

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

CONSOLIDATED
FINANCIAL STATEMENTS

For the year ended December 31, 2019
together with the Independent Auditor's Report

SAVOLA GROUP COMPANY

(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

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Independent Auditor's Report

To the Shareholders of Savola Group Company

Opinion

We have audited the consolidated financial statements of Savola Group Company ("the Company") and its subsidiaries ("the Group") which comprise the consolidated statement of financial position as at December 31, 2019, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report

To the Shareholders of Savola Group Company (continued)

Impairment testing of non-financial assets

Refer Note 3(a)(ii) for the accounting policy relating to goodwill, Note 3(f) for accounting policy relating to intangible assets, Note 3(e) for the accounting policy relating to property, plant and equipment, Note 3(p) for right-of-use assets, Note 3(i) for the accounting policy relating to impairment, Note 6 for the property, plant and equipment disclosure, Note 8 for the intangible assets and goodwill disclosure and Note 36 for the impairment loss disclosure.

Key audit matter

As at December 31, 2019, the carrying value of intangible assets and goodwill amounted to SR 832 million (2018: SR 906 million). Further, as at December 31, 2019, the carrying value of property, plant and equipment and right-of-use (RoU) assets amounted to SR 6,512 million (2018: SR 6,755 million) and SR 4,320 million (2018: Nil) respectively. Impairment loss (net) recognised on the non-financial assets during the year amounted to SR 73 million (2018: SR 200 million).

Intangible assets with indefinite useful life and Goodwill are subject to a mandatory annual impairment test and the intangible assets with definite useful life, property, plant and equipment and RoU assets are subject to impairment testing where there are internal or external indicators of impairment. The Group reviews the carrying amounts of these non-financial assets to determine whether their carrying values exceed the recoverable amounts, which is the higher of value in use or the fair value less costs to sell. For the purpose of the Group's impairment assessment, management has used the value in use model, to determine the recoverable amount, under which the future cash flows relating to each Cash Generating Unit (CGU) were discounted and compared to their respective carrying amounts. A value in use model requires input of several key assumptions, including estimates of future sales volumes, prices, operating costs, terminal value, growth rates and discount rates.

There is uncertainty in estimating the recoverable amount of non-financial assets which principally arises from the inputs used in both forecasting and discounting future cash flows. A combination of the significance of the asset balances and the inherent uncertainty in the assumptions supporting the valuations of non-financial assets, means that an assessment of their carrying value is one of the key judgmental areas.

We considered valuation of non-financial assets including intangible assets and goodwill as a key audit matter due to the significant judgment and key assumptions involved in the impairment assessment process.

How the matter was addressed in our audit

We performed the following audit procedures in relation to non-financial assets impairment:

- Assessed the appropriateness of the Group's accounting policies for measurement of non-financial assets in line with the requirements of International Financial Reporting Standards (IFRS);
- Assessed the design and implementation, and tested the operating effectiveness of the Group's controls around impairment assessment;
- Engaged our internal valuations specialist to assess the key assumptions used in the value in use calculation. Further, we assessed the reasonableness of key management assumptions in respect of estimated future cash flows, growth and discount rates;
- Compared forecasts to historical experience and applied our understanding of the future prospects of the business from internal and external sources;
- Performed a sensitivity analysis, which included assessing the effect of reasonably possible reductions in growth rates and forecast cash flows to evaluate the impact on the currently estimated headroom for the respective CGUs;
- Checked the accuracy and completeness of the information produced by management, which was used as the basis of the impairment assessment;
- Checked mathematical accuracy of the models used by the management; and
- Considered the adequacy of the Group's related disclosures in terms of applicable accounting standards.

Independent Auditor's Report

To the Shareholders of Savola Group Company (continued)

Valuation of equity-accounted investees

Refer Note 3(a)(iii) for the accounting policy relating to equity-accounted investees and Note 10 for the related disclosures:

Key audit matter

As at December 31, 2019, the carrying value of equity-accounted investees amounted to SR 8,625 million (2018: SR 8,301 million).

Equity accounted investments are accounted for using the equity method in accordance with IAS 28 – Investments in Associates and Joint Ventures. This has been identified as a key audit matter due to the significance of the amounts involved, the complexities attached to the determination of carrying values at reporting dates, trade and capital transactions with investees and judgment involved in the determination of possible impairment loss.

How the matter was addressed in our audit

We performed the following audit procedures in relation to valuation of equity-accounted investees:

- Assessed the appropriateness of the Group's accounting policies for measurement of equity accounted investments in line with the requirements of International Financial Reporting Standards (IFRS);
- Assessed the design and implementation, and tested the operating effectiveness of the Group's controls around recognition and subsequent measurement of Equity accounted investees including the impairment assessment process;
- Verified components of equity accounted investments from underlying details and supporting documentation;
- Evaluated the process by which the Group's cash flow forecasts for the equity-accounted investees (where there are indicators of impairment) were developed;
- Engaged our internal valuations specialist to assess the key assumptions used in the value in use calculation. Further, we assessed the reasonableness of key management assumptions in respect of estimated future cash flows, growth and discount rates and performed a sensitivity analysis on these key assumptions;
- Checked the mathematical accuracy of the impairment models;
- Tested the accuracy and completeness of the information produced by management, which was used for the basis of the impairment assessment; and
- Considered the adequacy of the Group's equity-accounted investees' disclosures in terms of applicable accounting standards.

Independent Auditor's Report

To the Shareholders of Savola Group Company (continued)

Valuation of Inventories

Refer Note 3(h) for the accounting policy on inventories and Note 12 for the inventories disclosure.

Key audit matter

As at December 31, 2019, the Group's inventories balance was SR 2,752 million (2018: SR 2,631 million) net of allowance for slow moving inventories of SR 95 million (2018: SR 98 million).

Inventories are stated at the lower of cost and net realizable value and an allowance is made by the Group, where necessary, for obsolete and slow moving inventories. Management determines the level of obsolescence of inventories by considering their nature, ageing profile, expiry dates and sales expectations using historic trends and other qualitative factors. At each reporting date, the cost of inventories is reduced where inventories are forecasted to be sold at below cost.

The Group also deals in commodity hedging contracts for its raw sugar inventory. The management accounts for these contracts using the mark-to-market method and reviews the valuation and hedge effectiveness at each reporting period by obtaining broker quotes.

We consider this as a key audit matter due to the significant judgments and key assumptions applied by the management in determining the allowance for slow moving inventories and the level of inventories write down required based on Net Realisable Value (NRV) assessment. Further, the commodity hedging involves the use of complex valuation methods and significant assumptions such as applicable exchange and over-the-counter quotations, parity differences, price volatility, counterparty performance and credit risks.

How the matter was addressed in our audit

We performed the following audit procedures in relation to valuation of inventories:

- Assessed the appropriateness of the Group's accounting policies for recognition and measurement of inventories in line with the requirements of relevant accounting standards;
- Assessed the design and implementation, and tested the operating effectiveness of the Group's control around recognition and subsequent measurement of inventories including the monitoring of the allowance for slow moving items;
- Evaluated the appropriateness of the Group's policy for allowance for slow moving inventories by performing retrospective testing, comparing historical estimates with actual losses; and current and future expectations with respect to sales
- Involving our internal IT specialist to test the integrity of the inventories' ageing report used by the management in its determination of the allowance for slow moving inventories;
- Attended periodical physical count of inventories on selected locations to identify expired, lost or slow-moving items;
- Tested the net realisable value of finished goods inventories by considering actual sales post year-end and the assumptions used by the management to check whether inventories are valued at the lower of cost and net realisable value;
- Tested management's control over the establishment of the hedging relationship, monitoring hedge effectiveness and appropriateness of assumptions used in developing mark to market values of derivatives at the reporting date including the exchange-quoted prices and other direct and indirectly observable inputs;
- Considered the adequacy of the disclosure in the Group's consolidated financial statements as per the applicable accounting standard.

Independent Auditor's Report

To the Shareholders of Savola Group Company (continued)

Revenue recognition

Refer Note 3(l) for the accounting policy relating to revenue recognition and Note 31 for the relevant disclosures.

Key audit matter

During the year ended December 31, 2019, the Group recognized total revenue of SR 22,243 million (2018: SR 21,815 million).

Most of the Group's sales arrangements are considered straightforward, being on a point-in-time basis of recognition and requiring little judgment to be exercised. However, in certain cases the Group recognizes revenue through sales to related parties and certain components provide right of return to customers; which increase the level of judgment in revenue recognition at the year end.

Revenue recognition is considered a key audit matter in view of the risk that management may override controls to intentionally misstate revenue transactions in order to achieve financials targets, either through adjusting estimates at the period end or recording fictitious transactions in the business.

How the matter was addressed in our audit

We performed the following procedures in relation to revenue recognition:

- Assessed the appropriateness of the Group's revenue recognition accounting policies by considering the requirements of relevant accounting standards;
- Assessed the design and implementation, and tested the operating effectiveness of the Group's controls, including anti-fraud controls, over the recognition of revenue;
- Evaluated key contractual and returns arrangements by considering relevant documentation and agreements with the customers;
- Inspected a sample of sales transactions taking place before and after the year-end to assess whether revenue was recognized in the correct accounting period;
- Developed an expectation of the current year revenue based on trend analysis information, taking into account sales volume, average prices and our understanding of each market segment. We then compared this expectation to actual revenue and, where relevant, completed further inquiries and testing; and
- Tested topside journal entries posted to the revenue accounts in the general ledger in order to identify unusual or irregular items.
- Obtained an understanding of the nature of revenue contracts used by the Group for each significant revenue stream, tested a sample of representative sales contracts to confirm our understanding and assess whether management's application of IFRS 15 requirements was in accordance with the accounting standard;
- Considered the adequacy of the disclosure in the Group's consolidated financial statements as per the applicable accounting standard.

Independent Auditor's Report

To the Shareholders of Savola Group Company (continued)

IFRS 16 "Leases"

Refer to Note 4 for the impact of the adoption of the new accounting standard (IFRS 16) and Note 3(p) for the accounting policy, Note 7 and Note 21 for the relevant disclosures in the accompanying consolidated financial statements.

Key audit matter

The Group initially applied IFRS 16 "Leases" with effect from January 1, 2019, and this new standard supersedes the requirements of IAS 17 "Leases" and IFRIC 4.

