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

**CONSOLIDATED FINANCIAL STATEMENTS**
For the year ended December 31, 2016
with
**INDEPENDENT AUDITORS' REPORT**

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

**CONSOLIDATED FINANCIAL STATEMENTS**
For the year ended December 31, 2016

KPMG Al Fozan & Partners
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License No. 46/11/323 issued 11/3/1992

# INDEPENDENT AUDITORS' REPORT

The Shareholders
Savola Group Company
(A Saudi Joint Stock Company)
Jeddah, Kingdom of Saudi Arabia

We have audited the accompanying consolidated financial statements of Savola Group Company (the "Company") and its subsidiaries (collectively referred to as the "Group") which comprise the consolidated balance sheet as at December 31, 2016 and the related consolidated statements of income, cash flows and changes in equity for the year then ended, and the attached notes 1 through 38 which form an integral part of the consolidated financial statements.

***Management's responsibility for the consolidated financial statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and in compliance with the Regulations for Companies and the Company's By-laws and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. Management has provided us with all the information and explanations that we require relating to our audit of these consolidated financial statements.

***Auditors' responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

KPMG

**Opinion**

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

1) present fairly, in all material respects, the consolidated financial position of the Savola Group Company and its subsidiaries as at December 31, 2016 and the consolidated results of its operations and its consolidated cash flows for the year then ended in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Group; and

2) comply with the requirements of the Regulations for Companies and the Company's By-laws with respect to the preparation and presentation of consolidated financial statements.

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

Ebrahim Oboud Baeshen
License No. 382

C.R. 46 KPMG Certified Public Accountants KPMG Al Fozan & Partners

Jeddah, Jumada Al Thani 17, 1438H
Corresponding to March 16, 2017

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

**CONSOLIDATED BALANCE SHEET**
As at December 31, 2016
(Expressed in Thousands of Saudi Riyals, unless otherwise stated)

| | Note | 2016 | 2015 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets:** | | | |
| Cash and bank balances | 4 | **1,331,524** | 2,067,074 |
| Trade receivable | 5 | **1,228,616** | 920,620 |
| Inventories | 6 | **3,204,482** | 4,853,454 |
| Prepayments and other current assets | 7 | **1,208,926** | 1,490,571 |
| Assets classified as held for sale | 8 | **1,056,739** | -- |
| **Total current assets** | | **8,030,287** | 9,331,719 |
| **Non-current assets:** | | | |
| Long-term receivables | 9 | **10,751** | 177,207 |
| Investments | 10 | **8,527,437** | 8,430,233 |
| Property, plant and equipment | 11 | **6,864,808** | 7,852,712 |
| Deferred tax asset | 12 | **28,693** | 69,763 |
| Intangible assets | 13 | **661,669** | 1,113,720 |
| **Total non-current assets** | | **16,093,358** | 17,643,635 |
| **Total assets** | | **24,123,645** | 26,975,354 |
| **LIABILITIES AND EQUITY** | | | |
| **LIABILITIES** | | | |
| **Current liabilities:** | | | |
| Short-term borrowings | 14 | **3,640,829** | 4,481,757 |
| Current maturity of long-term borrowings | 15 | **845,369** | 528,785 |
| Trade payable | 16 | **2,415,503** | 3,123,979 |
| Accrued expenses and other current liabilities | 17 | **2,084,212** | 1,832,708 |
| Liabilities classified as held for sale | 8 | **938,878** | -- |
| **Total current liabilities** | | **9,924,791** | 9,967,229 |
| **Non-current liabilities:** | | | |
| Long-term borrowings | 15 | **4,217,478** | 4,579,096 |
| Deferred tax liability | 18 | **50,551** | 102,932 |
| Deferred gain | 19 | **158,217** | 175,314 |
| Long-term payables | 20 | **215,581** | 232,497 |
| Employees' end of service benefits | 21 | **439,381** | 412,220 |
| **Total non-current liabilities** | | **5,081,208** | 5,502,059 |
| **Total liabilities** | | **15,005,999** | 15,469,288 |
| **EQUITY** | | | |
| Share capital | 22 | **5,339,807** | 5,339,807 |
| Share premium reserve | | **342,974** | 342,974 |
| Statutory reserve | 23 | **1,774,085** | 1,774,085 |
| General reserve | | **4,000** | 4,000 |
| Fair value reserve | 24 | **(22,093)** | 3,784 |
| Effect of acquisition transactions with non-controlling interest without change in control | | **(171,375)** | (171,375) |
| Currency translation reserve | | **(1,941,088)** | (1,019,087) |
| Retained earnings | | **3,157,057** | 4,275,841 |
| **Equity attributable to shareholders' of Parent Company** | | **8,483,367** | 10,550,029 |
| Non-controlling interest | | **634,279** | 956,037 |
| **Total equity** | | **9,117,646** | 11,506,066 |
| **Total liabilities and equity** | | **24,123,645** | 26,975,354 |
| **Contingencies and commitments** | 35 | | |

The accompanying notes 1 through 38 form an integral part of these consolidated financial statements.

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

**CONSOLIDATED STATEMENT OF INCOME**
For the year ended December 31, 2016
(Expressed in Thousands of Saudi Riyals, unless otherwise stated)

| | Note | 2016 | 2015 |
|---|---|---|---|
| **Continuing operations:** | | | |
| Revenues | 33 | **25,312,384** | 25,125,596 |
| Cost of revenue | 33 | **(20,875,996)** | (20,100,206) |
| **Gross profit** | | **4,436,388** | 5,025,390 |
| Share in net results of associates and dividend income of available-for-sale investments - net | 10 | **782,576** | 796,114 |
| | | **5,218,964** | 5,821,504 |
| **Expenses** | | | |
| Selling and marketing | 26 | **(3,646,970)** | (3,454,515) |
| General and administrative | 27 | **(739,584)** | (581,619) |
| | | **(4,386,554)** | (4,036,134) |
| **Income from operations** | | **832,410** | 1,785,370 |
| **Other (expenses) / income** | | | |
| Impairment losses | 28 | **(573,892)** | -- |
| Insurance claim reimbursement | | **--** | 126,500 |
| Gain on disposal of investments | 1 | **--** | 265,152 |
| Gain on disposal of land | | **--** | 38,820 |
| Financial charges – net | 29 | **(549,709)** | (167,394) |
| **(Loss) / income before Zakat, tax and non-controlling interest from continued operations** | | **(291,191)** | 2,048,448 |
| **Discontinued operations:** | | | |
| (Loss) / income from discontinued operations | 8.2 | **(176,260)** | 1,161 |
| **(Loss) / income before Zakat, tax and non-controlling interest** | | **(467,451)** | 2,049,609 |
| Zakat and foreign income taxes | 36 | **(156,900)** | (138,505) |
| **Net (loss) / income for the year** | | **(624,351)** | 1,911,104 |
| **Net (loss) / income for the year attributable to:** | | | |
| - Shareholders' of the Parent company | | **(451,308)** | 1,791,747 |
| - Non-controlling interest | | **(173,043)** | 119,357 |
| **Net (loss) / income for the year** | | **(624,351)** | 1,911,104 |
| **Basic and diluted (loss) / earnings per share (in SR):** | 34 | | |
| Income from operations | | **1.56** | 3.34 |
| Net (loss) / income for the year attributable to the shareholders of the Parent Company | | **(0.85)** | 3.36 |
| Weighted average number of shares outstanding (in thousands) | | **533,981** | 533,981 |

The accompanying notes 1 through 38 form an integral part of these consolidated financial statements.

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

**CONSOLIDATED STATEMENT OF CASH FLOWS**
For the year ended December 31, 2016
(Expressed in Thousands of Saudi Riyals, unless otherwise stated)

| | Note | 2016 | 2015 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Net (loss) / income for the year | | **(624,351)** | 1,911,104 |
| Adjustments for: | | | |
| Depreciation and amortization | 11&13 | **751,360** | 623,775 |
| Impairment losses | 28 | **573,892** | -- |
| Share in net results of associates and dividend Income | 10 | **(781,408)** | (794,946) |
| Financial charges – net | 29 | **549,709** | 167,394 |
| Deferred gain amortization | 19 | **(17,097)** | (17,097) |
| Gain on disposal of investments | | **--** | (265,152) |
| Provision for employees' end of service benefits | 21 | **83,550** | 77,586 |
| Loss / (gain) on disposal of property, plant and Equipment | | **9,736** | (38,820) |
| Provision for inventory obsolescence / slow moving | 6.2 | **24,297** | 145,167 |
| Provision for doubtful debts | 5.1 | **12,040** | 5,122 |
| Zakat and income tax expense | | **156,900** | 138,505 |
| Insurance claim reimbursement | | **--** | (126,500) |
| | | **738,628** | 1,826,138 |
| Changes in operating assets and liabilities | | | |
| Trade receivable | | **(510,637)** | 63,280 |
| Inventories | | **1,016,548** | (610,429) |
| Prepayments and other current assets | | **181,492** | 632,632 |
| Trade payable | | **(254,306)** | 384,369 |
| Accrued expenses and other current liabilities | | **876,303** | (68,151) |
| | | **2,048,028** | 2,227,839 |
| Employee end of service benefits paid | 21 | **(40,144)** | (33,198) |
| Zakat and income taxes paid | | **(84,362)** | (103,974) |
| **Net cash generated from operating activities** | | **1,923,522** | 2,090,667 |
| | | | |
| **Cash flow from investing activities** | | | |
| Purchase of property, plant and equipment | 11 | **(1,087,778)** | (2,076,605) |
| Additions to investments | 10 | **(41)** | -- |
| Dividends received | 10 | **321,082** | 290,476 |
| Contribution to settle an associate's liability | 10 | **(20,403)** | -- |
| Proceeds from sale of investments | | **--** | 984,911 |
| Collection from long-term receivables | | **166,456** | 144,889 |
| Proceeds from disposal of property, plant and equipment | | **13,774** | 134,756 |
| Addition to intangible assets | | **--** | (5,162) |
| **Net cash used in investing activities** | | **(606,910)** | (526,735) |

(continued)

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

**CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)**
For the year ended December 31, 2016
(Expressed in Thousands of Saudi Riyals, unless otherwise stated)

| | Note | 2016 | 2015 |
|---|---|---|---|
| **Cash flow from financing activities** | | | |
| Net change in short-term borrowings | | **(259,031)** | 585,987 |
| Net movement in long-term borrowings | | **185,427** | (89,799) |
| Net change in long-term payables | | **539** | - |
| Change in non-controlling interest | | **(148,715)** | (209,747) |
| Net change in restricted deposits | | **13,312** | (14,259) |
| Financial charges paid | | **(587,772)** | (207,289) |
| Dividends paid | | **(696,291)** | (1,051,109) |
| **Net cash used in financing activities** | | **(1,492,531)** | (986,216) |
| | | | |
| **Net change in cash and cash equivalents** | | **(175,919)** | 577,716 |
| Effect of currency exchange rates on cash and cash equivalents | | **(204,361)** | (159,413) |
| Less: cash and cash equivalents classified as held for sale | 8 | **(154,458)** | - |
| Cash and cash equivalents at beginning of year | | **1,813,044** | 1,394,741 |
| **Cash and cash equivalents at end of the year** | 4 | **1,278,306** | 1,813,044 |
| | | | |
| **Supplemental schedule of non-cash financial information** | | | |
| Directors' remuneration | 25.1 | **--** | 2,200 |
| Fair value reserves | 24 | **(25,877)** | 21,249 |
| Currency translation reserve | | **922,001** | 217,559 |
| Effect of transaction with non-controlling interest without change in control | 1 | **--** | 58,587 |

