the preparation of these interim condensed financial statements are as follows:

### (a) **Basis of consolidation**

These interim condensed consolidated financial statements include the interim consolidated financial statements of the Company and its subsidiaries set forth in Note 1 above. Associates and jointly-controlled entities are accounted for using the equity method.

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 interim condensed 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 interim condensed consolidated financial statements. Also, any unrealized gains and losses arising from intra-group transactions are eliminated on consolidation.

### (b) **Foreign currency translation**

The interim condensed consolidated financial statements are reported in Saudi Riyals, 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.

### 3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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 consolidated subsidiaries are converted into Saudi Arabian Riyals at the exchange rates in effect at the balance sheet date. The components of foreign subsidiaries with the exception of retained earnings of subsidiaries are translated at the exchange rates in effect at the dates the related items originated. The elements of foreign subsidiaries' income statements are translated using the weighted-average exchange rate for the 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 interim condensed consolidated financial statements.

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

#### (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.

#### (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 control with other shareholders of the investee company.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 cease. Under the equity method, the investment in the associate and jointly controlled entity 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 Group's investment of less than 20% in certain listed and unlisted companies and investments funds.

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 where 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 are recorded when declared.

#### (iii) Other investments

These include the Group's investment in real estate projects which are under development. These are carried at cost net of any impairment loss.

### 3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### (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 acquirer's identifiable assets, liabilities and contingent liabilities at the acquisition date is classified as Goodwill.

Effective from January 01, 2010, changes in a group's ownership interest in a subsidiary after acquiring control; is accounted as an equity transactions and the carrying amounts of the minority interests is adjusted against the fair value of the consideration paid and any difference is recognised directly in equity under "Effect of transaction with minority shareholders without change in control".

#### (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 are determined taking into account the carrying value 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 at 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 charges 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.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (h) Assets and liabilities classified as held for sale

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

#### (i) Property, plant and equipment

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

	<u>Years</u>
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 assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

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

#### (j) 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 reliably measured.

#### (k) 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.

### 3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### (l) **Revenue recognition**

Revenues are recognized upon delivery or shipment of products or providing services to 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 businesses in food and related products.

#### (m) **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 and marketing and general and administrative expenses, when required, are made on a consistent basis.

#### (n) **Operating leases**

Payments under operating leases are recognized in the interim consolidated statements 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"). Foreign subsidiaries are subject to tax regulations in their countries of incorporation. Zakat & income taxes are charged to the interim consolidated statements of income currently.

#### (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 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. For purpose of Statement of Cash Flow, cash and cash equivalents excludes restricted deposits.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (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. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

During the quarter, as an outcome of review of its Foods business pruning strategy, the Group has decided to entrench its position in core markets and assess exiting from certain overseas operations. Accordingly, part of manufacturing facilities within the oil segment are presented as a disposal group held for sale. Efforts to sell the disposal groups have commenced, and a sale is expected during the financial year ending December 31, 2011. At December 31, 2010 the disposal group comprised assets of SR 300 million and liabilities SR 186 million before recognition of impairment loss amounting to SR 115 million on the remeasurement of the disposal group to its recoverable amount.

	<u>2010</u> <b>(SR 000)</b> <b>(Unaudited)</b>
<b>Asset classified as held for sale at their recoverable amount</b>	
Property, plant and equipment	<b>47,986</b>
Inventories	<b>81,132</b>
Trade receivable and other current assets	<b>55,808</b>
Total	<b>184,926</b>
<b>Liabilities classified as held for sale</b>	
Borrowings	<b>140,030</b>
Trade payable and other current liabilities	<b>46,381</b>
Total	<b>186,411</b>

## 5. INVESTMENTS

Investments at December 31 comprise the following:

	<u>2010</u> <u>(SR 000)</u> <u>(Unaudited)</u>	<u>2009</u> <u>(SR 000)</u> <u>(Audited)</u>
Investments in associates and jointly controlled companies - net ( Note 5.1)	<b>4,571,918</b>	3,373,922
Available-for-sale (AFS) investments (Note 5.2)	<b>725,572</b>	835,438
Other investment carried at cost (Note 5.3)	<b>825,414</b>	847,027
Total	<b><u>6,122,904</u></b>	<b><u>5,056,387</u></b>

### 5.1 Investment in Associates and Jointly-controlled companies

	Effective ownership interest (%)		<u>2010</u> <u>SR (000)</u> <u>(Unaudited)</u>	<u>2009</u> <u>SR (000)</u> <u>(Audited)</u>
	<u>2010</u>	<u>2009</u>		
Almarai Company – Saudi Arabia	29.95	26.5	<b>2,767,317</b>	1,842,089
Kinan International for Real Estate Development Company	30	30	<b>582,747</b>	546,499
Intaj Capital Limited – British Virgin Islands	49	49	<b>383,824</b>	393,324
Diyar Al Mashreq	30	30	<b>239,065</b>	234,684
Al-Seara City Company for Real Estate Development	40	40	<b>154,800</b>	134,800
Herfy Foods Services Company (Note 1)	49	--	<b>210,287</b>	--
Alexandria Sugar Company	45.5	45.5	<b>186,025</b>	175,372
Knowledge Economic City Development Company	17	17	<b>17,200</b>	13,200
Emerge Investment Limited	20	20	<b>16,539</b>	23,233
Al Mojammat Al Mowahadah Real Estate Company	20	20	<b>400</b>	400
Others	Various	Various	<b>13,714</b>	10,321
Total			<b><u>4,571,918</u></b>	<b><u>3,373,922</u></b>



## **5. INVESTMENTS (continued)**

### **5.2 Available for sale (AFS) investments**

AFS investments at December 31, 2010 comprise the Company's 2.9% ownership interest amounting to SR 177 million (2009: SR 209 million 2.4%) in Emaar the Economic City (a joint stock company). It also includes the ownership interest of 14% in Swicorp Jousour Company amounting to SR 209 million (2009: SR 209 million), 15% in Swicorp, Saudi Arabia amounting to SR 116 million (2009: SR 116 million), 6.4% in Knowledge Economic City amounting to SR 174 million (2009: SR 217 million) and 5% in Taameer Jordanian Holding Company (Tameer) amounting to SR 22 million (2009: SR 37 million).