IFRS 16 Leases introduces a new lease accounting model, where lessees are required to recognize right-of-use (ROU) asset and a lease liability arising from a lease contract on its statement of financial position. IFRS 16 Leases was adopted by the Group effective 1 January 2019, using the modified retrospective approach. The prepaid and accrued rentals are adjusted against the right-of-use assets. The Group has recognized lease liabilities amounting to SAR 5,040 million and right-of-use asset amounting to SAR 4,989 million as on the date of transition.

Significant judgment is required in the assumptions and estimates used in order to apply the definition of lease, application of discount rate, and lease term for computation of ROU asset and lease liability.

We considered this a key audit matter due to the inherently judgemental nature to determine the lease liabilities and the significant impact arising from transition adjustment.

How the matter was addressed in our audit

We performed the following procedures in relation to the implementation of IFRS 16:

- We evaluated the appropriateness of the selection of accounting policies based on the requirements of IFRS 16 including factors such as transition approach, and practical expedients applied;
- Assessed the design and implementation of the Group's controls over the treatment of leases under IFRS 16;
- We evaluated the completeness of the lease population considered for transition adjustments;
- We evaluated and challenged the reasonableness of assumptions and estimates used by management in the calculation of transition adjustment;
- We obtained the Group's quantification of ROU assets and lease liabilities. For a sample of leases, we agreed the inputs used in the quantification to the lease agreements and performed re-computation of lease liabilities. In addition, for the sample selected, we also re-computed the ROU asset in accordance with the transition adjustments considered by management;
- We assessed and evaluated the reasonableness of lease terms used for computation of lease liabilities and right-of-use assets.
- We assessed and challenged the appropriateness of the discount rates applied in determining lease liabilities; and
- We assessed whether the related disclosures within the consolidated financial statements are appropriate in light of the requirements of IFRS 16 "Leases".

Independent Auditor's Report

To the Shareholders of Savola Group Company (continued)

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the consolidated financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, when made available to us, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the applicable requirements of the Regulations for Companies and Company's By-laws and for such internal controls 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in thousands of Saudi Riyal unless otherwise stated)

	<u>Note</u>	December 31, 2019	December 31, <u>2018</u>
ASSETS			
Property, plant and equipment	6	6,512,256	6,754,793
Right-of-use assets	7	4,319,670	--
Intangible assets and goodwill	8	831,596	905,556
Investment property	9	29,881	33,178
Equity-accounted investees	10	8,625,047	8,300,864
Investments at fair value through other comprehensive income	11	347,590	324,204
Long term receivables		7,268	7,443
Derivative	14	1,999	2,496
Deferred tax asset	23	12,480	17,793
Non-current assets		20,687,787	16,346,327
Inventories	12	2,752,020	2,630,764
Trade receivables	13	1,190,657	1,073,572
Prepayments and other receivables	14	1,060,195	1,269,327
Investments at fair value through profit or loss	11	26,516	30,888
Cash and cash equivalents	15	940,536	901,573
Current assets		5,969,924	5,906,124
TOTAL ASSETS		26,657,711	22,252,451
EQUITY			
Share capital	16	5,339,807	5,339,807
Share premium		342,974	342,974
Statutory reserve	17	1,774,085	1,774,085
General reserve		4,000	4,000
Fair value reserve	18	(179,230)	(198,084)
Effect of transactions with non-controlling interests without change in control		(187,979)	(187,979)
Foreign currency translation reserve		(1,792,396)	(1,744,616)
Retained earnings		2,288,979	1,797,256
Equity attributable to owners of the Company		7,590,240	7,127,443
Non-controlling interests		948,830	894,498
TOTAL EQUITY		8,539,070	8,021,941
LIABILITIES			
Loans and borrowings	20	3,905,245	4,265,996
Lease liabilities	21	3,955,686	--
Employee benefits	22	747,201	719,542
Long-term payables		204,146	207,268
Long term lease rentals		--	232,020
Derivative	14	188,094	197,131
Provision against asset restoration		139,609	90,716
Deferred tax liability	23	114,745	91,195
Non-current liabilities		9,254,726	5,803,868
Loans and borrowings	20	3,639,250	3,689,915
Lease liabilities	21	676,840	--
Trade payables	24	2,304,872	2,391,028
Current maturity of lease rentals		--	63,658
Accrued and other liabilities	25	2,242,953	2,282,041
Current liabilities		8,863,915	8,426,642
TOTAL LIABILITIES		18,118,641	14,230,510
TOTAL EQUITY AND LIABILITIES		26,657,711	22,252,451

The notes from 1 to 41 form an integral part of these consolidated financial statements.

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME**

For the year ended December 31

(Expressed in thousands of Saudi Riyal unless otherwise stated)

	Note	<u>2019</u>	<u>2018</u>
Revenues	31	22,243,363	21,814,563
Cost of revenues	32	(17,739,059)	(17,916,606)
Gross profit		4,504,304	3,897,957
Share of results of equity-accounted investees, net of zakat and tax	10	639,357	574,742
Selling and distribution expenses	33	(2,941,686)	(3,202,189)
Administrative expenses	34	(820,280)	(793,640)
Impairment loss	36	(72,738)	(199,550)
Results from operating activities		1,308,957	277,320
Finance income		102,415	70,463
Finance cost		(789,077)	(606,512)
Net finance cost	37	(686,662)	(536,049)
Reversal of accruals no longer required	26	138,275	--
Other expenses	27	--	(100,735)
Gain on disposal of investment	11	--	3,269
Profit / (loss) before zakat and income tax		760,570	(356,195)
Zakat and income tax expense	26	(103,718)	(102,074)
Profit / (loss) for the year		656,852	(458,269)
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss</i>			
Re-measurements of defined benefit liability	22	16,448	(14,143)
Investments at fair value through other comprehensive income – net change in fair value	11	23,386	(122,550)
<i>Items that are or may be reclassified to profit or loss</i>			
Foreign operations – foreign currency translation differences		(61,712)	(575,942)
Equity accounted investees - share of other comprehensive income	18	(2,699)	27,094
Cash flow hedges – effective portion of changes in fair value	18	(1,833)	6,021
Other comprehensive loss for the year, net of tax		(26,410)	(679,520)
Total comprehensive income / (loss) for the year		630,442	(1,137,789)

The notes from 1 to 41 form an integral part of these consolidated financial statements.

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME (CONTINUED)

For the year ended December 31

(Expressed in thousands of Saudi Riyal unless otherwise stated)

	<u>Note</u>	<u>2019</u>	<u>2018</u>
Profit / (loss) attributable to:			
Owners of the Company		475,630	(520,380)
Non-controlling interests		181,222	62,111
		656,852	(458,269)
Total comprehensive income / (loss) attributable to:			
Owners of the Company		462,797	(1,106,915)
Non-controlling interests		167,645	(30,874)
		630,442	(1,137,789)
Earnings / (loss) per share attributable to the Owners of the Company (in Saudi Riyals):			
Basic and diluted	28	0.89	(0.97)

The notes from 1 to 41 form an integral part of these consolidated financial statements.

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2019

(Expressed in thousands of Saudi Riyal unless otherwise stated)

	Equity attributable to the Owners of the Company										
	Share capital	Share premium	Statutory reserve	General reserve	Fair value reserve	Effect of transactions with non-controlling interests without change in control	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
Balance at January 1, 2018 - as previously reported	5,339,807	342,974	1,774,085	4,000	(108,649)	(161,598)	(1,260,509)	2,898,756	8,828,866	879,114	9,707,980
Adjustment from adoption of IFRS 9	--	--	--	--	--	--	--	(34,146)	(34,146)	(6,184)	(40,330)
Balance at January 1, 2018 – restated	5,339,807	342,974	1,774,085	4,000	(108,649)	(161,598)	(1,260,509)	2,864,610	8,794,720	872,930	9,667,650
<u>Total comprehensive income / (loss) for the year</u>											
(Loss) / profit for the year	--	--	--	--	--	--	--	(520,380)	(520,380)	62,111	(458,269)
Other comprehensive loss	--	--	--	--	(89,435)	--	(484,107)	(12,993)	(586,535)	(92,985)	(679,520)
Total comprehensive (loss) / income	--	--	--	--	(89,435)	--	(484,107)	(533,373)	(1,106,915)	(30,874)	(1,137,789)
Dividends	--	--	--	--	--	--	--	(533,981)	(533,981)	(113,750)	(647,731)
<u>Other changes / movements</u>											
Transaction with non-controlling interest without change in control	--	--	--	--	--	(15,825)	--	--	(15,825)	15,825	--
Acquisition of subsidiary with NCI (Note 1)	--	--	--	--	--	--	--	--	--	150,367	150,367
Other changes	--	--	--	--	--	(10,556)	--	--	(10,556)	--	(10,556)
Balance at December 31, 2018	<u>5,339,807</u>	<u>342,974</u>	<u>1,774,085</u>	<u>4,000</u>	<u>(198,084)</u>	<u>(187,979)</u>	<u>(1,744,616)</u>	<u>1,797,256</u>	<u>7,127,443</u>	<u>894,498</u>	<u>8,021,941</u>

The notes from 1 to 41 form an integral part of these consolidated financial statements.