The accompanying notes 1 through 38 form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2016
(Expressed in Thousands of Saudi Riyals, unless otherwise stated)

| | Equity attributable to the Shareholders of the Parent Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium reserve | Statutory reserve | General reserve | Fair value reserve | Effect of transactions with non-controlling interest without change in control | Currency translation reserve | Retained earnings | Total | Non-controlling interest | Total equity |
| January 1, 2016 | 5,339,807 | 342,974 | 1,774,085 | 4,000 | 3,784 | (171,375) | (1,019,087) | 4,275,841 | 10,550,029 | 956,037 | 11,506,066 |
| Net loss for the year | -- | -- | -- | -- | -- | -- | -- | (451,308) | (451,308) | (173,043) | (624,351) |
| Dividends (Note 32) | -- | -- | -- | -- | -- | -- | -- | (667,476) | (667,476) | -- | (667,476) |
| Fair value reserve adjustment | -- | -- | -- | -- | (25,877) | -- | -- | -- | (25,877) | -- | (25,877) |
| Currency translation adjustment | -- | -- | -- | -- | -- | -- | (922,001) | -- | (922,001) | -- | (922,001) |
| Other changes in non-controlling interests | -- | -- | -- | -- | -- | -- | -- | -- | -- | (148,715) | (148,715) |
| **December 31, 2016** | 5,339,807 | 342,974 | 1,774,085 | 4,000 | (22,093) | (171,375) | (1,941,088) | 3,157,057 | 8,483,367 | 634,279 | 9,117,646 |

The accompanying notes 1 through 38 form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2016
(Expressed in Thousands of Saudi Riyals, unless otherwise stated)

| | Equity attributable to the Shareholders of the Parent Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium reserve | Statutory reserve | General reserve | Fair value reserve | Effect of transactions with non-controlling interest without change in control | Currency translation reserve | Retained earnings | Total | Non-controlling interest | Total equity |
| January 1, 2015 | 5,339,807 | 342,974 | 1,594,910 | 4,000 | (17,465) | (229,962) | (801,528) | 3,733,430 | 9,966,166 | 961,886 | 10,928,052 |
| Net income for the year | -- | -- | -- | -- | -- | -- | -- | 1,791,747 | 1,791,747 | 119,357 | 1,911,104 |
| Transfer to statutory reserve | -- | -- | 179,175 | -- | -- | | | (179,175) | -- | -- | -- |
| Dividends | -- | -- | -- | -- | -- | -- | -- | (1,067,961) | (1,067,961) | -- | (1,067,961) |
| Fair value reserve adjustment | -- | -- | -- | -- | 21,249 | -- | -- | -- | 21,249 | -- | 21,249 |
| Currency translation adjustment | -- | -- | -- | -- | -- | -- | (217,559) | -- | (217,559) | -- | (217,559) |
| Directors remuneration | -- | -- | -- | -- | -- | -- | -- | (2,200) | (2,200) | -- | (2,200) |
| Effect of transactions with non-controlling interest without change in control | -- | -- | -- | -- | -- | 58,587 | -- | -- | 58,587 | -- | 58,587 |
| Other changes in non-controlling interests | -- | -- | -- | -- | -- | -- | -- | -- | -- | (125,206) | (125,206) |
| December 31, 2015 | 5,339,807 | 342,974 | 1,774,085 | 4,000 | 3,784 | (171,375) | (1,019,087) | 4,275,841 | 10,550,029 | 956,037 | 11,506,066 |

The accompanying notes 1 through 38 form an integral part of these consolidated financial statements.

(Expressed in Thousands of Saudi Riyals, unless otherwise stated)

## 1. GENERAL INFORMATION

Savola Group Company is a Saudi Joint Stock company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 4030019708 issued in Jeddah on Rajab 21, 1399H (corresponding to June 16, 1979). The Company was formed under the Regulations for Companies in the Kingdom of Saudi Arabia per Royal Decree number M/21 dated Rabi-ul-Awal 29, 1398H (March 9, 1978).

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

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

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

At December 31, the Company has investments in the following subsidiaries:

### (a) Direct subsidiaries of the Company

*(i) Operating subsidiaries*

| Subsidiary name | Country of incorporation | Principal business activity | Direct ownership interest (%) at December 31, 2016 | 2015 |
|---|---|---|---|---|
| Savola Foods Company ("SFC") | Saudi Arabia | Foods | **100** | 100 |
| Panda Retail Company | Saudi Arabia | Retail | **91** | 91 |
| Al Matoun International for Real Estate Investment Holding Company | Saudi Arabia | Real estate | **80** | 80 |
| United Sugar Company, Egypt ("USCE")* | Egypt | Manufacturing of sugar | **19.32** | 19.32 |
| Giant Stores Trading Company ("Giant")* | Saudi Arabia | Retail | **10** | 10 |
| Savola Industrial Investment Company ("SIIC")* | Saudi Arabia | Holding Company | **5** | 5 |

* The Group holds controlling equity ownership interest in USCE, Giant and SIIC through indirect shareholding of other Group companies.

(Expressed in Thousands of Saudi Riyals, unless otherwise stated)

## 1. GENERAL INFORMATION (continued)

*(ii) Dormant and Holding subsidiaries*

| Subsidiary name | Country of incorporation | Principal business activity | Direct ownership interest (%) at December 31, 2016 | 2015 |
|---|---|---|---|---|
| Adeem Arabia Company Limited | Saudi Arabia | Holding company | **80** | 80 |
| Al Utur Arabian Holding Company for Commercial Investment | Saudi Arabia | Holding company | **100** | 100 |
| Al Mojammat Al Mowahadah Real Estate Company | Saudi Arabia | Holding company | **100** | 100 |
| Madarek Investment Company | Jordan | Holding company | **100** | 100 |
| United Properties Development Company | Saudi Arabia | Dormant company | **100** | 100 |
| Afia Foods Arabia | Saudi Arabia | Dormant company | **100** | 100 |
| Al Maoun International Holding Company (transferred to SFC) | Saudi Arabia | Dormant company | -- | 100 |
| Marasina International Real Estate Investment Limited (transferred to SFC) | Saudi Arabia | Holding company | -- | 100 |
| *iii) Dormant and Holding subsidiaries (liquidated)* | | | | |
| Kafazat Al Kawniah for Real Estate Limited | Saudi Arabia | Holding company | -- | 100 |
| Alwaqat Al Kawniah Limited | Saudi Arabia | Holding company | -- | 100 |
| Aalinah Al Kawniah Limited | Saudi Arabia | Holding company | -- | 100 |
| Abtkar Al Kawniah Limited | Saudi Arabia | Holding company | -- | 100 |
| Asda'a International Real Estate Investment Limited | Saudi Arabia | Holding company | -- | 100 |
| Masa'ay International Real Estate Investment Limited | Saudi Arabia | Holding company | -- | 100 |
| Saraya International Real Estate Investment | Saudi Arabia | Holding company | -- | 100 |
| Kamin Al Sharq for Industrial Investments | Saudi Arabia | Dormant company | -- | 100 |
| Arabian Sadouk for Telecommunications Company | Saudi Arabia | Dormant company | -- | 100 |
| Savola Trading International Limited | British Virgin Island ("BVI") | Dormant company | -- | 100 |
| Al Mustabshiroun International for Real Estate Investment Company | Saudi Arabia | Dormant company | -- | 100 |

Pursuant to the sale purchase agreement signed during December 2014 by the Group with Takween Advanced Industries (a third party) for sale of its ownership interest in Savola Packaging Systems Limited, representing the Group's plastic segment, all the legal formalities for the sale were completed during the three-months period ended March 31, 2015 and resulted in the gain on disposal of investment amounting to SR 265 million.

(Expressed in Thousands of Saudi Riyals, unless otherwise stated)

## 1. GENERAL INFORMATION (continued)

### (b) Savola Foods Company

The Parent Company has a 100% (2015: 100%) ownership interest in Savola Foods Company ("SFC"), which was incorporated as a closed Saudi joint stock company pursuant to Ministerial Resolution No. 236/G dated Dhul Qadah 21, 1435H (September 16, 2014). Prior to its conversion to a closed joint stock company, SFC was operating as a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration number 4030180782 issued in Jeddah on Rajab 05,1429H (July 08, 2008).

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

**Subsidiaries controlled through Savola Foods Company:**

| Subsidiary name | Country of incorporation | Principal business activity | Direct ownership interest (%) at December 31, 2016 | 2015 |
|---|---|---|---|---|
| Afia International Company | Saudi Arabia | Manufacturing of edible oils | **95.19** | 95.19 |
| Savola Industrial Investment Company | Saudi Arabia | Holding company | **95** | 95 |
| El Maleka for Food Industries Company | Egypt | Manufacturing of pasta | **100** | 100 |
| El Farasha for Food Industries Company | Egypt | Manufacturing of pasta | **100** | 100 |
| Savola Foods Emerging Markets Company Limited | BVI | Holding company | **95.43** | 95.43 |
| Afia International Distribution and Marketing Company (see note (i) below) | Saudi Arabia | Trading and distribution | **99** | 60 |
| Alexandria Sugar Company Egypt ("ASCE") | Egypt | Manufacturing of sugar | **19** | 19 |
| Savola Foods for Sugar Company | Cayman Islands | Holding company | **95** | 95 |
| Savola Foods Company International Limited | United Arab Emirates (UAE) | Holding company | **100** | 100 |
| International Foods Industries Company Limited | Saudi Arabia | Manufacturing of specialty fats | **75** | 75 |
| Seafood International Two FZCO (see note (ii) below) | UAE | Seafood products trading and distribution | **60** | -- |
| Al Maoun International Holding Company (transferred from Savola Group) | Saudi Arabia | Dormant company | **100** | -- |
| Marasina International Real Estate Investment Limited (transferred from Savola Group) | Saudi Arabia | Holding company | **100** | -- |

(Expressed in Thousands of Saudi Riyals, unless otherwise stated)

## 1. GENERAL INFORMATION (continued)

**Subsidiaries controlled through Afia International Company:**

| Subsidiary name | Country of incorporation | Principal business activity | Direct ownership interest (%) at December 31, 2016 | 2015 |
|---|---|---|---|---|
| Savola Behshahr Company ("SBeC") | Iran | Holding company | **90** | 90 |
| Malintra Holdings | Luxembourg | Holding company | **100** | 100 |
| Savola Foods Limited ("SFL") | BVI | Holding company | **100** | 100 |
| Afia International Company – Jordan | Jordan | Dormant company | **97.4** | 97.4 |
| Inveskz Inc. | BVI | Holding company | **90** | 90 |
| Afia Trading International | BVI | Dormant company | **100** | 100 |
| Savola Foods International | BVI | Dormant company | **100** | 100 |
| KUGU Gida Yatum Ve Ticaret A.S ("KUGU") | Turkey | Holding company | **100** | 100 |
| **SBeC** | | | | |
| Behshahr Industrial Company | Iran | Manufacturing of edible oils | **79.9** | 79.9 |
| Tolue Pakshe Aftab Company | Iran | Trading and distribution | **100** | 100 |
| Savola Behshahr Sugar Company | Iran | Trading and distribution | **100** | 100 |
| Notrika Golden Wheat Company | Iran | Manufacturing of Food and confectionery | **90** | 90 |
| **SFL** | | | | |
| Afia International Company, Egypt | Egypt | Manufacturing of edible oils | **99.95** | 99.92 |
| Latimar International Limited | BVI | Dormant company | **100** | 100 |
| Elington International Limited | BVI | Dormant company | **100** | 100 |
| **KUGU** | | | | |
| Yudum Gida Sanayi ve Ticaret A.S | Turkey | Manufacturing of edible oils | **100** | 100 |

(Expressed in Thousands of Saudi Riyals, unless otherwise stated)

## 1. GENERAL INFORMATION (continued)

**Subsidiaries controlled through Savola Industrial Investment Company:**

| Subsidiary name | Country of incorporation | Principal business activity | Direct ownership interest (%) at December 31, 2016 | 2015 |
|---|---|---|---|---|
| United Sugar Company ("USC") | Saudi Arabia | Manufacturing of sugar | **74.48** | 74.48 |
| **USC** | | | | |
| United Sugar Company, Egypt* | Egypt | Manufacturing of sugar | **56.75** | 56.75 |
| Alexandria Sugar Company, Egypt ("ASCE") | Egypt | Manufacturing of sugar | **62.13** | 62.13 |
| Beet Sugar Industries | Cayman Islands | Dormant company | **100** | 100 |
| **USCE** | | | | |
| Alexandria Sugar Company, Egypt | Egypt | Manufacturing of sugar | **18.87** | 18.87 |
| **ASCE** | | | | |
| Alexandria United Company for Land Reclamation | Egypt | Agro cultivation | **100** | 100 |
| **Subsidiaries controlled through Savola Foods Emerging Markets Company Limited:** | | | | |
| Savola Morocco Company | Morocco | Manufacturing of edible oils | **100** | 100 |
| Savola Edible Oils (Sudan) Ltd. | Sudan | Manufacturing of edible oils | **100** | 100 |
| Afia International Company – Algeria | Algeria | Manufacturing of edible oils | **100** | 100 |
| **Subsidiary controlled through Savola Foods Company International Limited:** | | | | |
| Modern Behtaam Royan Kaveh Company | Iran | Food and confectionery | **100** | 100 |

* During March 2016 as part of the Group's strategic assessment of its core operations; the Group's and other shareholders' of USCE signed a Shareholders' Agreement to increase the paid up share capital of USCE in the form of participation by a new shareholder, European Bank for Reconstruction and Development ("EBRD"). Consequent to completion of all legal formalities (including approval from certain regulatory and government authorities in Egypt), the ownership of the Group will be diluted and the Group will continue to jointly control the strategic, operational and financial activities of USCE.