### **5.3 Other investments**

Other investments at December 31, 2010 mainly represent investments in certain real estate projects in Saudi Arabia.

## **6. SHORT-TERM BANK DEBTS**

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

## **7. LONG-TERM DEBTS**

Long-term debts represent financing from Saudi Industrial Development Fund (SIDF), commercial banks and other financial institutions for Savola Group Company and its consolidated subsidiaries. Some of these loans are secured by a charge on the property, plant and equipment of certain subsidiaries. The loan agreements include covenants which, among other things, require certain financial ratios to be maintained.

## **8. SHARE CAPITAL AND DIVIDENDS DECLARATION**

At December 31, 2010 and 2009, the Company's share capital of 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:

<u>Date</u>	<u>Dividend rate</u>	<u>Interim / final</u>	<u>Amount</u> SR (Million)
April 18, 2010	SR 0.25 per share	Interim	125
July 18, 2010	SR 0.25 per share	Interim	125
October 17, 2010	SR 0.25 per share	Interim	125
January 17, 2011	SR 0.25 per share	Final	125

## **9. IMPAIRMENT LOSS ON INTANGIBLE ASSETS**

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. 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. As a result of this assessment an impairment loss of SR 50 million is recognised in these unaudited interim condensed consolidated financial statements.

The group has also written off deferred cost amounted to SR 52 million mainly related to certain abandoned investment related projects.

## **10. IMPAIRMENT LOSS ON AVAILABLE FOR SALE INVESTMENT**

During the year, the Group has re-assessed the fair valuation of certain available for sale equity investments and recognised an impairment loss amounting to SR 66 million (2009: SR 145 million) representing the difference between carrying value of these investments and fair value at December 31, 2010.

## **11. EARNINGS PER SHARE**

Earnings per share for the three-month and year ended December 31, 2010 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 three-month and year ended December 31, 2010 of 500 million shares.

## **12. SEASONAL CHANGES**

Some of the Group's activities are affected by seasonal movements related to the Holy months of Ramadan, Shawwal and Hajj season, which cause revenue to increase significantly during those periods. The effect of such period for 2010 and 2009 principally fall in third and fourth quarters of the financial year. Accordingly, the results of operations presented in the interim condensed consolidated financial statements for the quarter may not be a fair indicator of the results of operations for the full year.

### 13. SEGMENTAL INFORMATION

During the three-month period and year ended December 31, 2010 and 2009, the principal activities of the Group related to the manufacturing, wholesale and retail trading in various types of food and related products. Selected financial information as of December 31, 2010 and 2009, and for the year ended on those dates, summarized by segment, is as follows:

<u>2010 (Unaudited)</u>	<u>Manufacturing/ wholesale (SR 000)</u>	<u>Retail (SR 000)</u>	<u>Investments and other activities (SR 000)</u>	<u>Total (SR 000)</u>
Property, plant and equipment –net	2,545,513	2,166,774	6,289	4,718,576
Other non-current assets - net	896,378	556,340	5,690,418	7,143,136
Revenues – net	12,875,640	8,179,916	--	21,055,556
Net income	299,643	147,287	439,772	886,702
<u>2009 (Audited)</u>				
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

The Group's operations are conducted in Saudi Arabia, Egypt, Iran and certain other geographical areas. Selected financial information as of December 31, 2010 and 2009, and for the three month and year ended on those dates, summarized by geographic area, is as follows:

<u>2010 (unaudited)</u>	<u>Saudi Arabia (SR 000)</u>	<u>Egypt (SR 000)</u>	<u>Iran (SR 000)</u>	<u>Other countries (SR 000)</u>	<u>Total (SR 000)</u>
Property, plant and equipment – net	3,187,657	729,794	538,598	262,527	4,718,576
Other non-current assets-net	6,130,975	301,209	137,790	573,162	7,143,136
Revenue – net	13,618,909	2,480,747	2,612,452	2,343,448	21,055,556
Net income	914,465	(2,806)	85,370	(110,327)	886,702
<u>2009 (Audited)</u>					
	<u>Saudi Arabia (SR 000)</u>	<u>Egypt (SR 000)</u>	<u>Iran (SR 000)</u>	<u>Other countries (SR 000)</u>	<u>Total (SR 000)</u>
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

#### **14. COMMITMENTS AND CONTINGENT LIABILITIES**

##### Commitments

At December 31, 2010, the Group had outstanding commitments of SR 171 million (2009: SR 204 million) for investments.

##### Contingent liabilities

At December 31, 2010, the Department of Zakat and Income Tax (DZIT) has assessed an additional Zakat liability of SR 49.7 million (2009: SR 45 million) concerning prior periods against the Company and certain of its consolidated subsidiaries. Management has appealed such assessments and believes that the DZIT will eventually reverse the assessments. Accordingly, no provision for such amount has been made in the accompanying interim condensed consolidated financial statements.

#### **15. BOARD OF DIRECTORS' APPROVAL**

These interim condensed consolidated financial statements have been approved by the Company's Board of Directors on January 17, 2011.