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended December 31, 2019

(Expressed in thousands of Saudi Riyal unless otherwise stated)

	Equity attributable to the Owners of the Company										
	Share capital	Share premium	Statutory reserve	General reserve	Fair value reserve	Effect of transactions with non- controlling interests without change in control	Foreign currency translation reserve	Retained earnings	Total	Non- controlling interests	Total equity
Balance at January 1, 2019	5,339,807	342,974	1,774,085	4,000	(198,084)	(187,979)	(1,744,616)	1,797,256	7,127,443	894,498	8,021,941
<u>Total comprehensive income / (loss) for the year</u>											
Profit for the year	--	--	--	--	--	--	--	475,630	475,630	181,222	656,852
Other comprehensive income / (loss)	--	--	--	--	18,854	--	(47,780)	16,093	(12,833)	(13,577)	(26,410)
	--	--	--	--	18,854	--	(47,780)	491,723	462,797	167,645	630,442
Dividends	--	--	--	--	--	--	--	--	--	(113,313)	(113,313)
Balance at December 31, 2019	<u>5,339,807</u>	<u>342,974</u>	<u>1,774,085</u>	<u>4,000</u>	<u>(179,230)</u>	<u>(187,979)</u>	<u>(1,792,396)</u>	<u>2,288,979</u>	<u>7,590,240</u>	<u>948,830</u>	<u>8,539,070</u>

The notes from 1 to 41 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

(Expressed in thousands of Saudi Riyal unless otherwise stated)

	<u>Note</u>	<u>2019</u>	<u>2018</u>
Cash flows from operating activities			
Profit / (loss) for the year		656,852	(458,269)
Adjustments for:			
Depreciation	6,7&9	1,201,208	762,138
Net finance cost	37	686,662	536,049
Share of results of equity accounted investees, net of zakat and tax and dividend income	10	(639,357)	(574,742)
Reversal of accruals no longer required		(138,275)	--
Gain on disposal of investment	11	--	(3,269)
Impairment loss	36	72,738	199,550
Provision against financial guarantee	27	--	100,735
Loss / (gain) on sale of property, plant and equipment		1,971	(7,301)
Provision for employee benefits	22	125,397	108,685
Zakat and income tax expense	26	103,718	102,074
		2,070,914	765,650
Changes in:			
Inventories		(131,231)	240,264
Trade receivables		(138,263)	(275,732)
Prepayments and other receivables		(238,987)	(121,981)
Trade payables		(61,198)	48,485
Accrued and other liabilities		342,332	438,356
Cash generated from operating activities		1,843,567	1,095,042
Finance cost paid		(397,320)	(440,027)
Zakat and income tax paid	26	(111,959)	(59,622)
Employee benefits paid	22	(76,832)	(76,185)
Net cash from operating activities		1,257,456	519,208
Cash flows from investing activities			
Acquisition of property, plant and equipment	6&9	(374,295)	(394,425)
Proceeds from sale of property, plant and equipment		41,504	36,249
Acquisition of subsidiary, net of cash acquired	1	--	(558,102)
Proceeds from sale of investment	11	--	28,022
Proceeds from investments		41,138	5,716
Net change in FVTPL investments	11	4,372	(30,888)
Net change in deferred tax asset		6,356	10,503
Dividends received	10	306,098	258,914
Net cash from / (used in) investing activities		25,173	(644,011)
Cash flows from financing activities			
Net change in loans and borrowings - current		(1,068,495)	(65,829)
Net change in loans and borrowings - non-current		619,584	740,351
Payment of lease liabilities		(639,266)	--
Dividends paid		(2,406)	(526,364)
Net change in deferred tax liability		15,432	25,215
Dividend paid to non-controlling interests		(112,670)	(113,750)
Net cash (used in) / from financing activities		(1,187,821)	59,623

The notes from 1 to 41 form an integral part of these consolidated financial statements.

SAVOLA GROUP COMPANY
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CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended December 31

(Expressed in thousands of Saudi Riyal unless otherwise stated)

	<u>Note</u>	<u>2019</u>	<u>2018</u>
Net change in cash and cash equivalents		94,808	(65,180)
Effect of movement in exchange rates on cash and cash equivalents		(55,845)	(320,818)
Cash and cash equivalents at beginning of the year		901,573	1,298,117
Adjustment from adoption of IFRS 9		--	(10,546)
Cash and cash equivalents at December 31	15	940,536	901,573
Supplemental schedule of non-cash financial information:			
Fair value reserve		18,854	(89,435)
Foreign currency translation reserve		(61,712)	(575,942)
Actuarial reserve	22	16,448	(14,143)
Effect of transactions with non-controlling interest without change in control		--	(26,381)

The notes from 1 to 41 form an integral part of these consolidated financial statements.

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

(Expressed in thousands of Saudi Riyal 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 as the "Group"), 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, 2019, the Company had investments in the following subsidiaries (collectively referred to as the "Group"):

(I) Direct subsidiaries of the Company

i) Operating subsidiaries

<u>Subsidiary name</u>	<u>Country of incorporation</u>	<u>Principal business activity</u>	<u>Ownership interest (%)</u>	
			<u>December 31, 2019</u>	<u>December 31, 2018</u>
Savola Foods Company ("SFC")	Saudi Arabia	Holding company	100	100
Panda Retail Company ("Panda")	Saudi Arabia	Retail	98.87	97.55
Good Food Company ("GFC") *	Saudi Arabia	Holding company	100	100
Al Matoun International for Real Estate Investment Holding Company	Saudi Arabia	Real Estate	80	80
Herfy Food Services Company ("Herfy")	Saudi Arabia	Restaurant & manufacturing bakery products	49	49

* During 2018, in accordance with the terms and conditions of the Share Purchase Agreement, Savola agreed to acquire 51% ownership interest of Al Kabeer Group of companies (see Note 1(iv)) for a cash consideration of SR 571 million. The transaction has been effected through the Group's 100% owned subsidiary, Good Food Company, a company incorporated in the Kingdom of Saudi Arabia. The payment of consideration along with the related formalities were completed on October 31, 2018. During the year, SR 34.3 million has been adjusted against the purchase consideration.

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

(Expressed in thousands of Saudi Riyal unless otherwise stated)

1. GENERAL INFORMATION (continued)

(I) Direct subsidiaries of the Company (continued)

ii) Dormant and Holding subsidiaries

<u>Subsidiary name</u>	<u>Country of incorporation</u>	<u>Principal business activity</u>	<u>Ownership interest (%)</u>	
			<u>December 31, 2019</u>	<u>December 31, 2018</u>
Adeem Arabia Company (Adeem)	Saudi Arabia	Holding company	100	100
Al Utur Arabian Company for Commercial Investment	Saudi Arabia	Holding company	100	100
Al Mojammat Al Mowahadah Real Estate Company (liquidated)	Saudi Arabia	Holding company	--	100
Madarek Investment Company	Jordan	Holding company	100	100
United Properties Development Company	Saudi Arabia	Dormant company	100	100

(II) Savola Foods Company

The Parent Company has a 100% (December 31, 2018: 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 5, 1429H (July 8, 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.

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

(Expressed in thousands of Saudi Riyal unless otherwise stated)

1. GENERAL INFORMATION (continued)

(II) Savola Foods Company (continued)

Subsidiaries controlled through Savola Foods Company:

<u>Subsidiary name</u>	<u>Country of incorporation</u>	<u>Principal business activity</u>	<u>Ownership interest (%)</u>	
			<u>December 31, 2019</u>	<u>December 31, 2018</u>
Afia International Company ("AIC")	Saudi Arabia	Manufacturing of edible oils	95.19	95.19
Savola Industrial Investment Company ("SIIC")	Saudi Arabia	Holding company	100	100
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	British Virgin Islands (BVI)	Holding company	95.43	95.43
Afia International Distribution and Marketing Company	Saudi Arabia	Trading and distribution	99	99
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 ("IFI")	Saudi Arabia	Manufacturing of specialty fats	100	100
Seafood International Two FZCO *	UAE	Seafood products trading and distribution	60	60
Afia Foods Arabia	Saudi Arabia	Dormant company	100	100
Al Maoun International Holding Company ("Al Maoun")	Saudi Arabia	Holding company	100	100
Marasina International Real Estate Investment ("Marasina")	Saudi Arabia	Holding company	100	100

* SFC has agreed to sell 10% ownership interest in Seafood International Two FZCO to the other shareholder. As at December 31, 2019, the related legal formalities are in process.

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

(Expressed in thousands of Saudi Riyal unless otherwise stated)

1. GENERAL INFORMATION (continued)

(II) Savola Foods Company (continued)

a) Subsidiaries controlled through Afia International Company:

<u>Subsidiary name</u>	<u>Country of incorporation</u>	<u>Principal business activity</u>	<u>Ownership interest (%)</u>	
			<u>December 31, 2019</u>	<u>December 31, 2018</u>
Savola Behshahr Company ("SBeC")	Iran	Holding company	90	90
Malintra Holdings	Luxembourg	Dormant company	100	100
Savola Foods Limited ("SFL")	BVI	Holding company	100	100
Afia International Company – Jordan (under liquidation)	Jordan	Dormant company	98.57	97.4
Inveskz Inc.	BVI	Dormant company	90	90
Afia Trading International	BVI	Dormant company	100	100
Savola Foods International	BVI	Dormant company	100	100
KUGU Gida Yatım Ve Ticaret A.Ş ("KUGU")	Turkey	Holding company	100	100
Aseel Food – Hold Co.	Cayman Islands	Holding company	100	100
<u>SBeC</u>				
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
<u>SFL</u>				
Afia International Company, Egypt	Egypt	Manufacturing of edible oils	99.95	99.95
<u>KUGU</u>				
Savola Gida Sanayi Ve Ticaret Anonim Sirketi	Turkey	Manufacturing of edible oils	100	100

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

(Expressed in thousands of Saudi Riyal unless otherwise stated)

1. GENERAL INFORMATION (continued)

(II) Savola Foods Company (continued)

b) Subsidiaries controlled through Savola Industrial Investment Company:

<u>Subsidiary name</u>	<u>Country of incorporation</u>	<u>Principal business activity</u>	<u>Ownership interest (%)</u>	
			<u>December 31, 2019</u>	<u>December 31, 2018</u>
United Sugar Company ("USC")	Saudi Arabia	Manufacturing of sugar	74.48	74.48
<u>USC</u>				
Alexandria Sugar Company, Egypt ("ASCE")*	Egypt	Manufacturing of sugar	62.13	62.13
Beet Sugar Industries	Cayman Islands	Dormant company	100	100
<u>ASCE</u>				
Alexandria United Company for Land Reclamation	Egypt	Agro cultivation	100	100

c) Subsidiaries controlled through Savola Foods Emerging Markets Company:

Savola Morocco Company	Morocco	Manufacturing of edible oils	100	100
Savola Edible Oils (Sudan)	Sudan	Manufacturing of edible oils	100	100
Afia International Company – Algeria	Algeria	Manufacturing of edible oils	100	100

d) Subsidiary controlled through Savola Foods Company International:

Modern Behtaam Royan Kaveh Company	Iran	Food and confectionery	100	100
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e) Subsidiary controlled through Al Maoun and Marasina

Alofog Trading DMMC	UAE	Trading and distribution	100	100
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* The effective ownership interest in ASCE is 71.66% (December 31, 2018: 71.66%)

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

(Expressed in thousands of Saudi Riyal unless otherwise stated)

1. GENERAL INFORMATION (continued)

(III) Panda Retail Company

The Parent Company has a 98.87% (December 31, 2018: 97.55%) 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 hypermarkets, supermarkets, and convenience stores.