(Expressed in Thousands of Saudi Riyals, unless otherwise stated)

## 1. GENERAL INFORMATION (continued)

In view of the above resolution, the assets and liabilities of USCE at December 31, 2016, have been classified as 'held for sale' in the consolidated balance sheet and its results of operations for the year ended have been disclosed as 'loss from discontinued operations' in the consolidated statement of income (Note 8). In this regard, USCE has already received SR 375 million from EBRD on account of issuance of new shares that will be effected after the completion of legal formalities. On January 5, 2017, USCE has received approval from General Authority for Investment and Free Zones for the issuance of shares to EBRD. Upon issuance of shares to EBRD, USCE will be deconsolidated and a gain or loss on the transaction will be recognized.

Further, at January 1, 2016, USCE changed its functional currency, which is deemed to be more appropriately representing the underlying operations of that entity.

*(i)* During December 2015, Afia International Distribution and Marketing Company ("ADC") was formed, which was 60% owned by SFC and 40% owned by AIC. ADC is currently engaged in trading and distribution of Group's food products to wholesale and retail. Consequent to the shareholders' resolution dated August 23, 2016, the shareholding has been amended as 99% owned by SFC and 1% owned by AIC.

*(ii)* During January 2016, Seafood International Two FZCO has been incorporated in Jebel Ali Free Zone in Dubai, UAE. The Company is engaged in trading and distribution of seafood products.

### (c) Panda Retail Company

The Parent Company has a 91% (2015: 91%) ownership interest in Panda Retail Company ("Panda"), which was incorporated as a closed Saudi joint stock company pursuant to Ministerial Resolution No. 235/G dated Rajab 22, 1431H (July 3, 2010). Prior to its conversion to a closed joint stock company, Panda was operating as a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration number 1010137417 issued in Riyadh on Rabi-ul-Awal 1, 1416H (July 28, 1995).

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

**Subsidiaries controlled through Panda**

| **Subsidiary name** | **Country of incorporation** | **Principal business activity** | **Direct ownership interest (%) at December 31, 2016** | **2015** |
|---|---|---|---|---|
| **Panda** | | | | |
| Giant Stores Trading Company | Saudi Arabia | Retail | **90** | 90 |
| Panda for Operations, Maintenance and Contracting Services | Saudi Arabia | Services and maintenance | **100** | 100 |
| Panda International for Retail Trading | Egypt | Retail | **100** | 100 |
| Panda International Retail Trading | UAE | Retail | **100** | 100 |
| Panda Bakeries Company | Saudi Arabia | Bakery | **100** | 100 |
| **Giant** | | | | |
| Lebanese Sweets and Bakeries | Saudi Arabia | Dormant company | **95** | 95 |

## 2. BASIS OF PREPARATION

### 2.1 Statement of compliance

The accompanying consolidated financial statements have been prepared in accordance with Saudi Accounting Standard for financial information issued by Saudi Organization for Certified Public Accountants ("SOCPA"), requirements of the Regulations for Companies and the Company's By-laws.

The new Regulation for Companies issued through Royal Decree M/3 on November 11, 2015 (hereinafter referred as "The Law") came into force on 25/07/1437H (corresponding to May 2, 2016). The Company has to amend its By-laws for any changes to align the By-laws to the provisions of The Law. Consequently, the Company shall present the amended By-laws to the shareholders in their Extraordinary General Assembly meeting for their ratification. The full compliance with The Law is expected not later than 24/07/1438H (corresponding to April 21, 2017).

### 2.2 Basis of measurement

The accompanying consolidated financial statements have been prepared under historical cost basis convention (except for revaluation of available-for-sale investments and derivative financial instruments to fair value), using the accrual basis of accounting, and the going concern assumption. Certain comparative amounts have been reclassified to conform to the current period's presentation.

### 2.3 Functional and presentation currency

These consolidated financial statements are presented in Saudi Riyals (SR), which is the functional currency of the Company. All amounts have been rounded off to the nearest thousand, unless otherwise stated.

### 2.4 Critical accounting estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have significant effect on the amounts recognized in the financial statements are as follows:

## 2. BASIS OF PREPARATION (continued)

### 2.4 Critical accounting estimates and judgments (continued)

#### *(a) Impairment of non-financial assets*

Non-current assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-current assets other than intangible assets and that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the consolidated statement of income. Impairment losses recognized on intangible assets (including goodwill) and available for sale securities are not reversible.

#### *(b) Impairment of available for sale equity investments*

The management exercises judgment to calculate the impairment loss of available for sale investments as well as their underlying assets. This includes the assessment of objective evidence which causes an other than temporary decline in the value of investments. In case of equity instruments any significant and prolonged decline in the fair value of equity investment below its cost is considered as objective evidence for such impairment. The determination of what is 'significant' and 'prolonged' requires management's judgment. The management also considers impairment testing to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. Furthermore, management considers 20% or more as a reasonable measure for significant decline below its cost, irrespective of the duration of the decline, and is recognized in the consolidated statement of income as impairment charge on investments. Prolonged decline represents decline below cost that persists for 9 months or longer irrespective of the amount and is, thus, recognized in the consolidated statement of income as impairment charge on investments. The previously recognized impairment loss in respect of equity investments cannot be reversed through the consolidated statement of income.

## 2. BASIS OF PREPARATION (continued)

### 2.4 Critical accounting estimates and judgments (continued)

*(c) Provision for doubtful debts*

A provision for impairment of trade receivable is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the agreement. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators of objective evidence that the trade receivable is impaired. For significant individual amounts, assessment is made on an individual basis. Amounts which are not individually significant, but are overdue, are assessed collectively and a provision is recognized considering the length of time considering past recovery rates.

*(d) Provision for inventory obsolescence*

The management makes a provision for slow moving and obsolete inventory items. Estimates of net realizable value of inventories are based on the most reliable evidence at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly related to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of year. Significant estimates and judgments involved in the estimation of provision for slow moving and obsolete inventories are disclosed in note 6.

*(e) Useful lives of property, plant and equipment*

The management determines the estimated useful lives of property and equipment for calculating depreciation. This estimate is determined after considering expected usage of the assets and physical wear and tear. Management reviews the residual value and useful lives annually and change in depreciation charges, if any, are adjusted in current and future periods.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated:

### 3.1 Business combination

Business combinations (except for entities under common control) are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instrument issued and liabilities incurred or assumed at the date of exchange, and includes costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition. The excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities is classified as goodwill. If the cost of the acquired investee is less than its fair value as of the acquisition date, such difference is adjusted by reducing the fair values of the non-current assets of the acquired investee in proportion to their book values.

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

### 3.1 Business combination (continued)

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

#### *(a) Subsidiaries*

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases.

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

Changes in a Group's ownership interest in a subsidiary that does not result in a change in control, is accounted as equity transaction and the carrying amounts of the non-controlling interests is adjusted against the fair value of the consideration paid and any difference is recognized directly in equity under "Effect of transactions with non- controlling interest without change in control".

#### *(b) Associates*

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies, generally accompanying a shareholding between 20% and 50% of the voting rights.

Associates are accounted for using the equity method, which are initially recognized at cost including goodwill identified on acquisition. The Company's share in its investees' post-acquisition income and losses is recognized in the consolidated statement of income and its share in post-acquisition movements in reserves is recognized in the Group's equity. When the Group's share of losses exceeds its interest in an equity accounted investee, the Group's carrying amount is reduced to nil and recognition of further losses is continued when the Group has incurred legal or constructive obligations or made payments on behalf of an investee.

Unrealized gains on transactions between the Group and its equity accounted investees are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Dilution gains and losses arising in investments in associates are recognized in the consolidated statement of income.

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

### 3.1 Business combination (continued)

#### *(c) Non-controlling interests*

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

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

#### *(d) Intangible assets*

*i) Goodwill*

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

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

*ii) Other intangible assets*

Other intangible assets comprise of trade name and certain other intangibles. These assets are carried at infinite useful life and represent group acquisition of such assets in a business combination. These assets are carried at cost and are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

*iii) Deferred charges*

Deferred charges 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.

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

### 3.2 Available for sale investments

Available for sale investments principally consist of less than 20% share in quoted and unquoted equity investments including mutual funds investments, which are not held for trading purposes and where the Group does not have any significant influence or control. These are initially recognized and subsequently re-measured at fair value. Any changes in fair value are recognized in equity as fair value reserve until the investment is disposed. Any significant and prolonged decline in value of the available for sales investments, if any, is charged to the consolidated statement of income. The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the consolidated balance sheet date. For investments where there is no active market, including investments in unquoted private equity, fair value is determined using valuation techniques. Such techniques include using reference to the current market value of another instrument, which is substantially the same and discounted cash flow analysis, otherwise the cost is considered to be the fair value for these investments.

### 3.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

A geographical segment is engaged in producing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

### 3.4 Foreign currency translations

*(a) Functional currency*

These consolidated financial statements are presented in Saudi Riyals which is the functional and presentation currency of the Parent Company.

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

*(b) Transactions and balances*

Transactions denominated in foreign currencies are translated to the functional currency of the Company 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 currency of the Company at the exchange rate ruling at that date. Exchange difference arising on translation are recognized in the consolidated statement of income currently.

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

### 3.4 Foreign currency translations (continued)

*(c) Group companies*

The results and financial position of foreign subsidiaries and associates, with the exception of economies under hyper-inflation, having reporting currencies other than presentation currency of the Parent Company, are translated into the functional currency as follows:

*(i)* assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
*(ii)* income and expenses for each statement of income are translated at average exchange rates; and
*(iii)* components of the equity accounts are translated at the exchange rates in effect at the dates of the related items originated.

Cumulative adjustments resulting from the translations are reported as a separate component of equity as "currency translation reserve".

Any goodwill arising on acquisition of foreign subsidiaries and any subsequent fair value adjustments to the carrying values of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign subsidiaries and translated at the closing rate and recognized in the equity.

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

When investments in foreign subsidiaries and associates are partially or fully disposed off or sold, allocable currency translation differences that were recorded in equity are recognized in the consolidated statement of income as part of gain or loss on disposal or sale.

*(d) Hyperinflationary economies*

When the economy of a country in which the Group operates is deemed hyperinflationary and the functional currency of a Group entity is the local currency of that hyperinflationary economy, the financial statements of such Group entities are adjusted so that they are stated in terms of the measuring unit currency at the end of the reporting period. This involves restatement of income and expenses to reflect changes in the general price index from the start of the reporting period and, restatement of non-monetary items in the consolidated balance sheet, such as property, plant and equipment and inventories, to reflect current purchasing power as at the year end using a general price index from the date when they were first recognized. The gain or loss on the net monetary position is included in finance costs or income for the year. Comparative amounts are not adjusted. When the economy of a country, in which the Group operates, is no more deemed a hyperinflationary economy, the Group ceases application of hyperinflationary economies accounting at the end of the reporting period that is immediately prior to the period in which hyperinflation ceases. The amounts in the Group's consolidated financial statements as at that date are considered as the carrying amounts for the subsequent consolidated financial statements of the Group. For the purpose of consolidation of foreign components operating in hyperinflation economies; items of balance sheet and income and expenses are translated at the closing rate.