Subsidiaries controlled through Panda:

<u>Subsidiary name</u>	<u>Country of incorporation</u>	<u>Principal business activity</u>	<u>Ownership interest (%)</u>	
			<u>December 31, 2019</u>	<u>December 31, 2018</u>
Giant Stores Trading Company	Saudi Arabia	Retail	100	100
Panda for Operations, Maintenance and Contracting Services	Saudi Arabia	Services and maintenance	100	100
Panda International for Retail Trading	Egypt	Retail	100	100
Panda Bakeries Company	Saudi Arabia	Dormant company	100	100
<u>Giant</u>				
Lebanese Sweets and Bakeries	Saudi Arabia	Dormant company	95	95

On January 16, 2019, the shareholders of Panda resolved in the Extraordinary General Assembly Meeting, to decrease the share capital of the Company by SR 695 million to absorb its accumulated losses followed by capital injection of SR 800 million by the shareholders. The capital injection was solely contributed by Savola Group Company, thereby, increasing the ownership of the Group in Panda to 98.87%.

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

(Expressed in thousands of Saudi Riyal unless otherwise stated)

1. GENERAL INFORMATION (continued)

(IV) Good Food Company

The Parent Company has a 100% (December 31, 2018: 100%) ownership interest in Good Food Company ("GFC"), which was incorporated as a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration number 4030603674 issued in Jeddah on Rabi-ul-Thani 21, 1439H (January 8, 2018).

GFC through its direct and indirect subsidiaries is principally engaged in the processing, wholesale, retail and distribution of frozen food and seafood in the local and overseas markets.

Subsidiaries controlled through GFC (collectively referred to as "Al Kabeer Group of companies"):

<u>Subsidiary name</u>	<u>Country of incorporation</u>	<u>Principal business activity</u>	<u>Ownership interest (%)</u>	
			<u>December 31, 2019</u>	<u>December 31, 2018</u>
Variety Food Factory Company	Saudi Arabia	Manufacturing of frozen food	51	51
Al Ahsan Trading Company	Saudi Arabia	Trading and distribution	51	51
Al Helal Imports and Exports Company	Bahrain	Trading and distribution	51	51
Sahar Enterprises Company	UAE	Trading and distribution	51	51
Sahar Food Industry Company	UAE	Manufacturing of frozen food	51	51
Al Kabeer Holding Limited	UAE	Holding Company	51	51
Best Foodstuff Trading Company	UAE	Trading and distribution	51	51

Subsidiaries controlled through Al Kabeer Holding Limited

Cascade Investments Limited (CIL)	UAE	Investment company	100	100
Cascade Marine Foods Company	UAE	Manufacturing frozen food	100	100
Al Sabah Foodstuff Enterprises Company	UAE	Trading and distribution	100	100
<u>CIL</u>				
Best Foods Company	Oman	Trading and distribution	100	100

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

(Expressed in thousands of Saudi Riyal unless otherwise stated)

2. BASIS OF PREPARATION

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by SOCPA (IFRS). This is the first set of the Group's financial statements in which IFRS 16 "leases" has been applied and the resultant changes to the significant accounting policies are described in Note 4.

i) Accounting convention / Basis of Measurement

These consolidated financial statements have been prepared using accrual basis of accounting, going concern concept and under the historical cost basis, except for investments classified as fair value through other comprehensive income ("FVOCI"), investments classified as fair value through profit or loss, firm commitments and inventory under fair value hedging relationship, derivative financial instruments and employee benefits which are recognised at the present value of future obligation using the Projected Unit Credit Method. Certain comparative amounts have been reclassified to conform to the current year's presentation.

ii) Functional and presentation currency

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

b) Critical accounting estimates and judgments

The preparation of these consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the 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 estimates are recognised prospectively.

Judgments

Information about judgments made in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements, is included in the following notes:

- (i) Note 3(a)(i) - whether the Group exercises control over an investee
- (ii) Note 3(a)(iii) - classification of equity accounted investees
- (iii) Note 3(b)(iv) - application of hedge accounting
- (iv) Note 3 (l) – revenue recognition: whether revenue is recognised over time or at a point in time
- (v) Note 3(p) - lease classification

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

(Expressed in thousands of Saudi Riyal unless otherwise stated)

2. BASIS OF PREPARATION (continued)

b) Critical accounting estimates and judgments (continued)

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have the most significant effect on the amounts recognized in the consolidated financial statements, are described below:

i) Impairment of financial assets

The implementation of business model approach under IFRS 9 require judgement to ensure that financial assets of the Group are classified in to the appropriate category. Deciding whether the classified categories will require assessment of contractual provisions that do or may change the timing or amount of the contractual cash flows. Objective evidence may exist in circumstances in which a counterparty has been placed in bankruptcy or has failed on the repayments of principal and interest. In other circumstances, the Group uses judgment in order to determine whether a financial asset may be impaired using Expected Credit Loss (“ECL”) model. The Group uses judgement in order to determine whether an impairment can be reversed, an assumption in doing so might be an improvement in the debtor’s credit rating or receipt of payments due. In addition, Group also make judgments in deciding whether the measurement of expected credit loss reflect reasonable and supportable information that is available without undue cost or effort that include historical, current and forecast information.

ii) Provision for inventory obsolescence

The Group determines its provision for inventory obsolescence based upon historical experience, expected inventory turnover, inventory aging and current condition, and current and future expectations with respect to sales. Assumptions underlying the provision for inventory obsolescence include future sales trends, and the expected inventory requirements and inventory composition necessary to support these future sales and offerings. The estimate of the Group's provision for inventory obsolescence could materially change from period to period due to changes in product offerings of those products.

iii) Useful lives of property, plant and equipment

The management determines the estimated useful lives of property, plant and equipment for calculating depreciation. This estimate is determined after considering expected usage of the assets or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charges are adjusted where management believes the useful lives differ from previous estimates.

iv) Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment property, inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated. Goodwill is tested annually for impairment.

For 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 Cash Generating Units (“CGUs”). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

(Expressed in thousands of Saudi Riyal unless otherwise stated)

2. BASIS OF PREPARATION (continued)

b) Critical accounting estimates and judgments (continued)

iv) Impairment of non-financial assets (continued)

The recoverable amount of an 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, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment loss is recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

v) Employee benefits – defined benefit obligation

Certain actuarial assumptions have been adopted as disclosed in note 22 to these financial statements for valuation of present value of defined benefit obligations. Any changes in these assumptions in future years might affect gains and losses in those years.

vi) Going concern

The Group's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

vii) Other assumptions

Information about other assumptions and estimation uncertainties is included in the following notes:

- i) Note 3(b) & 38- measurement of fair values
- ii) Note 3(h) - allowance for inventory losses
- iii) Note 3(i) - impairment in financial and non-financial assets
- iv) Note 3(k) - measurement of defined benefit obligations
- v) Note 3(j) - provision against assets restoration

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

(Expressed in thousands of Saudi Riyal unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated.

a) Business combinations

Business combinations (except for entities under common control) are accounted for using the acquisition 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, 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. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

The Group elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Acquisitions from entities under common control

Business combinations including entities or businesses 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.

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to or has rights to, variable return from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are consolidated in the financial statements from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

(Expressed in thousands of Saudi Riyal unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Business combinations (continued)

(i) Subsidiaries (continued)

When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

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".

(ii) Goodwill

Goodwill represents the difference between the cost of businesses acquired and the Group'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 loss on goodwill is 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.

(iii) Interests in equity-accounted investees

The Group's interests in equity accounted investees comprise of interests in associates and joint ventures.

Associates are those entities in which the Company has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and joint ventures are accounted for using the equity method (equity-accounted investees). They are initially recognized at cost which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and Other Comprehensive Income ("OCI") of equity-accounted investees, until the date on which significant influence or joint control ceases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

(Expressed in thousands of Saudi Riyal unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Business combinations (continued)

(iii) Interests in equity-accounted investees (continued)

When the Group's share of losses exceeds its interest in an equity accounted investee, the investment 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.

Unrealised gains arising from transactions with equity accounted investees are eliminated against the underlying assets / liabilities to the extent of the Group's interest in the investee.

Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Dilution gains and losses arising on equity accounted investees are recognized in the profit or loss.

(iv) 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.

Changes in Group's interest in a subsidiary as a result of 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 / received and the relevant share acquired / disposed of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposal / acquisition of non-controlling interests are also recorded in equity.

b) Financial instruments

(i) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant finance component) or finance liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without significant financing component is initially measured at the transaction price.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

(Expressed in thousands of Saudi Riyal unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Financial instruments (continued)

(ii) Classification and subsequent measurement

Financial assets – initial measurement

On initial measurement, a financial asset is classified as measured at: amortised cost, FVOCI – debt instrument; FVOCI – equity instrument or fair value through profit and loss (FVTPL).

Financial assets are not reclassified subsequent to initial measurement unless the Group changes the business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets – Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level, because this best reflects the way the business is managed and information is provided to management. The information considered includes:

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For the year ended December 31, 2019

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets – Subsequent measurement and gains and losses

The following accounting policies apply to the subsequent measurement of financial assets:

Financial assets at FVTPL - These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost - These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment loss, if any.

Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Equity investments at FVOCI - These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss as well.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(iii) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expired. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(iv) Derivatives

Derivative financial instruments and hedge accounting

The Group holds derivative financial instruments to hedge its inventory price risk, firm commitments and interest rate risk exposures. On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

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(Expressed in thousands of Saudi Riyal unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Financial instruments (continued)

(iv) Derivatives (continued)

Derivative financial instruments and hedge accounting (continued)

The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be “highly effective” in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range as per risk management policy. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below:

Cash flow hedge

When a derivative is designated as a cash flow hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability i.e. interest rate swaps or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in OCI and accumulated in equity. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statement of profit or loss within “Finance income or Finance cost”.

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 profit or loss within ‘Cost of revenues’.

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

When a hedging instrument expires, is terminated, is sold or is exercised, or when a hedge no longer meets the criteria for hedge accounting, then hedge accounting is discontinued prospectively. When the hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the equity remains in equity and is recognized when the forecast transaction is ultimately recognized in the profit or loss. 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 profit or loss within “Finance income or Finance cost”.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Financial instruments (continued)

(iv) Derivatives (continued)

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit or loss, 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 profit or loss within "cost of revenue". The gain or loss relating to the ineffective portion is recognized in the profit or loss within "Finance income or Finance cost". Changes in the fair value of the hedge futures are recognized in the consolidated statement of profit or loss within 'Cost of revenues'.

Other derivatives

When a derivative financial instrument is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognized immediately in the consolidated statement of profit or loss within "Finance income or Finance cost".

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

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.

c) Segment reporting

An operating segment is a component:

- i) engaged in business activities from which it may earn revenue and incur expenses including revenues and expenses that relate to transactions with any of the Group's other components;
- ii) the results of its operations are continuously analyzed by chief operating decision maker in order to make decisions related to resource allocation and performance assessment; and
- iii) for which financial information is discretely available.

Segment results that are reported to the chief operating decision maker and include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

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For the year ended December 31, 2019

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Foreign currency translations

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates prevailing at the dates of the respective transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of equity instruments classified as FVOCI, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(ii) Foreign operations

The assets and liabilities of foreign operations, with the exception of economies under hyper-inflation, including goodwill and fair value adjustments arising on acquisition, are translated at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Saudi Riyals at exchange rates at the dates of the transactions.

Foreign currency differences arising on foreign operations are recognized in other comprehensive income and accumulated in the "Foreign currency translation reserve", except to the extent that the translation difference is allocated to non-controlling interest.

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 profit or loss and other comprehensive income.

When a foreign operation is disposed of, the relevant amount in the Foreign Currency Translation Reserve ("CTR") is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the foreign currency translation differences.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

(Expressed in thousands of Saudi Riyal unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Foreign currency translations (continued)

(iii) 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 statement of financial position, 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 statements of financial position and profit or loss are translated at the closing rate.

e) Property, plant and equipment

Property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment loss. Cost includes purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized, on net basis, in statement of profit or loss and other comprehensive income.

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

(Expressed in thousands of Saudi Riyal unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Property, plant and equipment (continued)

Depreciation represents the systematic allocation of the depreciable amount of an asset over its estimated useful life. Depreciable amount represents cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is charged to the profit or loss on a straight-line basis over the estimated useful lives of individual items of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives of assets is as follow:

	<u>Years</u>
Buildings	12.5 - 50
Leasehold improvements	3 - 33
Plant and equipment	3 - 30
Furniture and office equipment	3 - 16
Vehicles	4 - 10

Depreciation methods, useful lives and residual values are reviewed at least annually and adjusted prospectively if required. For impairment assessment of property, plant and equipment, please refer to policy on impairment of non-financial assets note 3 "i".

f) Intangible assets

Intangible assets, other than goodwill, that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment loss. The useful life of such intangible assets ranges from 25 years to 28 years.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

Amortization is calculated over the cost of the asset, or other amount substituted for cost, less its residual value and is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use, since it most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Intangible assets acquired by the Group that have indefinite useful lives are measured at cost less accumulated impairment loss. The useful life of such assets is reviewed each reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. These are reviewed for impairment annually and whenever there is an indication that the intangible asset may be impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is measured at cost less accumulated depreciation and accumulated impairment loss. When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost subsequently.

h) Inventories

Inventories are measured at the lower of cost and net realizable 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.

Cost may also include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of inventories. Further, inventory may also include gain and losses transferred from marked to market of firm commitment due to fair value hedge accounting and fair valuation impact of inventory price risk being hedged under fair value hedge.

Net realizable value comprises estimated selling price in the ordinary course of business, less any additional production costs for completion and appropriate selling and distribution costs. Provision is made, where necessary, for obsolete, slow moving and defective stocks.

i) Impairment

i. Financial assets

Financial instruments and contract assets

The Group recognises loss allowances for Expected Credit Losses (ECLs) on financial assets measured at amortised cost.

The Group measures loss allowances for trade receivables and other financial assets that are measured at an amount equal to lifetime ECLs that result from all possible default events over the expected life of a financial instrument except for the bank balance in which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition, which are measured at 12-month ECLs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Impairment (continued)

i) Financial assets (continued)

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment, that includes forward-looking information.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

ii) Non-financial assets

The carrying amounts of the Group's non-financial assets other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (the "cash-generating unit, or CGU"). Impairment exists when the carrying value of an asset or CGU exceeds the recoverable amount, which is the higher of the fair value less costs to sell and value in use. The value in use is based on a discounted cash flow (DCF) model, whereby the future expected cash flows discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Impairment (continued)

ii) Non-financial assets (continued)

Impairment loss is recognized in profit or loss. Impairment loss recognized in respect of CGUs is allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment loss recognized in prior periods is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Goodwill that forms part of the carrying amount of an investment in an associate is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

j) Provisions

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. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Group records provision for decommissioning costs of manufacturing facility and restoration of leasehold improvements. Such costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognized as part of the cost of the particular asset. The cash flows are discounted at a rate that reflects the current market assessments of the time value of money and risks specific to the related liability. The unwinding of the discount is expensed as incurred and recognized in the profit or loss as a finance cost. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Employees' end of service benefits

Defined benefit plan

The Group's obligation under employees' end of service benefit plan is accounted for as an unfunded defined benefit plan and is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods and discounting that amount. The calculation of defined benefit obligations is performed by a qualified actuary using the projected unit credit method. Measurements of the defined benefit liability, which comprise actuarial gains and losses are recognized immediately in other comprehensive income. The Group determines the net interest expense on the defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then defined benefit liability, taking into account any changes in the defined benefit liability during the period as a result of benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in personnel expenses in profit or loss.

Short-term employee benefits

Short-term employee benefits are expensed as the related services are provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans, if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

l) Revenues

Revenue is measured based on the consideration specified in a contract with a customer and is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

Variable consideration

Variable consideration amounts are estimated at either their expected value or most likely amount and included in revenue to the extent that it is highly probable that the revenue will not reverse.

Significant financing component

The Group evaluates significant financing component, if the period between customer payment and the transfer of goods/ services (both for advance payments or payments in arrears) is more than one year. The Group adjusts the committed amount of consideration for the time value of money using an appropriate interest rate reflecting the credit risk.

Revenue from sale of goods

Revenue from the sale is recognised in the statement of profit or loss when the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in thousands of Saudi Riyal unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Revenues (continued)

Rental income

The Group leases out various shops situated within its supermarkets and hypermarkets under operating lease agreements. The Group also leases out floor space within its stores to suppliers for various activities such as gondolas, events and till points. Rental income is recognized on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease.

Promotional income

Promotional income is comprised of income earned from promotion of various products by vendors within the Group's stores such as chiller displays and in promotional leaflets and flyers. Promotional income is recognized over time as the services are provided.

Commission income

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue is recognised at a point in time at which amount of commission is earned by the Group.

m) 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 the consolidated statement of profit or loss and other comprehensive 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 statement of financial position. 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 zakat and income taxes in their respective countries of domicile. Such zakat and income taxes are charged to consolidated statement of profit or loss under zakat and income tax expense.

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.

Current and deferred tax assets and liabilities are offset only if certain criteria are met.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Finance income and finance cost

Finance income comprises gains on the hedging instruments that are recognized in consolidated statement of profit or loss and other comprehensive income. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in consolidated statement of profit or loss and other comprehensive income on the date that the Group's right to receive payment is established.

Finance costs comprise of financial charges on borrowings including sukuks and unwinding of the discount on provisions and losses on hedging instruments that are recognized in consolidated statement of profit or loss and other comprehensive income. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in consolidated statement of profit or loss and other comprehensive income using the effective interest method.

Foreign currency gains and losses are reported on a net basis within finance cost.

o) Dividends

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

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

p) Leases

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under International Accounting Standard ("IAS") 17 and International Financial Reporting Interpretations Committee ("IFRIC") Interpretation 4.

Policy applicable from January 1, 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after January 1, 2019.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Leases (continued)

Policy applicable from January 1, 2019 (continued)

As a lessee (continued)

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Leases (continued)

Policy applicable from January 1, 2019 (continued)

As a lessee (continued)

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Policy applicable before January 1, 2019

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Payments made under operating leases are recognized in statement of profit or loss and other comprehensive 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.

4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The Group initially applied IFRS 16 Leases from January 1, 2019. A number of other new standards are also effective from January 1, 2019 but they do not have a material effect on the Group's financial statements.

The Group has applied IFRS 16 using the modified retrospective approach. At the date of initial application, the Group has adopted a policy to recognise the right-of-use asset at an amount equal to the lease liability, adjusted by any related prepaid or accrued lease payments, that resulted in no adjustment to the retained earnings as at January 1, 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

a) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 determining whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 3(p).

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

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4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

b) As a lessee

As a lessee, the Group leases many assets including property, production equipment and vehicles. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

However, for leases of property the Group has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

Leases classified as operating leases under IAS 17

Previously, the Group classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at January 1, 2019 (Note 4(c)(i)). Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets;
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

c) Impact on financial statements

i) Impact on transition

On transition to IFRS 16, the Group recognized right-of-use assets and lease liabilities. The prepaid and accrued rentals are adjusted against the right-of-use assets.

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4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Impact on financial statements (continued)

i) Impact on transition (continued)

The impact of transition on the consolidated statement of financial position is summarised below:

Impact on:	January 1, 2019
Right-of-use assets	4,988,919
Accrued and other liabilities	208,488
Provision for asset restoration	(67,746)
Prepayments and other receivables	(89,453)
Lease liabilities	(5,040,208)

When measuring lease liabilities for leases that were classified as operating leases under IAS 17, the Group discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted average rate applied in different geographies are:

<u>Country</u>	<u>Weighted average rate</u>
Saudi Arabia	3% – 5.8%
Egypt	18%
Iran	25%
Turkey	20%
Other countries	5.69% – 6%

Impact on:	January 1, 2019
Operating lease commitments at December 31, 2018 as disclosed under IAS 17 in the Group's consolidated financial statements	6,915,172
Discounting impact using the incremental borrowing rate at January 1, 2019	(2,124,664)
– Recognition exemption for leases with less than 12 months of lease term at transition	(35,892)
– Extension options reasonably certain to be exercised	285,592
Lease liabilities recognised at January 1, 2019	<u>5,040,208</u>

ii) Impact for the year

During the year ended December 31, 2019, the Group recognised SR 537.1 million of depreciation charges and SR 261.9 million of interest costs from these leases, resulting in a carrying value of SR 4,320 million and SR 4,632 million for right of use assets and lease liabilities respectively as at December 31, 2019.