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

### 3.5 Cash and cash equivalents

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

### 3.6 Trade receivable

Trade receivable are stated at original invoice amount less provisions made for doubtful debts. A provision against doubtful debts is established when there is objective evidence that the Group will not be able to collect the amounts due according to the original terms of receivables. Bad debts are written off when identified, against its related provisions. The provisions are charged to consolidated statement of income and any subsequent recovery of receivable amounts previously written off are credited to consolidated statement of income.

### 3.7 Inventories

Inventories are measured at the lower of cost and net realisable value. Cost is determined using the weighted average method. Cost includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Inventories in transit are valued at cost. Stores and spares are valued at cost, less any provision for slow moving items.

Net realizable value (NRV) comprises estimated selling price in the ordinary course of business, less further costs to completion and appropriate selling and distribution costs. Provision is made, where necessary, for obsolete, slow moving and defective stocks. Any NRV losses are adjusted against the carrying value of inventories.

### 3.8 Assets and liabilities classified as held for sale

Non-current assets (or disposal group) are classified as assets held for sale when their carrying amounts is to be recovered principally through a sale transaction and a sale is considered highly probable within foreseeable future. They are stated at a lower of carrying amount and fair value less costs to sell.

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

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

### 3.8 Assets and liabilities classified as held for sale (continued)

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

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as discontinued operation, the comparative consolidated statement of income is re-presented as if the operation had been discontinued from the start of the comparative year.

The Group presents after zakat and tax results from discontinued operations as a single separate component of the consolidated statement of income.

Revenues, expenses, taxes and gains or losses are additionally disclosed in the consolidated financial statements.

### 3.9 Property, plant and equipment

Property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment loss. Cost includes expenditure that is directly attributable to the acquisition of the asset. Finance costs on borrowings to finance the construction of the assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognized in the consolidated statement of income when incurred.

Depreciation is charged to the consolidated statement of income on a straight-line basis over the estimated useful lives of individual items of property, plant and equipment, except for Construction work in progress (CWIP), which is carried at cost. The estimated useful lives of assets is as follow:

| | Years |
|---|---|
| Buildings | 12.5 – 50 |
| Leasehold improvements | 3 – 33 |
| Plant and equipment | 3 – 30 |
| Furniture and office equipment | 3 – 16 |
| Vehicles | 4 – 10 |

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

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

### 3.10 Impairment

*(a) Non-financial assets*

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit (CGUs) exceeds its recoverable amount. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell.

Goodwill represents the excess of the cost of acquisition and fair value of non-controlling interests ("NCI") over the fair value of the identifiable net assets acquired. The Group assesses goodwill arising on acquisitions for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For impairment test, the goodwill for subsidiaries is determined individually, as each subsidiary is considered an independent cash generating unit.

The impairment is determined by reviewing the realizable amount of cash generating unit (subsidiary), the acquisition of which has given rise to goodwill. Where the realizable amount of a subsidiary is less than its carrying value, an impairment loss is recognized in the consolidated statement of income. Impairment losses on goodwill are not reversed.

Long term non-financial assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is estimated as the higher of an asset's fair value less costs to sell and value in use. If fair value less costs to sell is not observable then value in use calculated by income approach is considered as an alternative to fair value. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets that suffered impairment, other than intangible assets, are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the consolidated statement of income. Impairment losses recognized on goodwill are not reversible.

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

### 3.10 Impairment (continued)

*(b) Financial assets*

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the consolidated statement of income.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the consolidated statement of income. Impairment losses recognized on equity investments classified as available for sale are not reversible.

### 3.11 Sukuk liability

The Group classifies its Sukuk issued as financial liability, in accordance with the substance of the contractual terms of the Sukuk.

The Group derecognize a financial liability when its contractual obligations are discharged, cancelled or expired. Sukuk has been initially recognized and subsequently being carried at cost.

### 3.12 Trade payable and accruals

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

### 3.13 Provision

A provision is recognized if, as a result of past events, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probably that an outflow of economic benefit, will be required to settle the obligation.

### 3.14 Employees' end of service benefits

Employees' end of service benefits, calculated in accordance with Saudi Arabian labour regulations, are accrued and charged to the consolidated statement of income. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should his services be terminated at the balance sheet date.

The foreign subsidiaries provide currently for employee termination and other benefits as required under the laws of their respective countries of domicile. There are no funded or unfunded benefit plans established by the foreign subsidiaries.

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

### 3.15 Zakat and taxes

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

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

Foreign subsidiaries are subject to income taxes in their respective countries of domicile. Such income taxes are charged to consolidated statement of income.

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

### 3.16 Revenues

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

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

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

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

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

### 3.16 Revenue (continued)

Rental income
Rental income is recognized on a straight-line basis over the term of the lease.

Promotional and display income
Promotional and display income is comprised of income earned from promotion and display of various products by vendors within the Group's retail stores and is recognized in the period it is earned.

Dividend income
Dividend income is recognized when the right to receive payment is established.

### 3.17 Expenses

Selling and marketing expenses are those arising from the Company's efforts underlying the marketing, selling and distribution functions. All other expenses, excluding cost of revenue and financial charges, are classified as general and administrative expenses. Allocations of common expenses between cost of revenue and selling, marketing, general and administrative expenses, when required, are made on a consistent basis.

### 3.18 Dividends

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

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

### 3.19 Derivative financial instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group designates certain derivatives as either:

*i.* hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); or

*ii.* hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge).

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

### 3.19 Derivative financial instruments (continued)

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

*(a) Fair value hedge*

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

*(b) Cash flow hedge*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statement of income within 'Financial charges, net'.

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

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

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

(Expressed in Thousands of Saudi Riyals, unless otherwise stated)

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

### 3.20 Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Payment under operating lease is recognized in the consolidated statement of income on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense over the term of the lease.

### 3.21 Borrowings

Borrowings are recognized at the proceeds received, net of transaction costs incurred. Borrowing costs that are directly attributable to the construction of a qualifying asset are capitalized up to stage when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed and, otherwise, such costs are charged to the consolidated statement of income.

A qualifying asset is an asset that necessarily takes a substantial period of time to be made ready for its intended use or sale.

### 3.22 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.

## 4. CASH AND BANK BALANCES

Cash and bank balances at December 31 comprise the following:

| | **2016** | 2015 |
|---|---|---|
| Cash in hand | **23,316** | 25,876 |
| Cash at bank – current accounts | **488,930** | 1,334,976 |
| Short term deposits | **819,278** | 706,222 |
| | **1,331,524** | 2,067,074 |

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

(Expressed in Thousands of Saudi Riyals, unless otherwise stated)

## 4. CASH AND BANK BALANCES (continued)

Cash and cash equivalents at December 31 comprise the following:

| | 2016 | 2015 |
|---|---|---|
| Cash and bank balances | **1,331,524** | 2,067,074 |
| Less: Restricted deposits | **(53,218)** | (254,030) |
| | **1,278,306** | 1,813,044 |

Restricted deposits represent time deposits, blocked against bank facilities granted to an overseas subsidiary by a commercial bank.

## 5. TRADE RECEIVABLE

Trade receivable at December 31 comprise the following:

| | Note | 2016 | 2015 |
|---|---|---|---|
| Other customer receivables | | **1,253,436** | 956,575 |
| Less: provision for doubtful debts | 5.1 | **(72,225)** | (73,895) |
| | | **1,181,211** | 882,680 |
| Due from related parties | 25 | **58,156** | 66,187 |
| | | **1,239,367** | 948,867 |
| Less: non-current accounts receivable – net | | **(10,751)** | (28,247) |
| | | **1,228,616** | 920,620 |

5.1 Movement in provision for doubtful debts for the year ended December 31 is as follows:

| | 2016 | 2015 |
|---|---|---|
| At January 1 | **73,895** | 74,240 |
| Additions during the year | **12,040** | 5,122 |
| Reversal during the year | **(9,926)** | -- |
| Write-offs / currency translation differences | **(3,236)** | (5,467) |
| Reclassified to held for sale (Note 8) | **(548)** | -- |
| At December 31 | **72,225** | 73,895 |

(Expressed in Thousands of Saudi Riyals, unless otherwise stated)

## 6. INVENTORIES

Inventories at December 31 comprise the following:

| | Note | 2016 | 2015 |
|---|---|---|---|
| Finished products | 6.1 & 28 | **1,879,388** | 3,484,851 |
| Raw and packing materials | | **897,192** | 1,130,687 |
| Work in process | | **96,246** | 100,497 |
| Spare parts and supplies, not held for sale | | **163,796** | 200,484 |
| Goods in transit | | **322,211** | 159,615 |
| | | **3,358,833** | 5,076,134 |
| Less: provision for obsolescence / slow moving | 6.2 | **(154,351)** | (222,680) |
| | | **3,204,482** | 4,853,454 |

### 6.1 Write down to net realizable value

In line with the recent changes in the consumer behaviors, Panda Retail Company carried out a detailed exercise to rationalize the inventory levels. The study has identified certain Stock Keeping Units (SKUs) that are experiencing declining demands and therefore require changes in disposal strategies. Hence, certain mega promotions have been offered during the last two months of 2016. Accordingly, a consistent approach has been followed to identify and recognize Net Realizable Value (NRV) losses for items that are not recoverable at their carrying values. In this regard, inventories have been categorized under the following categories for specific assessment:

*i)* Clearance inventory: These include non-returnable, slow moving items that are resolved to be discontinued for future and hence offered for significant promotion during the three month ended December 31, 2016. Stock Keeping Units (SKUs) were specifically earmarked and closely monitored on a periodical basis. The disposal of these SKUs have resulted in a realized loss of SR 132 million and unrealized loss of SR 68.4 million, up to December 31, 2016.

*ii)* Overstock inventory: Certain SKUs were identified in excess of ordinary demand with changing market requirements and therefore their reorders were restricted. These were also offered at promotional prices to achieve significant reduction in quantities. The approach has resulted in a realized loss of SR 65.2 million and unrealized loss of SR 109 million, up to December 31, 2016.

(Expressed in Thousands of Saudi Riyals, unless otherwise stated)

## 6. INVENTORIES (continued)

6.2 Movement for provision for inventory obsolescence / slow moving for the year ended December 31 is as follows:

| | 2016 | 2015 |
|---|---|---|
| At January 1 | **222,680** | 81,481 |
| Additions during the year | **24,297** | 145,167 |
| Provision utilized during the year | **(82,365)** | -- |
| Currency translation differences during the year | **(9,326)** | (3,968) |
| Transferred to held for sale (Note 8) | **(935)** | -- |
| At December 31 | **154,351** | 222,680 |

6.3 Inventories amounting to SR 0.14 million (2015: SR 366.8 million) are pledged with foreign banks as collateral against bank borrowing facilities of certain overseas consolidated subsidiaries.

## 7. PREPAYMENTS AND OTHER CURRENT ASSETS

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

| | Note | 2016 | 2015 |
|---|---|---|---|
| Advances to vendors | | **261,213** | 496,331 |
| Due from related parties | 25 | **195,951** | 192,413 |
| Prepaid rent | | **188,581** | 276,871 |
| Other prepaid expenses | | **173,803** | 163,921 |
| Receivable from government authorities | 7.1 | **109,105** | 28,519 |
| Deposits | | **84,710** | 60,764 |
| Advances to employees | | **52,096** | 56,275 |
| Unclaimed dividends | | **33,365** | 25,679 |
| Positive fair value of derivatives | 7.2 | **16,612** | 85,074 |
| Others | | **93,490** | 104,724 |
| | | **1,208,926** | 1,490,571 |

### 7.1 Receivable from government authorities

Receivable from government authorities represent claims of certain foreign consolidated subsidiaries, mainly in Iran and Egypt, from respective local governments on account of value added tax, subsidies and advance taxes.

(Expressed in Thousands of Saudi Riyals, unless otherwise stated)

## 7. PREPAYMENTS AND OTHER CURRENT ASSETS (continued)

### 7.2 Positive fair value of derivatives

Balance relating to derivatives represent fair value of commodity hedging contracts outstanding at year end. Positive fair value of derivatives are disclosed in the above note and negative fair value of derivatives is reported under 'Accrued expenses and other current liabilities' (Note 17).

The hedge effectiveness test conducted by the management has proven that fair value hedge was highly effective. Accordingly, the effective portion of the changes in the fair value of the derivatives was charged directly to the 'cost of sales' in accordance with the accounting policy.