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5. SUBSEQUENT EVENT

The existence of novel coronavirus (COVID-19) was confirmed in early 2020 and has spread across multiple geographies, causing disruptions to businesses and economic activity. The Group considers this outbreak to be a non-adjusting post balance sheet event. At this early stage when situation is rapidly evolving; the Group has already mobilized a task force to assess the possible impact on its business in Saudi Arabia and other countries. The initial study encompasses reviewing the potential risks around continued supply of raw material, manpower, current inventory levels and uninterrupted functioning of production facilities across the Group. It is not practicable to provide a quantitative estimate of the potential impact at this stage. In view of historical seasonality of Group's productions before Ramadan season, the Group does not foresee major impact on its Saudi operations, which represents significant part of the Group's global operations, if the situation is normalized within a reasonable time period.

The management and those charged with governance will continue to monitor the situation across all geographies and accordingly update stakeholders as per the regulatory requirements. Any changes in circumstances may require enhanced disclosures or recognition of adjustments in the condensed interim consolidated financial statements of the Group for the subsequent periods during the financial year 2020.

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6. PROPERTY, PLANT AND EQUIPMENT

	<u>Land</u>	<u>Buildings</u>	<u>Leasehold improvements</u>	<u>Plant and equipment</u>	<u>Furniture and office equipment</u>	<u>Vehicles</u>	<u>Construction work in progress (CWIP)</u>	<u>Total</u>
<u>Cost</u>								
Balance at January 1, 2018	1,383,313	2,336,656	1,752,180	2,446,792	3,065,375	497,786	687,062	12,169,164
Acquisition through Business combination (Note 8)	14,000	163,353	--	58,448	9,939	33,925	6,807	286,472
Additions	20,576	40,645	1,438	116,155	28,544	10,837	169,562	387,757
Disposals	--	(11,523)	(55,279)	(5,533)	(82,487)	(14,835)	(17,125)	(186,782)
Transfer from CWIP	--	119,004	2,130	153,525	51,184	1,047	(326,890)	--
Hyperinflation adjustment	(81)	(2,380)	--	(12,351)	(931)	(599)	(181)	(16,523)
Effect of movement in exchange rate	(62,353)	(69,160)	(449)	(223,566)	(13,558)	(5,413)	(74,691)	(449,190)
Balance at December 31, 2018	<u>1,355,455</u>	<u>2,576,595</u>	<u>1,700,020</u>	<u>2,533,470</u>	<u>3,058,066</u>	<u>522,748</u>	<u>444,544</u>	<u>12,190,898</u>
Balance at January 1, 2019	1,355,455	2,576,595	1,700,020	2,533,470	3,058,066	522,748	444,544	12,190,898
Additions	--	7,987	1,922	31,946	26,190	20,649	284,723	373,417
Disposals	(1,167)	(4,275)	(146,426)	(14,632)	(252,186)	(25,867)	(5,529)	(450,082)
Transfer from CWIP	--	107,890	14,162	112,499	76,485	1,715	(312,751)	--
Category reclassification	(6,250)	(5,390)	--	11,640	--	--	--	--
Hyperinflation adjustment	(30)	(894)	--	(8,566)	(350)	(225)	(68)	(10,133)
Effect of movement in exchange rate	1,548	5,412	2,296	43,963	3,096	2,202	(1,639)	56,878
Other adjustments	--	26,621	--	11,224	--	5,918	--	43,763
Balance at December 31, 2019	<u>1,349,556</u>	<u>2,713,946</u>	<u>1,571,974</u>	<u>2,721,544</u>	<u>2,911,301</u>	<u>527,140</u>	<u>409,280</u>	<u>12,204,741</u>

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6. PROPERTY, PLANT AND EQUIPMENT (continued)

	<u>Land</u>	<u>Buildings</u>	<u>Leasehold improvements</u>	<u>Plant and equipment</u>	<u>Furniture and office equipment</u>	<u>Vehicles</u>	<u>Construction work in progress (CWIP)</u>	<u>Total</u>
<u>Accumulated Depreciation / Impairment</u>								
Balance at January 1, 2018	--	(613,469)	(754,260)	(853,378)	(2,029,229)	(353,758)	(3,395)	(4,607,489)
Acquisition through Business combination (Note 8)	--	(87,476)	--	(46,780)	(9,202)	(23,096)	--	(166,554)
Depreciation for the year	--	(92,256)	(125,822)	(158,914)	(334,368)	(46,675)	--	(758,035)
Disposals	--	11,523	55,077	4,751	71,661	14,131	--	157,143
Impairment loss (Note 36)	(69,774)	(29,924)	(99,852)	--	--	--	--	(199,550)
Hyperinflation adjustment	--	1,134	--	1,429	293	181	--	3,037
Effect of movement in exchange rate	--	25,831	176	96,543	8,809	3,984	--	135,343
Balance at December 31, 2018	(69,774)	(784,637)	(924,681)	(956,349)	(2,292,036)	(405,233)	(3,395)	(5,436,105)
Balance at January 1, 2019	(69,774)	(784,637)	(924,681)	(956,349)	(2,292,036)	(405,233)	(3,395)	(5,436,105)
Depreciation for the year	--	(102,006)	(95,443)	(169,381)	(250,924)	(42,163)	--	(659,917)
Disposals	--	1,345	129,378	5,378	246,440	24,066	--	406,607
Impairment (loss) / reversal (Note 36)	(12,074)	(7,046)	25,636	--	--	--	--	6,516
Category reclassification	--	(5,467)	--	5,467	--	--	--	--
Hyperinflation adjustment	--	2,042	--	3,141	318	188	--	5,689
Effect of movement in exchange rate	--	1,995	(1,031)	(14,072)	(1,444)	(723)	--	(15,275)
Balance at December 31, 2019	(81,848)	(893,774)	(866,141)	(1,125,816)	(2,297,646)	(423,865)	(3,395)	(5,692,485)
<u>Carrying amounts</u>								
December 31, 2018	1,285,681	1,791,958	775,339	1,577,121	766,030	117,515	441,149	6,754,793
December 31, 2019	1,267,708	1,820,172	705,833	1,595,728	613,655	103,275	405,885	6,512,256

a) Construction work in progress mainly relates to upgrading and enhancing the production facilities and retail outlets of certain subsidiaries.

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7. RIGHT-OF-USE ASSETS

The movement of right-of-use assets is as follows:

	<u>Land</u>	<u>Buildings</u>	<u>Plant and equipment</u>	<u>Vehicles</u>	<u>Total</u>
Recognised as at January 1, 2019	866,623	4,089,831	137	32,328	4,988,919
Addition during the year	17,050	185,289	--	21,675	224,014
Leases terminated during the year	(23,650)	(250,984)	--	(1,005)	(275,639)
Depreciation for the year	(62,853)	(459,323)	(34)	(14,906)	(537,116)
Impairment loss (Note 36)	--	(79,254)	--	--	(79,254)
Effect of movement in exchange rate	(297)	(450)	(15)	(492)	(1,254)
Closing balance	<u>796,873</u>	<u>3,485,109</u>	<u>88</u>	<u>37,600</u>	<u>4,319,670</u>

8. INTANGIBLE ASSETS AND GOODWILL

The intangible assets and goodwill comprise the following:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Goodwill (Note 8.1)	495,235	905,556
Brands (Note 8.2)	252,271	--
Customer list (Note 8.2)	75,610	--
Distribution network (Note 8.2)	8,480	--
	<u>831,596</u>	<u>905,556</u>

- 8.1 The carrying values of goodwill, after foreign currency translation differences adjustment and impairment loss adjustment (Note 1 and Note 36), comprises the following:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Afia International Company	84,016	84,016
Afia International Company, Egypt	27,678	24,789
Behshahr Industrial Company	5,092	6,352
El Farasha for Food Industries Company	8,303	7,437
El Maleka for Food Industries Company	59,268	53,082
Giant Stores Trading Company	95,209	95,209
Good Food Company (Note 8.2)	--	414,443
Herfy Foods Services Company	25,330	25,330
KUGU Gida Yatun Ve Ticaret A.S	23,716	26,778
Notrika Golden Wheat Company	6,047	7,544
Savola Industrial Investment Company	145,664	145,664
United Sugar Company	14,912	14,912
	<u>495,235</u>	<u>905,556</u>

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8. INTANGIBLE ASSETS AND GOODWILL (continued)

The Group has reviewed the carrying amounts of goodwill to determine whether the 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.

- 8.2 During the year, the Group has completed the Purchase Price Allocation (PPA) exercise pertaining to the acquisition of Al Kabeer group of companies (Note 1). Accordingly, initial goodwill of SR 414 million has been fully allocated to the fair values of identifiable assets, liabilities and contingent liabilities. In this regard, property, plant and equipment has been increased by SR 43.7 million, brands with indefinite useful life and distribution network and customer list with definite useful lives have been recognized at SR 336.4 million. The remaining amount of SR 34.3 million has been adjusted against purchase consideration.

9. INVESTMENT PROPERTY

	December 31, <u>2019</u>	December 31, <u>2018</u>
Cost		
Balance at beginning of year	57,512	50,844
Additions	878	6,668
Balance at end of year	58,390	57,512
Accumulated depreciation and impairment		
Balance at beginning of year	(24,334)	(20,231)
Depreciation during the year	(4,175)	(4,103)
Balance at end of year	(28,509)	(24,334)
Carrying amounts	29,881	33,178

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10. EQUITY-ACCOUNTED INVESTEEES

The details of the Group's investment in equity-accounted investees are as follows:

<u>Name</u>	<u>Principal business sector</u>	<u>Country of incorporation</u>	<u>Ownership interest (%)</u>		<u>December 31,</u>	
			<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Almarai Company ("Almarai")	Fresh food products	Saudi Arabia	34.52	34.52	7,733,515	7,404,199
Kinan International for Real Estate Development Company ("Kinan")	Real Estate	Saudi Arabia	29.9	29.9	400,856	408,013
United Sugar Company, Egypt ("USCE") (Note 14)	Sugar Manufacturing	Egypt	33.82	33.82	254,421	235,837
Al-Seera City Company for Real Estate Development	Real Estate	Saudi Arabia	40	40	145,496	147,597
United Edible Oils Holding Limited	Holding Company	Cayman Islands	51	51	47,557	54,987
Intaj Capital Limited ("Intaj")	Fund management	Republic of Tunisia	49	49	27,143	33,961
Knowledge Economic City Developers Company	Real Estate	Saudi Arabia	2.07	2.07	16,059	16,270
Seafood International One FZCO	Seafood products distribution	UAE	40	40	--	--
					8,625,047	8,300,864

10.1 The direct ownership interest of the Company in USCE is 10.62% (December 31, 2018: 10.62%).

Movement in the investment in equity-accounted investees is as follows:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Balance at beginning of year	8,300,864	7,964,066
Share in net income, net	639,357	574,742
Fair value reserve adjustment (Note 18)	(2,699)	27,094
Capital distribution from equity accounted investee	(6,819)	(5,716)
Dividends	(306,098)	(258,914)
Other adjustments	442	(408)
Balance at end of year	8,625,047	8,300,864

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10. EQUITY-ACCOUNTED INVESTEEES (continued)

The following table summarizes the financial information of significant equity-accounted investees:

	<u>Almarai</u>		<u>Kinan</u>		<u>USCE</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Percentage ownership interest	34.52	34.52	29.9	29.9	33.82	33.82
Non-current assets	25,823,338	25,212,601	2,444,684	2,355,305	233,755	245,382
Current assets	7,324,704	7,105,819	391,089	864,795	482,782	467,599
Non-current liabilities	12,164,269	12,396,363	524,102	360,200	39,168	26,072
Current liabilities	5,724,653	5,406,067	282,858	760,597	205,512	295,146
Net assets attributable to shareholders (100%)	14,653,349	13,926,796	1,854,963	1,921,250	471,857	391,763
Group's share of net assets	5,058,336	4,807,530	554,634	574,454	159,582	132,494
Carrying amount of interest in associate	7,733,515	7,404,199	400,856	408,013	254,421	235,837

	<u>Almarai</u>		<u>Kinan</u>		<u>USCE</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Revenue	14,351,277	13,722,797	424,566	525,888	1,163,392	1,192,209
Profit / (loss) from continuing operations attributable to shareholders (100%)	1,811,753	2,008,869	17,929	(329,430)	43,504	(24,428)
Other comprehensive income attributable to shareholders (100%)	25,021	81,109	483	884	--	--
Total comprehensive income / (loss) attributable to shareholders	1,836,774	2,089,978	18,412	(328,546)	43,504	(24,428)
Group's share of profit / (loss) and total comprehensive income	622,752	720,592	5,505	(98,499)	18,584	(10,204)

10.2 Group also has interest in other equity-accounted investees. With an aggregate carrying value of SR 236.3 million (December 31, 2018: SR 252.8 million). The Company's share of losses from these entities amounted to SR 9.7 million (December 31, 2018: SR 10.1 million).

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11. INVESTMENTS

Investments at December 31 comprise the following:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Investments held at fair value through other comprehensive income (note 11.1)	<u>347,590</u>	324,204
Investment at fair value through profit or loss (note 11.4)	<u>26,516</u>	30,888

11.1 Investments held at fair value through other comprehensive income:

	<u>Principal business sector</u>	<u>Country of incorporation</u>	<u>Ownership interest (%)</u>		<u>December 31,</u>	
			<u>December 31,</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
<u>Quoted investments</u>						
Knowledge Economic City	Real Estate	Saudi Arabia	6.4	6.4	215,897	197,652
Emaar the Economic City	Real Estate	Saudi Arabia	0.9	0.9	71,085	58,878
Arab Phoenix Holdings Company	Real Estate	Kingdom of Jordan	5	5	--	--
<u>Unquoted investments</u>						
Swicorp Company	Investment Management	Saudi Arabia	15	15	60,608	67,674
Joussour Holding Company (under liquidation)	Holding Company	Saudi Arabia	14.81	14.81	--	--
					<u>347,590</u>	<u>324,204</u>

11.2 Movement in the FVOCI investments is as follows:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Balance at beginning of year	324,204	471,507
Reclassified to FVTPL investment (Note 11.3)	--	(24,753)
Fair value reserves adjustment	23,386	(122,550)
Balance at end of year	<u>347,590</u>	<u>324,204</u>

11.3 In January 2018, the Company sold its ownership interest in Dar Al Tamleek, which was reclassified as FVTPL investment as a result of adoption of IFRS 9, for SR 28.0 million and realised a gain amounting to SR 3.3 million.

11.4 This represents investment made by one of the Group's local subsidiary in mutual funds. As at December 31, 2019, an unrealised gain of SR 51.5 thousand (December 31, 2018: SR 36.3 thousand) has been recognised in the consolidated statement of profit or loss for the year.

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12. INVENTORIES

	December 31, 2019	December 31, 2018
Finished products	1,605,671	1,559,561
Raw and packing materials	737,512	548,243
Work in process	79,530	78,225
Spare parts and supplies	199,905	183,697
Goods in transit	224,197	359,196
	<u>2,846,815</u>	<u>2,728,922</u>
Less: Provision for obsolescence / slow moving inventories	<u>(94,795)</u>	<u>(98,158)</u>
	<u>2,752,020</u>	<u>2,630,764</u>

Inventories have been reduced by SR 127.5 million (December 31, 2018: SR 141.7 million) as a result of the write-down to net realizable value.

Raw materials include raw sugar having cost of SR 106.9 million (December 31, 2018: SR 100.2 million) which are held under a fair value hedge relationship. As at December 31, 2019, the fair value of these raw sugar amounts to SR 124.9 million (December 31, 2018: SR 112.9 million).

13. TRADE RECEIVABLES

	December 31, 2019	December 31, 2018
Trade receivables	1,277,295	1,140,672
Less: Allowance for expected credit losses (Note 38)	<u>(122,504)</u>	<u>(104,782)</u>
	<u>1,154,791</u>	<u>1,035,890</u>
Due from related parties (Note 29)	43,134	45,125
	<u>1,197,925</u>	<u>1,081,015</u>
Less: non- current trade receivables	<u>(7,268)</u>	<u>(7,443)</u>
	<u>1,190,657</u>	<u>1,073,572</u>

Following is the movement of Impairment loss:

	December 31, 2019	December 31, 2018
Balance at beginning of year	104,782	98,002
Acquisition through Business combination (Note 8)	--	659
Impairment loss for the year, net	19,656	28,406
Currency translation	<u>(1,934)</u>	<u>(22,285)</u>
Balance at end of year	<u>122,504</u>	<u>104,782</u>

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14. PREPAYMENTS AND OTHER RECEIVABLES

	<u>Note</u>	December 31, 2019	December 31, <u>2018</u>
Advances to vendors		299,766	266,305
Receivable from government authorities	14.1	200,441	191,182
Other prepaid expenses		195,720	198,544
Change in fair value of hedged item (firm commitments)		34,207	16,219
Employee loans and advances		57,258	65,035
Positive fair value of derivatives	14.4	39,970	102,317
Unclaimed dividends		37,643	37,763
Due from related parties	29	34,726	89,451
Non-trade receivable	14.3	35,951	75,827
Custom duty refundable	14.2	24,122	62,106
Prepaid rent		23,170	134,787
Others		77,221	29,791
		<u>1,060,195</u>	<u>1,269,327</u>

14.1 Receivable from government authorities mainly includes claims of certain subsidiaries on account of subsidies, value added and other taxes.

14.2 Custom duty refundable mainly represents funds with government authorities paid on import of raw material. Further, the balance is net off provision amounting to SR 80.5 million (December 31, 2018: SR 33.5 million) for non-recoverability of certain refunds.

14.3 This represents non-trade related balances with affiliates of subsidiaries.

14.4 Derivatives:

	December 31, 2019	December 31, <u>2018</u>
Derivatives – current assets		
Future exchange contracts	39,970	101,031
Interest rate swaps	--	1,286
	<u>39,970</u>	<u>102,317</u>
Derivatives – non-current assets		
Call option (Note ‘c’)	<u>1,999</u>	<u>2,496</u>
Derivatives – current liabilities		
Future exchange contracts	66,186	79,644
Interest rate swaps	547	--
	<u>66,733</u>	<u>79,644</u>
Derivatives – non-current liabilities		
Put option (Note ‘c’)	<u>188,094</u>	<u>197,131</u>

In the ordinary course of business, the Group utilizes the following derivative financial instruments for both hedging and other purposes:

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14. PREPAYMENTS AND OTHER RECEIVABLES (continued)

14.4 Derivatives (continued):

(a) Forward and futures

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Foreign currency and special commission rate futures are transacted in standardized amounts on regulated exchanges.

(b) Swaps:

Swaps are commitments to exchange one set of cash flows for another. For interest rate swaps, counterparties generally exchange fixed and floating rate special commission payments in a single currency without exchanging principal.

(c) Options

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at a fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.

SFC entered into call and put option agreement with European Bank for Reconstruction and Development ("EBRD") during March 2017, in relation to transaction for disposal of stake in USCE. As per the agreement, the option can be exercised as follows:

- Call option: SFC has the right to deliver a call notice to EBRD to purchase all the shares held by EBRD in USCE from the third anniversary of the subscription date and ending 6.5 years after the subscription date; and
- Put option: EBRD has the right to deliver a put notice to SFC to sell all the shares held by EBRD in USCE from 6.5 years after the subscription date and ending on the seventh anniversary of the subscription date.

14.5 Derivatives held for other purposes

Derivatives used for other purposes is for positioning, arbitrage and short term profit making purposes.

14.6 Derivatives held for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk (see note 38 - credit risk, market risk and liquidity risk). Part of the risk management process involves managing the Group's exposure to fluctuations in inventory prices and interest rates to reduce its exposure to inventory and interest rate risks to acceptable levels as determined by the Board of Directors.

The Board of Directors have established levels of inventory risk by setting limits on counterparty and commodity futures position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure that positions are maintained within the established limits. The Board of Directors has established the level of interest rate risk by setting limits on interest rate gaps for stipulated periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

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14. PREPAYMENTS AND OTHER RECEIVABLES (continued)

14.6 Derivatives held for hedging purposes (continued):

The Group uses commodity futures to hedge against inventory price risk on raw sugar and the fair value risk on the firm commitments for sale of refined sugar. In all such cases, the hedging relationship and objective, including details of the hedged items and hedging instrument, are documented and the transactions are accounted for as fair value hedge.