Derivatives that did not qualify for hedge accounting since initial recognition, changes in their fair values are recognized in the consolidated statement of income under financial charges amounting to a loss of SR 8.1 million (2015: gain of SR 97.6 million) (Note 29).

The notional principal amounts of the outstanding forward and future contracts at December 31, 2016 were SR 4,443 million (2015: SR 3,922 million).

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

a) Following the decision of the Board of directors of SFC in their meeting dated December 26, 2016, the Group has resolved to cease the disposal plans for edible oil business in Morocco and reinstated the classification of amount in the balance sheet for the current and comparative periods including a favorable gross adjustment of SR 27.1 million in the respective accounts and consolidated statement of income to reflect amendment in the plan. Following assets and liabilities classified as 'held for sale' in 2015, have now been reinstated to the respective captions:

| | 2015 |
|---|---|
| **Assets** | |
| Cash and cash equivalents | 6 |
| Trade receivable | 6,111 |
| Inventories | 13,148 |
| Prepayments and other current assets | 21,006 |
| Property, plant and equipment | 4,764 |
| Reclassified from 'Assets classified as held for sale' in the consolidated balance sheet | 45,035 |
| **Liabilities** | |
| Short-term borrowings | 48,935 |
| Trade payable | 7,160 |
| Accrued expenses and other current liabilities | 38,138 |
| Reclassified from 'Liabilities classified as held for sale' in the consolidated balance sheet | 94,233 |

(Expressed in Thousands of Saudi Riyals, unless otherwise stated)

## 8. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE (continued)

b) During the last quarter of 2016, the investment in Intaj Capital Limited ("Intaj") has been classified as held for sale pursuant to management's decision for selling the interest in Intaj within next twelve months. Consequently, this investment has been reclassified as such and written down to its fair value at SR 80.8 million from carrying value of SR 169.2 million resulting in the recognition of an impairment loss of SR 88.4 million and has been reclassified in the consolidated statement of income (Note 10.1 and 28).

c) As disclosed in Note 1, the Group has also classified the assets and liabilities of USCE as held-for-sale at December 31, 2016.

| | 2016 |
|---|---|
| Assets classified as held for sale, relating to: | |
| - Investment in Intaj Capital Limited | **80,844** |
| - United Sugar Company, Egypt (Note 8.1) | **975,895** |
| At December 31 | **1,056,739** |
| Liabilities classified as held for sale, relating to: | |
| - United Sugar Company, Egypt (Note 8.1) | **938,878** |

Details of the assets and liabilities of United Sugar Company, Egypt held for sale at December 31, are as follows:

### 8.1 Assets and liabilities held for sale

| | 2016 |
|---|---|
| **Assets** | |
| Cash and bank balances (Note 8.1.1) | **341,958** |
| Trade receivable and other current assets | **119,018** |
| Inventories (Note 8.1.2) | **237,549** |
| Property, plant and equipment (Note 8.1.3) | **273,513** |
| Other non-current assets | **3,857** |
| Disclosed as 'Assets classified as held for sale' in the consolidated balance sheet | **975,895** |
| **Liabilities** | |
| Borrowings | **118,070** |
| Trade payable and other liabilities | **410,046** |
| Non-current liabilities | **35,762** |
| Subscription money received from EBRD | **375,000** |
| Disclosed as 'Liabilities classified as held for sale' in the consolidated balance sheet | **938,878** |

8.1.1. This includes restricted deposits amounting to SR 187.5 million.

8.1.2. Inventories of USCE amounting to SR 161.42 million are pledged with foreign banks as collateral against bank borrowing facilities.

8.1.3. Certain property, plant and equipment of USCE amounting to SR 266.73 million are pledged as collateral with commercial banks.

(Expressed in Thousands of Saudi Riyals, unless otherwise stated)

## 8. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE (continued)

### 8.2 (Loss) / income from discontinued operations

Details of the (loss) / income from discontinued operations disclosed as 'loss from discontinued operations' in the consolidated statement of income of United Sugar Company, Egypt for the year ended December 31 are as follows:

| | **2016** | 2015 |
|---|---|---|
| Sales | **1,328,627** | 1,299,820 |
| Cost of revenue | **(1,308,372)** | (1,232,001) |
| **Gross profit** | **20,255** | 67,819 |
| *Operating expenses* | | |
| Selling and marketing | **(3,252)** | (4,032) |
| General and administrative | **(20,942)** | (23,534) |
| **(Loss) / income from operations** | **(3,939)** | 40,253 |
| Financial charges – net | **(168,409)** | (39,895) |
| **(Loss) / income before foreign income taxes** | **(172,348)** | 358 |
| Foreign income taxes | **(3,912)** | 803 |
| **Net (loss) / income for the year** | **(176,260)** | 1,161 |

### 8.3 Cash flows from discontinued operations

Details of cash flows from discontinued operations have been presented within the statement of cash flows for the year ended December 31, 2016. Following are the major components of cash flows from discontinued operations:

| | **2016** | 2015 |
|---|---|---|
| Net cash flow from operating activities | **(4,183)** | 151,433 |
| Net cash flow from investing activities | **171** | (7,434) |
| Net cash flow from financing activities | **(228,633)** | 160,823 |
| | **(232,645)** | 304,822 |

Classification as a discontinued operation occurs at the earlier of disposed or when the operation meets the criteria to be classified as held for sale.

(Expressed in Thousands of Saudi Riyals, unless otherwise stated)

## 9. LONG-TERM RECEIVABLES

Long-term receivables at December 31 comprise the following:

| | Note | 2016 | 2015 |
|---|---|---|---|
| Due from related parties | 25 | **3,966** | 161,427 |
| Others | | **6,785** | 15,780 |
| | | **10,751** | 177,207 |

## 10. INVESTMENTS

Investments at December 31 comprise the following:

| | Note | 2016 | 2015 |
|---|---|---|---|
| Investments in associates | 10.1 | **7,915,016** | 7,720,958 |
| Available-for-sale (AFS) investments | 10.2 | **612,421** | 709,275 |
| | | **8,527,437** | 8,430,233 |

### 10.1 Investments in associates

a) The details of the Group's investment in associates are as follows:

| Name | Principal business sector | Country of incorporation | Direct ownership interest (%) 2016 | Direct ownership interest (%) 2015 | 2016 | 2015 |
|---|---|---|---|---|---|---|
| Almarai Company Limited ("Almarai") | Fresh food products | Saudi Arabia | **36.52** | 36.52 | **6,755,515** | 6,362,608 |
| Kinan International for Real Estate Development Company ("Kinan") | Real Estate | Saudi Arabia | **29.9** | 29.9 | **562,492** | 617,143 |
| Herfy Foods Services Company ("Herfy") | Food products and fast food restaurant chains | Saudi Arabia | **49** | 49 | **428,967** | 391,739 |
| Al-Seera City Company for Real Estate Development | Real Estate | Saudi Arabia | **40** | 40 | **151,607** | 151,790 |
| Knowledge Economic City Developers Company | Real Estate | Saudi Arabia | **2.07** | 2.07 | **16,435** | 16,435 |
| Intaj Capital Limited ("Intaj") reclassified as held for sale (note 8 (b)) | Fund management | Republic of Tunisia | **49** | 49 | **--** | 179,244 |
| Seafood International One FZCO | Seafood products distribution | UAE | **40** | -- | **--** | -- |
| Others | | | **--** | Various | **--** | 1,999 |
| | | | | | **7,915,016** | 7,720,958 |

(Expressed in Thousands of Saudi Riyals, unless otherwise stated)

## 10. INVESTMENTS (continued)

### 10.1 Investment in associates (continued)

b) Movement in the investments in associates during the year ended December 31 is analysed as follows:

| | **2016** | 2015 |
|---|---|---|
| At January 1 | **7,720,958** | 7,188,197 |
| Additions during the year | **20,444** | -- |
| Share in net results for the year | | |
| - Almarai | **761,544** | 697,931 |
| - Herfy | **105,142** | 100,844 |
| - Others | **(85,278)** | (3,827) |
| Share in net reserves for the year of Almarai (Note 24) | **(116,636)** | 27,121 |
| Less: Dividends received during the year | | |
| - Almarai | **(252,001)** | (219,131) |
| - Herfy | **(67,913)** | (70,177) |
| Other adjustments | **(2,000)** | -- |
| Less: Investment in Intaj - transferred to held for sale (Note 8) | **(169,244)** | -- |
| At December 31 | **7,915,016** | 7,720,958 |

Key financial information of significant associates is as follows:

| Name | Assets | Liabilities | Revenues | Net income |
|---|---|---|---|---|
| **2016** | | | | |
| **Almarai** | **29,022,740** | **15,565,897** | **14,698,662** | **2,080,485** |
| **Herfy** | **1,352,190** | **539,640** | **1,156,683** | **217,496** |
| 2015 | | | | |
| Almarai | 27,371,035 | 14,752,807 | 13,794,616 | 1,915,691 |
| Herfy | 1,191,432 | 455,978 | 1,077,005 | 202,682 |

(Expressed in Thousands of Saudi Riyals, unless otherwise stated)

## 10. INVESTMENTS (continued)

### 10.2 Available-for-sale (AFS) investments

AFS investments at December 31 principally comprise the following:

| | Direct ownership interest (%) | | | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| Quoted investments | | | | |
| Knowledge Economic City | **6.4** | 6.4 | **392,265** | 336,660 |
| Emaar the Economic City ("Emaar") | **0.9** | 0.9 | **127,729** | 96,319 |
| Taameer Jordan Holding Company | **5** | 5 | -- | -- |
| Unquoted investments | | | | |
| Joussour Holding Company ("Joussour") (Note 28) | **14.81** | 14.81 | -- | 135,869 |
| Swicorp, Saudi Arabia (Note 28) | **15** | 15 | **67,674** | 115,674 |
| Dar Al Tamleek | **5** | 5 | **24,753** | 24,753 |
| | | | **612,421** | 709,275 |

a) During 2016, the Group received dividend amounting to SR 1.17 million (2015: SR 1.17 million) from one of the above mentioned available-for-sale investments.

b) Movement in the available-for-sale investments is as follows:

| | Note | **2016** | 2015 |
|---|---|---|---|
| At January 1 | | **709,275** | 732,519 |
| Impairment loss recognized during the year | 28 | **(183,869)** | -- |
| Fair value reserves adjustment | 24 | **80,732** | (24,807) |
| Others | | **6,283** | 1,563 |
| At December 31 | | **612,421** | 709,275 |

(Expressed in Thousands of Saudi Riyals, unless otherwise stated)

## 11. PROPERTY, PLANT AND EQUIPMENT

| | Land | Buildings | Leasehold improvements | Plant and equipment | Furniture and office equipment | Vehicles | Construction work in progress | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| January 1, 2016 | 1,268,929 | 1,820,617 | 1,436,874 | 3,461,814 | 2,512,725 | 400,813 | 1,246,394 | **12,148,166** |
| Additions | 23,268 | 231,854 | 31,021 | 27,041 | 179,220 | 60,746 | 534,628 | **1,087,778** |
| Disposals | -- | (89) | (23,510) | (9,129) | (32,012) | (5,405) | (1,687) | **(71,832)** |
| Transfer from CWIP | -- | 308,017 | 23,476 | 315,610 | 101,707 | 2,721 | (751,531) | -- |
| Impairment loss | -- | (2,748) | (1,237) | (176,548) | (251) | (961) | (3,395) | **(185,140)** |
| Hyperinflation adjustment | -- | 150 | -- | 547 | 150 | 253 | 1,909 | **3,009** |
| Currency translation differences | (38,770) | (205,850) | (10,242) | (650,189) | (28,934) | (32,684) | (154,626) | **(1,121,295)** |
| December 31, 2016 | 1,253,427 | 2,151,951 | 1,456,382 | 2,969,146 | 2,732,605 | 425,483 | 871,692 | **11,860,686** |
| **Accumulated depreciation** | | | | | | | | |
| January 1, 2016 | -- | (485,016) | (474,528) | (1,681,184) | (1,406,768) | (247,958) | -- | (4,295,454) |
| Additions | -- | (81,739) | (117,537) | (150,759) | (280,115) | (46,773) | -- | (676,923) |
| Disposals | -- | 34 | 8,621 | 8,859 | 25,441 | 5,367 | -- | 48,322 |
| Hyperinflation adjustment | -- | (20) | -- | (72) | (12) | (6) | -- | (110) |
| Currency translation differences | -- | 28,884 | 262 | 143,461 | 14,620 | 14,573 | -- | 201,800 |
| December 31, 2016 | -- | (537,857) | (583,182) | (1,679,695) | (1,646,834) | (274,797) | -- | (4,722,365) |
| **Net book value** | **1,253,427** | **1,614,094** | **873,200** | **1,289,451** | **1,085,771** | **150,686** | **871,692** | **7,138,321** |
| Transferred to assets classified as held for sale (Note 8) | (6,626) | (103,377) | (15,368) | (137,803) | (1,017) | (1,437) | (7,885) | (273,513) |
| **Net book value 2016** | **1,246,801** | **1,510,717** | **857,832** | **1,151,648** | **1,084,754** | **149,249** | **863,807** | **6,864,808** |
| Net book value 2015 | 1,268,929 | 1,335,601 | 962,346 | 1,780,630 | 1,105,957 | 152,855 | 1,246,394 | 7,852,712 |

(Expressed in Thousands of Saudi Riyals, unless otherwise stated)

## 11. PROPERTY, PLANT AND EQUIPMENT (continued)

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

b) Property, plant and equipment of the Group contains overseas subsidiaries amounting to SR 232.4 million (2015: SR 1,270 million) are pledged as collateral with commercial banks.

c) Additions include SR 14.4 million in respect of finance costs capitalized during 2016 (2015: SR 32 million). The average rate used to determine the amount of finance costs capitalized during 2016 was in the range of 2.88% to 3.15% (2015: 2.5%).

## 12. DEFERRED TAX ASSET

Movement in the deferred tax asset for the year ended December 31 is as follows:

| | **2016** | 2015 |
|---|---|---|
| At January 1 | **69,763** | 50,025 |
| Addition during the year | **908** | 25,084 |
| Currency translation adjustment | **(38,278)** | (5,346) |
| Classified as held for sale | **(3,700)** | -- |
| At December 31 | **28,693** | 69,763 |

Deferred tax asset is calculated on deductible temporary difference of certain foreign subsidiaries of the Group under the liability method using effective tax rate.

## 13. INTANGIBLE ASSETS

Movement in intangible assets for the year ended December 31, is as follows:

| | **Goodwill** | **Deferred charges** | **Brands with indefinite useful life** | **Total** |
|---|---|---|---|---|
| **Cost:** | | | | |
| January 1, 2016 | 796,407 | 595,884 | 242,876 | 1,635,167 |
| Currency translation differences | (109,942) | -- | (165,249) | (275,191) |
| December 31, 2016 | 686,465 | 595,884 | 77,627 | 1,359,976 |
| **Amortization:** | | | | |
| January 1, 2016 | -- | (521,447) | -- | (521,447) |
| Additions | -- | (74,437) | -- | (74,437) |
| Impairment (Note 28) | (102,423) | -- | -- | (102,423) |
| December 31, 2016 | (102,423) | (595,884) | -- | (698,307) |
| **Net balance 2016** | **584,042** | **--** | **77,627** | **661,669** |
| Net balance 2015 | 796,407 | 74,437 | 242,876 | 1,113,720 |

(Expressed in Thousands of Saudi Riyals, unless otherwise stated)

## 13. INTANGIBLE ASSETS (continued)

The carrying values of goodwill at December 31, after currency translation reserve adjustment and impairment loss adjustment (Note 28), comprises the following:

| | **2016** | 2015 |
|---|---|---|
| Geant's operations | **222,024** | 222,024 |
| Savola Industrial Investment Company | **101,004** | 140,341 |
| Afia International Company | **84,016** | 84,016 |
| Giant Stores Trading Company | **75,703** | 75,703 |
| KUGU Gida Yatum Ve Ticaret A.S | **41,121** | 46,649 |
| Afia International Company Egypt | **24,482** | 55,348 |
| Notrika Golden Wheat Company | **20,780** | 22,702 |
| United Sugar Company | **14,912** | 14,912 |
| El Maleka for Food Industries Company | **--** | 108,650 |
| El Farasha for Food Industries Company | **--** | 8,154 |
| Alexandria Sugar Company | **--** | 17,908 |
| | **584,042** | 796,407 |

## 14. SHORT-TERM BORROWINGS

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

## 15. LONG-TERM BORROWINGS

Long-term borrowings at December 31 represent the following:

| | Note | **2016** | 2015 |
|---|---|---|---|
| Murabaha term finance | 15.1 | **3,164,558** | 2,955,817 |
| Commercial bank loans | 15.1 | **398,289** | 652,064 |
| Sukuk | 15.2 | **1,500,000** | 1,500,000 |
| | | **5,062,847** | 5,107,881 |
| Current maturity shown under current liabilities | | **(845,369)** | (528,785) |
| | | **4,217,478** | 4,579,096 |

(Expressed in Thousands of Saudi Riyals, unless otherwise stated)

## 15. LONG-TERM BORROWINGS (continued)

**15.1** These represent borrowings obtained from commercial banks and other financial institutions by the Parent Company and its consolidated subsidiaries. These borrowings are in Saudi Riyals, Egyptian Pounds, US Dollars, Algerian Dinar and Sudanese Pounds. Certain of these borrowings are secured by a charge on the property, plant and equipment of certain overseas subsidiaries. The loan agreements include covenants which, amongst other things, require certain financial ratios to be maintained. Some of the long-term borrowings of subsidiaries are secured by corporate guarantees of the Parent Company.

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

As at December 31, 2016, the Group has unused bank financing facilities amounting to SR 3.7 billion (2015: SR 3.5 billion).

### 15.3 Maturity profile of long-term borrowings

**Years ending December 31:**

| | **2016** | 2015 |
|---|---|---|
| 2016 | -- | 528,785 |
| 2017 | **845,369** | 1,433,611 |
| 2018 | **1,123,085** | 594,673 |
| 2019 | **828,984** | 567,833 |
| 2020 and thereafter | **2,265,409** | 1,982,979 |
| | **5,062,847** | 5,107,881 |

### 15.4 Interest Rate Swaps (IRS)

The Company has entered into IRS contracts with local commercial banks to hedge its interest rate exposure on its borrowings and is expected to mature in 2020. The fair value of such contracts outstanding as at December 31, 2016 amounted to SR 2.97 million (2015: SR 7.05 million) which are disclosed within 'Accrued expenses and other current liabilities' and the fair value adjustment amount is recorded within equity under fair value reserve (Note 24).

The notional principal amounts of the outstanding interest rate swap contracts at December 31, 2016 were SR 750 million (2015: SR 750 million).

(Expressed in Thousands of Saudi Riyals, unless otherwise stated)

## 16. TRADE PAYABLE

Trade payable at December 31 comprise the following:

| | Note | 2016 | 2015 |
|---|---|---|---|
| Trade | | **2,295,776** | 3,031,636 |
| Due to related parties | 25 | **119,727** | 92,343 |
| | | **2,415,503** | 3,123,979 |

## 17. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

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

| | Note | 2016 | 2015 |
|---|---|---|---|
| Accrued expenses | | **648,606** | 499,356 |
| Accrued zakat and tax | 36.1 | **271,099** | 258,134 |
| Payable related to government authorities | 17.1 | **251,122** | 80,310 |
| Accrued rent, utilities and freight charges | | **185,704** | 129,725 |
| Employee related accruals | | **168,579** | 137,823 |
| Accrued financial charges | | **159,339** | 186,770 |
| Marketing related accruals | | **157,170** | 222,903 |
| Payable to Margarin Company | 17.2 | **63,438** | 51,592 |
| Unclaimed dividend | | **51,639** | 35,232 |
| Payable to contractors | | **50,370** | 89,333 |
| Insurance related liabilities | 17.3 | **30,154** | 33,399 |
| Advances from customers | | **26,841** | 50,244 |
| Negative fair value of derivatives | 7.2 &15.4 | **13,802** | 34,367 |
| Dividend payable to non-controlling interest | | **6,349** | 23,520 |
| | | **2,084,212** | 1,832,708 |

17.1 This amount mainly represents the accrued expenses of estimate payments to be made to government authorities related to custom duties, subsidies and price differences on edible oil purchases.

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

17.3 The amount represents the accrued expenses of estimated payments to be made to third parties as compensation in connection with the damages incurred due to the fire incident in the United Sugar Company's warehouse.

(Expressed in Thousands of Saudi Riyals, unless otherwise stated)

## 18. DEFERRED TAX LIABILITY

Movement in the deferred tax liability for the year ended December 31, is as follows:

| | 2016 | 2015 |
|---|---|---|
| At January 1 | **102,932** | 80,205 |
| Addition during the year | **27,959** | 32,125 |
| Currency translation adjustment | **(59,160)** | (9,398) |
| Classified as held for sale (Note 8) | **(21,180)** | -- |
| At December 31 | **50,551** | 102,932 |

Deferred tax liability is calculated on temporary difference on employees' end of service benefit, deferred rent payable and property, plant and equipment of certain foreign subsidiaries of the Group under the liability method using effective tax rate.

## 19. DEFERRED GAIN

Movement in the deferred gain for the year ended December 31 is as follows:

| | 2016 | 2015 |
|---|---|---|
| At January 1 | **175,314** | 192,411 |
| Amortization | **(17,097)** | (17,097) |
| At December 31 | **158,217** | 175,314 |

Deferred gain principally relates to deferral of capital gain on land and building sale and operating leaseback transactions by the Group's subsidiaries. Such gains are deferred over a period ranging from 10 years to 18 years.

## 20. LONG-TERM PAYABLES

Long-term payables at December 31 comprise the following:

| | Note | 2016 | 2015 |
|---|---|---|---|
| Unclaimed dividends | 20.1 | **214,491** | 218,449 |
| Deferred rent payable | | **--** | 12,047 |
| Other long term payable | | **1,090** | 2,001 |
| | | **215,581** | 232,497 |

### 20.1 Unclaimed dividends

Unclaimed dividends at December 31, 2016 and 2015 represent dividends declared by the Company in prior years and share fractions, which resulted from split of shares in prior years. Such amounts have not yet been claimed by the respective shareholders for several years. In the opinion of management, dividends unclaimed for more than two years are unlikely to be paid during 2017 and, accordingly, such amounts have been classified under non-current liabilities.

(Expressed in Thousands of Saudi Riyals, unless otherwise stated)

## 21. EMPLOYEES' END OF SERVICE BENEFITS

Movement in employees' end of service benefits for the year is as follows:

| | 2016 | 2015 |
|---|---|---|
| At January 1 | **412,220** | 372,168 |
| Charge for the year | **83,550** | 77,586 |
| Payments made during the year | **(40,144)** | (33,198) |
| Currency translation adjustment | **(11,847)** | (4,336) |
| Reclassified to 'liabilities classified as 'held for sale' (Note 8) | **(4,398)** | -- |
| At December 31 | **439,381** | 412,220 |

## 22. SHARE CAPITAL

At December 31, 2016 and 2015, the Company's share capital of SR 5.3 billion consists of 533.9 million fully paid shares of SR 10 each.

## 23. STATUTORY RESERVE

In accordance with the Company's By-laws and the previous Saudi Arabian Regulations for Companies, the Company sets aside 10% of its net income each year to a statutory reserve until such reserve equals 50% of the share capital. The new Saudi Arabian Regulations for Companies issued on 25 Rajab 1437H (corresponding to May 2, 2016) requires companies to set aside 10% of its net income each year to a statutory reserve until such reserve reaches 30% of the share capital. The Company is currently in the process of amending its By-laws as described in Note 2.1.

This reserve is currently not available for distribution to the shareholders of the Company.

## 24. FAIR VALUE RESERVE

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

| | Note | 2016 | 2015 |
|---|---|---|---|
| At January 1, | | **3,784** | (17,465) |
| Share in changes in other reserve of Almarai (an associate) | 10.1 | **(116,636)** | 27,121 |
| Fair value adjustment from investments in available-for-sale (AFS) investments | 10.2 | **80,732** | (24,807) |
| Fair value adjustment from derivative financial instruments relating to cash flow hedge | 7.2 &15.4 | **10,027** | 18,935 |
| At December 31, | | **(22,093)** | 3,784 |

(Expressed in Thousands of Saudi Riyals, unless otherwise stated)

## 25. RELATED PARTY TRANSACTIONS AND BALANCES

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

b) Significant related party transactions for the year ended December 31, and balances arising there-from are described as under:

| Name | Relationship | Nature of transactions | Amount of transactions 2016 | Amount of transactions 2015 | Closing balance 2016 | Closing balance 2015 |
|---|---|---|---|---|---|---|
| ***Due from related parties – Trade receivables*** | | | | | | |
| Certain shareholders of USC | Shareholders of a subsidiary | Trade | **207,508** | 369,287 | **3,826** | 39,944 |
| Certain shareholders of AIC | Shareholders of a subsidiary | Trade | **98,282** | 93,127 | **40,922** | 15,978 |
| Al Marai Company | Affiliate | Trade | **83,426** | 85,275 | **7,855** | 5,656 |
| Western Bakeries Company Limited | Affiliate | Trade | **25,412** | 23,439 | **2,882** | 2,250 |
| Abdul Kader Al-Muhaidib & Sons | Shareholder | Trade | **5,698** | 7,831 | **936** | 1,425 |
| Herfy Food Company | Affiliate | Trade | **3,897** | 1,488 | **879** | 146 |
| Al Mehbaj Al Shamiyah Trading Company | Affiliate | Trade | **1,407** | -- | **68** | -- |
| Others | | Trade | -- | -- | **788** | 788 |
| | | | | | **58,156** | 66,187 |
| ***Due from related parties – Prepayments and other current assets*** | | | | | | |
| Kinan International (Note 25.2) | Associate | Non-trade | **41,403** | 42,255 | **149,405** | 150,935 |
| Intaj Capital Limited | Associate | Non-trade | -- | -- | **27,200** | 40,554 |
| Seafood International One FZCO | Associate | Expenses | **21,347** | -- | **19,346** | -- |
| Others | | Non-trade | -- | -- | -- | 924 |
| | | | | | **195,951** | 192,413 |

(Expressed in Thousands of Saudi Riyals, unless otherwise stated)

## 25. RELATED PARTY RANSACTIONS AND BALANCES (continued)

***Due from related parties – Long-term receivables***

| Name | Relationship | Nature of transactions | Amount of transactions | | Closing balance | |
|---|---|---|---|---|---|---|
| | | | **2016** | 2015 | **2016** | 2015 |
| Kinan International (Note 25.2) | Associate | Non-trade | -- | -- | -- | 148,960 |
| Shareholder of USC – Net | Shareholder of a subsidiary | Trade | -- | -- | **3,966** | 12,467 |
| | | | | | **3,966** | 161,427 |

***Due to related parties – Trade payables***

| Name | Relationship | Nature of transactions | **2016** | 2015 | **2016** | 2015 |
|---|---|---|---|---|---|---|
| Al Marai Company | Associate | Purchases | **514,611** | 476,501 | **55,202** | 52,356 |
| Hail Agricultural Development Company | Affiliate | Purchases | **91,946** | 93,184 | **12,759** | 12,920 |
| Herfy | Associate | Purchases | **34,075** | 35,411 | **10,902** | 8,725 |
| Mayar Food Company | Affiliate | Purchases | **233,759** | 200,896 | **40,864** | 18,342 |
| | | | | | **119,727** | 92,343 |

### 25.1 Board of directors remuneration

Remuneration, compensation and bonuses of the key management personnel paid during the year ended December 31, 2016 was SR 25.23 million (2015: SR 25.87 million).

Board of Directors' remuneration for the year ended December 31, 2016 amounting to Nil (2015: SR 2.2 million) has been calculated in accordance with the Company's By-laws and is considered as appropriation shown in the consolidated statement of changes in equity. Attendance allowances and other expenses to the directors and members of various board committees amounting to SR 2.6 million (2015: SR 4.4 million) are charged to expenses and included under general and administrative expenses.

**25.2** In September 2014, the Parent Company sold its direct and indirect ownership interest in Diyar Al Mashreq (Masharef Project) to its associate Kinan at a total consideration of SR 593.6 million, receivable in four installments until November 2017.

(Expressed in Thousands of Saudi Riyals, unless otherwise stated)

## 26. SELLING AND MARKETING EXPENSES

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

| | 2016 | 2015 |
|---|---|---|
| Salaries, wages and benefits | **1,388,204** | 1,415,050 |
| Rent | **892,845** | 768,329 |
| Advertisement | **352,940** | 409,921 |
| Depreciation and amortization | **467,884** | 393,503 |
| Utilities | **317,706** | 262,147 |
| Maintenance | **107,892** | 87,503 |
| Commission | **51,697** | 62,969 |
| Others | **67,802** | 55,093 |
| | **3,646,970** | 3,454,515 |

## 27. GENERAL AND ADMINISTRATIVE EXPENSES

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

| | 2016 | 2015 |
|---|---|---|
| Salaries, wages and benefits | **411,993** | 358,723 |
| Depreciation and amortization | **108,054** | 73,983 |
| Professional fees | **47,054** | 33,776 |
| Computer related cost | **25,769** | 19,745 |
| Insurance | **29,004** | 30,703 |
| Rent | **13,131** | 10,642 |
| Traveling | **9,994** | 11,204 |
| Training | **5,575** | 7,109 |
| Utilities, telephone and communication cost | **16,785** | 18,505 |
| Repairs and maintenance | **4,588** | 5,443 |
| Others | **67,637** | 11,786 |
| | **739,584** | 581,619 |

## 28. IMPAIRMENT LOSSES

As part of Group's assessment exercise of the fair values of available for sale securities and recoverable amounts of certain assets, investment in an associate held for sale and goodwill at the year end; the Group has recognized a cumulative impairment loss of SR 573.89 million during the year ended December 31, 2016. The breakup of the amount by class of assets and basis of determination are as follows:

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

## 28. IMPAIRMENT LOSSES (continued)

a) Impairment loss on Fair Valuation of AFS investments:

The Group holds investment in equity shares of Swicorp, Saudi Arabia and Joussor Holding Company and classify these under Available for Sale investments. The Group has carried out an internal study to estimate the reliable Fair Values of these unquoted investments at December 31, 2016 using multiple valuation techniques. The study captures the deteriorating financial performance of the companies and also refers to the range of acceptable fair valuation techniques such as Price Earnings Multiples, Price to Book value and Price to Tangible Book Value. The decline in the recent fair value has been considered significant and therefore impairment losses amounting to SR 48 million and SR 135.9 million has been recognized on Swicorp, Saudi Arabia and Joussor Holding Company, respectively.

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

As disclosed in note 8, the investment in Intaj Capital Limited has been classified as held for sale resulting its measurement at lower of carrying amount or Fair value less cost to sell. The determination of fair value less cost to sell was principally based on bid prices from potential buyers but also supported by detailed internal analysis of underlying investments. The Group considered the latest available NAV report from the Fund Manager, and adjusted the same with the probable exit timing, appropriate EBITDA multiples and current liquidity discount. Consequently, this investment has been written down to its estimated fair value of SR 80.8 million and an impairment loss of SR 88.4 million has been recognized during the three month period ended December 31, 2016.

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

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

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

The recoverable amount of the CGU was estimated to be lower than the carrying amount and therefore, a cumulative impairment loss of SR 301.6 million has been recognised first on the goodwill first and then to other assets (including intangible assets) on a pro rata basis (in case of ASC and AUCR) in the consolidated statement of income under 'Impairment losses' . In allocating any impairment loss, individual assets are not written down below individual recoverable amount or zero.

(Expressed in Thousands of Saudi Riyals, unless otherwise stated)

## 28. IMPAIRMENT LOSSES (continued)

At 31 December 2016, following is the breakup of impairment loss:

| CGU | Impairment loss | Key Assumptions |
|---|---|---|
| El Maleka for Food Industries Company | 41,550 | ▪ Budgeted EBITDA growth rate 33.7%<br>▪ Discount rate 24.86 %<br>▪ Terminal value growth rate 5.5% |
| El Farasha for Food Industries Company | 3,627 | ▪ Budgeted EBITDA growth rate 17.51%<br>▪ Discount rate 24.86 %<br>▪ Terminal value growth rate 5.5% |
| Savola Industrial Investment Company – (USCE) | 39,338 | ▪ Budgeted EBITDA growth rate (1.08)%<br>▪ Discount rate 12.8 %<br>▪ Terminal value growth rate 3% |
| Alexandria Sugar Company, Egypt (ASC) | 17,908 | ▪ Budgeted EBITDA growth rate (5.7)%<br>▪ Discount rate 25.6 %<br>▪ Terminal value growth rate 5.5% |
| **Total** | **102,423** | |

Key assumptions used for value in use calculation:

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

The calculation of value in use is most sensitive to the assumptions on sales growth rate (negative 3% to positive 16%) and cost of sales inflation (negative 3% to positive 16%) used to extrapolate cash flows beyond the budget period of 5 years, as well as the terminal value using Gordon growth model.

Other non-financial assets:

The impairment in other assets represents the write-down of certain property, plant and equipment of Alexandria Sugar Company, Egypt (ASCE) and Alexandria United Company for Land Reclamation (AUCR) (subsidiaries) to their recoverable amounts due to volatile sugar pricing and supply dynamics; increase in the costs structure due to subsidy removal and sales disruptions led to decreased profitability.

(Expressed in Thousands of Saudi Riyals, unless otherwise stated)

## 28. IMPAIRMENT LOSSES (continued)

Due to the above mentioned factors, the carrying value of property, plant and equipment of ASC and AUCR have been written-down by SR 160 million and SR 39.2 million (including SR 14 million pertaining to inventory write-down) respectively, to their recoverable amounts.

The recoverable amount as at December 31, 2016 was based on "value-in-use" method and was determined at the level of cash generating unit ("CGU") as identified by management and consists of the net operating assets of ASCE and AUCR. In determining value in use for the CGUs, the cash flows (determined using approved five-year business plan and budget) were discounted at a rate of 25.6% on a post-tax basis and were projected up to the year 2021. The estimated average growth rate used to extrapolate the cash flows beyond the five-year period was 5.5% and nil for ASCE and AUCR respectively and management believes that such growth rate does not exceed the long-term average growth rate for the market in which it operates. The calculation of value-in-use is most sensitive to the following key assumptions used:

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

## 29. FINANCIAL CHARGES - NET

Financial charges for the year ended December 31 comprise the following:

| | Note | **2016** | 2015 |
|---|---|---|---|
| Bank commission | | **22,722** | 29,925 |
| Financial charges on borrowings | 14 & 15 | **361,177** | 329,828 |
| Loss / (gain) from derivatives – net | 7.2 | **8,111** | (97,640) |
| Foreign exchange loss | 29.1 | **353,782** | 48,909 |
| Commission income earned on short-term bank deposits | 4 | **(196,083)** | (143,628) |
| | | **549,709** | 167,394 |

29.1 This represents exchange loss arising on monetary items. The amount principally represents exchange differences arising on translation of monetary assets and liabilities as well as transactions in Egypt and Iran.

(Expressed in Thousands of Saudi Riyals, unless otherwise stated)

## 30. HYPERFINFLATIONARY ACCOUNTING

The Group has operations in Sudan through its subsidiary Savola Sudan, which was declared as hyperinflationary economy by International Accounting Standard Board (IASB) since 2013.

During December 2016, after Sudan ceased to be a hyperinflationary economy; the Group ceased to apply hyperinflation accounting with effect from September 30, 2016 (i.e. the last reported period).

The main effects on the Group's consolidated financial statements due to hyperinflationary accounting (which includes both indexing up and using of closing exchange rate) for the period ended September 30, 2016 and year ended December 31, 2015 are as follows:

| | **Period ended September 30, 2016** | Year ended December 31, 2015 |
|---|---|---|
| Revenue increased by | **1,001** | 12,875 |
| Income from operations decreased by | **(8,561)** | (50,391) |
| Total non-current assets decreased by | **(20,852)** | (30,594) |
| Currency translation differences impacted by | **(34,782)** | (46,903) |

The management applied the consumer price index (CPI), published by the World Bank and the Central Bank of the entity to adjust its financial information. The conversion factors used for the CPI adjustment is given below:

| | **Sudan** |
|---|---|
| Conversion factor for the period ended September 30, 2016 | 1.20 |
| Conversion factor for the year ended December 31, 2015 | 1.09 |

## 31. OPERATING LEASES

The Group has various operating leases for its offices, warehouses and production facilities. Rental expenses for the year ended December 31, 2016 amounted to SR 905.9 million (2015: SR 779.7 million). Future rental commitments at December 31, under these operating leases are as follows:

| | **2016** | 2015 |
|---|---|---|
| Within one year | **781,447** | 851,550 |
| Between two and five years | **1,563,004** | 2,462,002 |
| More than five years | **5,486,169** | 5,178,133 |
| | **7,830,620** | 8,491,685 |

(Expressed in Thousands of Saudi Riyals, unless otherwise stated)

## 32. DIVIDENDS

The Company's shareholders have approved and paid dividends amounting to SR 667 million in 2016. The details of interim dividends approved and final dividend proposed by the Board of Directors are as follows:

| Date of approval | Interim / Final | Per share value (SR) | Total Amount (SR) |
|---|---|---|---|
| January 20, 2016 | Final 2015 | 0.50 | 266.99 million |
| April 19, 2016 | Interim 2016 | 0.25 | 133.5 million |
| July 27, 2016 | Interim 2016 | 0.25 | 133.5 million |
| October 19, 2016 | Interim 2016 | 0.25 | 133.5 million |

## 33. SEGMENT INFORMATION

An operating segment is a component of an entity:

(a) that engages in business activities from which it may earn revenue and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),

(b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and

(c) for which discrete financial information is available.

For management purposes, the Group is organized into the following operating segments:

**Foods** – Foods segment consist of operations of subsidiaries engaged in the manufacturing, marketing and distribution of products related to edible oil, pasta, sugar, seafood, confectionery, and agro cultivation in the local and overseas market.

**Retail** – Retail segment consist of operations of subsidiaries engaged in wholesale and retail trading in food supplies and consumable materials.

**Investment and other activities** – segment consist of Head office operations pertaining to investment and other activities.

(Expressed in Thousands of Saudi Riyals, unless otherwise stated)

## 33. SEGMENT INFORMATION (continued)

Selected financial information as at and for the year ended December 31, summarized by segment, is as follows:

| **2016** | **Retail** | **Foods** | **USCE (discontinued operations)** | **Investments and other activities** | **Eliminations** | **Total** |
|---|---|---|---|---|---|---|
| Revenues - net | **13,778,804** | **11,781,614** | -- | **137,611** | **(385,645)** | **25,312,384** |
| Cost of revenue | **(11,118,867)** | **(10,005,165)** | -- | -- | **248,036** | **(20,875,996)** |
| Net (loss) / income | **(772,509)** | **190,741** | **(176,260)** | **299,972** | **6,748** | **(451,308)** |
| Property, plant and equipment | **3,972,618** | **2,345,765** | -- | **546,425** | -- | **6,864,808** |
| Other non-current assets | **297,728** | **403,386** | -- | **8,527,436** | -- | **9,228,550** |

| 2015 | Retail | Foods | USCE (discontinued operations) | Investments and other activities | Eliminations | Total |
|---|---|---|---|---|---|---|
| Revenues - net | 13,532,732 | 11,812,204 | -- | 144,856 | (364,196) | 25,125,596 |
| Cost of revenue | (10,303,388) | (10,031,350) | -- | -- | 234,532 | (20,100,206) |
| Net income / (loss) | 146,359 | 686,398 | 1,161 | 972,386 | (14,557) | 1,791,747 |
| Property, plant and equipment | 3,826,703 | 3,120,580 | 295,215 | 610,214 | -- | 7,852,712 |
| Other non-current assets | 338,738 | 918,243 | 3,700 | 8,530,242 | -- | 9,790,923 |

The Group's operations are conducted in Saudi Arabia, Egypt, Iran and other countries. Selected financial information as at and for the year ended December 31 summarized by geographic area, is as follows:

| **2016** | **Saudi Arabia** | **Egypt** | **Iran** | **Other countries** | **Total** |
|---|---|---|---|---|---|
| Revenues – net | 18,262,369 | 2,015,622 | 2,755,529 | 2,278,864 | **25,312,384** |
| Cost of revenue | (14,877,166) | (1,604,483) | (2,370,499) | (2,023,848) | **(20,875,996)** |
| Net (loss) / income | (373,313) | (338,380) | 135,972 | 124,413 | **(451,308)** |
| Property, plant and equipment | 5,513,148 | 439,025 | 728,305 | 184,330 | **6,864,808** |
| Other non-current assets | 9,029,063 | 110,131 | 40,699 | 48,657 | **9,228,550** |
| 2015 | | | | | |
| Revenues - net | 17,557,819 | 2,164,537 | 2,701,598 | 2,701,642 | 25,125,596 |
| Cost of revenue | (13,562,273) | (1,854,430) | (2,308,818) | (2,374,685) | (20,100,206) |
| Net income / (loss) | 1,483,058 | (28,760) | 232,106 | 105,343 | 1,791,747 |
| Property, plant and equipment | 5,299,702 | 1,616,303 | 730,105 | 206,602 | 7,852,712 |
| Other non-current assets | 9,304,118 | 411,435 | 61,699 | 13,671 | 9,790,923 |

## 34. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share for the year ended December 31, 2016 and 2015, have been computed by dividing the operating income (including share of non-controlling interest) and net income attributable to shareholders of the Parent Company for such periods by the weighted average number of shares outstanding 533.981 million (2015: 533.981 million) during such periods.

Diluted earnings per share for the year ended December 31, 2016 and 2015, have been computed by dividing the operating income (including share of non-controlling interest) and net income attributable to shareholders of the Parent Company for such periods by the weighted average number of shares outstanding adjusted for the effects of all dilutive potential ordinary shares. However, as the impact of dilution is not material, the diluted earnings per share is approximately same as basic earnings per share.

## 35. CONTINGENCIES AND COMMITMENTS

i) The Group has outstanding bank guarantees and letters of credit amounting to SR 198.9 million (2015: SR 466 million), which were issued in the normal course of business;

ii) Also see Note 14 with respect to guarantees given for certain borrowings, Note 36 with respect to zakat contingencies and Note 31 with respect to leases;

iii) At December 31, 2016, one of the subsidiaries had commitments to sell in 2017 refined sugar of approximately 243,695 MT (2015: 409,861 MT to sell in 2016) at prices, which would approximate the prevailing market prices at the contract date. The raw sugar price of committed sale contracts is hedged through futures contracts and are expected to mature in 2017;

iv) At December 31, 2016, the Group had outstanding commitments of SR 49.6 million (2015: SR 49.6 million) for investments;

v) At December 31, 2016, the Group had outstanding capital commitments of SR 253 million (2015: SR 518 million);

vi) The Company has also issued a corporate guarantee, amounting to SR 102 million (2015: SR 102 million), to Saudi Industrial Development Fund for their loan to an associated company in proportion of the Company's ownership interest in the equity accounted investee; and

vii) The Group is a defendant in various legal claims arising in the normal course of business. Provision has been established for certain claims, based on the information presently available. Management believes that the existing amounts provided for such claims are adequate. Any additional amount that may result in connection with other claims are not expected to have a material effect on the Group's financial position or results of its operations.

(Expressed in Thousands of Saudi Riyals, unless otherwise stated)

## 36. ZAKAT AND FOREIGN INCOME TAX

### 36.1 Zakat and tax matters

Zakat and taxes included in the consolidated income statement are comprised of the following:

| | 2016 | 2015 |
|---|---|---|
| Current foreign income-tax charge | **106,917** | 108,201 |
| Zakat | **22,932** | 23,263 |
| | **129,849** | 131,464 |
| Deferred foreign income-tax charge: | | |
| - Deferred tax liability related (Note 18) | **27,959** | 32,125 |
| - Deferred tax asset related (Note 12) | **(908)** | (25,084) |
| | **27,051** | 7,041 |
| | **156,900** | 138,505 |

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

| | 2016 | 2015 |
|---|---|---|
| At January 1, | **258,134** | 270,280 |
| Charge for the year | **129,849** | 131,464 |
| Transferred to 'liabilities classified as held for sale' (Note 8) | **(5,104)** | -- |
| Currency translation adjustment | **(24,187)** | (39,636) |
| Payments / adjustment during the year | **(87,593)** | (103,974) |
| At December 31, | **271,099** | 258,134 |

#### *36.1.1 Components of zakat base*

The Group's Saudi Arabia's subsidiaries file separate zakat and income tax declarations on unconsolidated basis. The significant components of the zakat base of each company under zakat and income tax regulations are principally comprised of shareholders' equity, provisions at the beginning of year, long-term borrowings and estimated taxable income, less deductions for the net book value of property, plant and equipment, investments and certain other items.

## 36. ZAKAT AND FOREIGN INCOME TAX (continued)

### *36.1.2 Status of final assessments*

(a) Zakat status

The Company has finalised its Zakat status up to the year 1998. The Company has an ongoing objection against the Zakat assessment issued by the General Authority of Zakat and Income Tax (GAZT) for the years 1999 and 2000 which showed Zakat differences of SR 1.9 million. The GAZT issued a claim on the Company's accounts for the year 2009 amounting to SR 1.3 million, against which the Company has filed an appeal.

The Company filed the Zakat returns for the years 2005 to 2012. The GAZT recently conducted a field audit on the Company's accounts for the years 2005 to 2012.

The Company's Saudi subsidiaries received final zakat certificates for certain years and provisional zakat certificates for other years. They have also received queries from the GAZT for the open years, for which replies have been / will be filed by the respective companies. Some Saudi subsidiaries received assessments from the GAZT concerning their zakat declarations for the years 2005 to 2012, in which the GAZT assessed additional zakat liabilities of approximately SR 42.7 million (2015: SR 46.8 million). The subsidiaries have appealed against such additional assessments.

(b) Income tax status

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

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

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

## 37. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Risk management is carried out by senior management under policies approved by the board of directors. Senior management identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The most important types of risk are credit risk, currency risk and fair value and cash flow interest rate risks.

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

(Expressed in Thousands of Saudi Riyals, unless otherwise stated)

## 37. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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

The table below shows the maximum exposure to credit risk for the significant components of the consolidated balance sheet:

| | 2016 | 2015 |
|---|---|---|
| Bank balances and short term deposits | **1,308,208** | 2,041,198 |
| Trade receivable | **1,181,211** | 882,680 |
| Other current assets | **535,352** | 442,695 |
| Other long term assets | **10,751** | 177,207 |
| | **3,036,458** | 3,545,205 |

**Currency risk** is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's transactions are principally in Saudi Riyals, United States Dollars, Iranian Riyals, Egyptian Pounds, Sudanese Pounds and Turkish Lira. Currency risk is managed on regular basis.

**Fair value and cash flow interest rate risks** are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's financial position and cash flows. The Group's interest rate risk arise mainly from short term bank deposits and bank borrowings, which are at floating rates of interest. All deposits and debts are subject to re-pricing on a regular basis. During 2014, the Group entered into Interest Rate Swaps ("IRS") to manage its exposure to interest rate risk. Such IRS is designated as a Cash flow hedge. Management monitors the changes in interest rates and believes that the fair value and cash flow interest rate risks to the Group are not significant.

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

As at December 31, 2016, the Group has unused bank financing facilities amounting to SR 3.7 billion (2015: SR 3.5 billion).

**Price risk** is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Group is exposed to equity securities price risk because Group holds investment in certain listed equities which are classified on the consolidated balance-sheet as available-for-sale investments. The Group diversifies its portfolio to manage its price risk arising from investments in equity securities. USCE and USC uses derivative financial instruments (Commodity future contracts) to hedge its price risk of raw material in the Sugar business.

## 37. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

**Fair value** is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As the accompanying consolidated financial statements are prepared under the historical cost method, except for the revaluation of the available-for-sale investments and derivative financial instruments which are carried at fair values through equity, differences may arise between the book values and the fair value estimates. Management believes that the fair values of the Group's financial assets and liabilities are not materially different from their carrying values.

## 38. BOARD OF DIRECTORS' APPROVAL

These consolidated financial statements were authorized for issue by the Company's Board of Directors on Jumada Al Thani 16, 1438H, corresponding to March 15, 2017.