December 31, 2019	Positive fair value	Negative fair value	Notional amount by term to maturity				
			Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years
Held as fair value hedge							
Commodity futures	15,606	(52,303)	776,383	636,556	124,971	14,856	--
Held as cash flow hedge							
Interest rate swaps	--	(547)	750,000	750,000	--	--	--
Held as others							
Commodity futures	24,364	(13,883)	1,471,102	740,752	730,350	--	--
Call options	1,999	--	--	--	--	1,999	--
Put Option	--	188,094	--	--	--	188,094	--
December 31, 2018	Positive fair value	Negative fair value	Notional amount by term to maturity				
			Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years
Held as fair value hedge							
Commodity futures	18,284	(29,467)	1,114,765	964,836	141,253	8,675	--
Held as cash flow hedge							
Interest rate swaps	1,286	--	750,000	--	--	750,000	--
Held as others							
Commodity futures	82,747	(50,177)	1,660,868	553,484	506,923	600,461	--
Call options	2,496	--	--	--	--	2,496	--
Put Option	--	197,131	--	--	--	--	197,131

All of the Group's Commodity derivatives are entered into with the global commodity exchanges and are mainly carried out by SFC's commodity risk control function.

The Group is exposed to variability in future special commission cash flows on sukuks that carries interest at a variable rate. The Group uses interest rate swaps as hedging instruments which has been entered into with certain commercial banks in order to hedge against the special commission rate risks, which subsequent to the year end expired on January 22, 2020.

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For the year ended December 31, 2019

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14. PREPAYMENTS AND OTHER RECEIVABLES (continued)

14.6 Derivatives held for hedging purposes (continued)

Movements in the other reserve of cash flow hedges:

	December 31, 2019	December 31, 2018
Balance at beginning of year	1,286	(4,735)
(Loss) / gain on changes in fair value recognized directly in equity, net	<u>(1,833)</u>	<u>6,021</u>
Balance at end of year	<u>(547)</u>	<u>1,286</u>

15. CASH AND CASH EQUIVALENTS

	December 31, 2019	December 31, 2018
Cash in hand	31,998	35,163
Cash at bank- current account	460,077	366,190
Short term deposits (Note 15.1)	<u>448,461</u>	<u>500,220</u>
	<u>940,536</u>	<u>901,573</u>

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

16. SHARE CAPITAL AND DIVIDEND DECLARATION

At December 31, 2019 and December 31, 2018, the Group's share capital of SR 5.3 billion consists of 533.981 million fully paid shares of SR 10 each.

Subsequent to year end, the Company's Board of Directors have recommended final dividend amounting to SR 160.19 million representing Saudi Riyal 0.30 per share for the approval by the shareholders.

17. STATUTORY RESERVE

In accordance with the Company's bylaws and the Regulations for Companies in the Kingdom of Saudi Arabia, the Company transfers 10% of the net income for the year to a statutory reserve until such reserve equals 30% of its share capital. Since the Company has reached the required reserve level, therefore, no additional transfers are required to be made as at year end.

The statutory reserve in the consolidated financial statements is the statutory reserve of the Company. This reserve currently is not available for distribution to the shareholders of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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18. FAIR VALUE RESERVE

Fair value reserve includes share of reserve of equity-accounted investees, FVOCI investments and cash flow hedge. Movement in fair value reserve is as follows:

	Note	December 31, <u>2019</u>	December 31, <u>2018</u>
Balance at beginning of year		(198,084)	(108,649)
Share in changes in other reserve of associates	10	(2,699)	27,094
Fair value adjustment from FVOCI investments	11	23,386	(122,550)
Fair value adjustment from derivative financial instruments relating to cash flow hedge	14	(1,833)	6,021
Balance at end of year		<u>(179,230)</u>	<u>(198,084)</u>

19. NON-CONTROLLING INTERESTS

The following table summarizes the information relating to each of the Group's significant subsidiaries that has Non-Controlling Interests ("NCI"), before any intra group eliminations:

<u>December 31, 2019</u>	<u>SFC</u>	<u>Panda</u>	<u>Herfy</u>	<u>Matoun</u>	<u>GFC</u>
Non-current assets	3,073,177	6,068,143	1,682,614	334,742	540,576
Current assets	3,793,798	1,442,169	350,848	745	369,827
Non-current liabilities	(875,081)	(3,782,354)	(627,360)	(94,219)	(608,803)
Current liabilities	<u>(3,700,278)</u>	<u>(2,865,638)</u>	<u>(408,116)</u>	<u>(48,036)</u>	<u>(95,433)</u>
Net assets (100%)	<u>2,291,616</u>	<u>862,320</u>	<u>997,986</u>	<u>193,232</u>	<u>206,167</u>
Carrying amount of NCI	<u>251,777</u>	--	--	--	<u>172,074</u>
Revenue	9,209,213	11,496,705	1,288,310	43,599	620,055
Profit / (loss)	344,762	(342,412)	196,088	10,394	62,368
Other Comprehensive Income ("OCI")	<u>(57,559)</u>	<u>11,998</u>	<u>(336)</u>	--	<u>(2,074)</u>
Total comprehensive income / (loss) (100%)	<u>287,203</u>	<u>(330,414)</u>	<u>195,752</u>	<u>10,394</u>	<u>60,294</u>
Profit / (loss) allocated to NCI	<u>52,382</u>	--	--	--	<u>32,871</u>
OCI allocated to NCI	<u>(13,321)</u>	--	--	--	<u>32,146</u>

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19. NON-CONTROLLING INTERESTS (continued)

<u>December 31, 2018</u>	<u>SFC</u>	<u>Panda</u>	<u>Herfy</u>	<u>Matoun</u>	<u>GFC *</u>
Non-current assets	2,751,619	3,026,021	1,103,257	249,840	547,174
Current assets	4,035,923	1,476,315	339,143	77,313	293,021
Non-current liabilities	(584,783)	(1,047,484)	(210,876)	(13,391)	(636,719)
Current liabilities	(3,984,924)	(3,062,322)	(298,656)	(30,924)	(57,411)
Net assets (100%)	<u>2,217,835</u>	<u>392,530</u>	<u>932,868</u>	<u>282,838</u>	<u>146,065</u>
Carrying amount of NCI	<u>226,351</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>150,367</u>
Revenue	9,735,472	11,114,241	1,227,270	47,035	180,374
Profit / (loss)	(17,272)	(917,429)	204,169	13,123	(4,227)
OCI	(574,244)	(9,629)	(439)	--	(922)
Total comprehensive income / (loss) (100%)	<u>(591,516)</u>	<u>(927,058)</u>	<u>203,730</u>	<u>13,123</u>	<u>(5,149)</u>
Profit / (loss) allocated to NCI	(1,102)	--	--	--	167
OCI allocated to NCI	<u>(86,807)</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(452)</u>

* The Group acquired control over the operating entities within Good Food Company on October 31, 2018. Accordingly, the financial results related to Good Food Company is only for the period from October 31, 2018 to December 31, 2018 in these consolidated financial statements (Note 8).

20. LOANS AND BORROWINGS

The following information reflects the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortized cost:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Non-current liabilities		
Secured bank loans	130,218	98,808
Unsecured bond issues (Sukuk) (Note 20.2)	1,000,000	1,500,000
Unsecured bank loans	2,775,027	2,667,188
	<u>3,905,245</u>	<u>4,265,996</u>
Current liabilities		
Current portion of secured bank loans	60,461	167,922
Current portion of unsecured bank loans	679,321	970,310
Unsecured bond issues (Sukuk) (Note 20.2)	993,000	--
Secured bank loans	69,700	69,846
Unsecured bank loans	1,799,495	2,425,243
Bank overdrafts	37,273	56,594
	<u>3,639,250</u>	<u>3,689,915</u>
	<u>7,544,495</u>	<u>7,955,911</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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20. LOANS AND BOROWINGS (continued)

Geographical analysis of loans and borrowings is as follows:

Location	Long term loans		Short term Loan		Total loans & borrowing	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Saudi						
Arabia	5,414,928	5,191,852	1,010,000	1,745,000	6,424,928	6,936,852
Egypt	223,099	211,788	312,893	344,056	535,992	555,844
Algeria	--	--	211,570	130,405	211,570	130,405
Turkey	--	--	171,968	146,839	171,968	146,839
Iran	--	--	66,803	48,667	66,803	48,667
Morocco	--	--	56,988	8,502	56,988	8,502
UAE	--	--	47,800	96,444	47,800	96,444
Sudan	--	588	28,446	31,770	28,446	32,358
	<u>5,638,027</u>	<u>5,404,228</u>	<u>1,906,468</u>	<u>2,551,683</u>	<u>7,544,495</u>	<u>7,955,911</u>

20.1 These represent borrowings obtained from commercial banks and other financial institutions by the Parent Company and its subsidiaries. These borrowings are in Saudi Riyals, Egyptian Pounds, Iranian Riyals, US Dollars, Algerian Dinar, Turkish Lira, United Arab Emirates Dirhams 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. As at December 31, 2019, loans and borrowings include sharia-compliant financing facilities amounting to SR 6.54 billion (December 31, 2018: SR 6.98 billion).

20.2 On January 22, 2013, the Group completed its initial offering 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. The Sukuk is maturing on January 22, 2020 and accordingly has been classified as short-term loans and borrowings. Subsequent to the period end, the Sukuk has been settled on January 22, 2020.

On July 9, 2019, the Group completed the offering of its new Sukuk, under the new program, with a total value of SR 1 billion with a tenor of 7 years and carrying an expected variable return to the Sukuk-holders of 6 months SIBOR plus 1.60% payable semi-annually. The Sukuk will mature on July 9, 2026. The issuance included SR 507 million of the previous Sukuk, that have been redeemed and exchanged. Accordingly, the nominal value of the previous Sukuk decreases from SR 1.5 billion to SR 993 million.

20.3 Property, plant and equipment amounting to SR 286 million (December 31, 2018: SR 237.9 million) of certain overseas subsidiaries of the Group are pledged as collateral with commercial banks.

20.4 Inventories amounting to SR 62 million (December 31, 2018: SR 25 million) are pledged with foreign banks as collateral against the bank borrowing facilities of certain overseas subsidiaries.

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21. LEASE LIABILITIES

	<u>2019</u>
Recognised as at January 1, 2019 (Note 4)	5,040,208
Addition during the year	231,658
Lease terminated during the year	(261,995)
Interest expense for the year (Note 37)	261,921
Payments during the year	<u>(639,266)</u>
Closing balance	<u>4,632,526</u>

21.1 Lease liabilities have been presented in the consolidated statement of financial position as follows:

	<u>December 31, 2019</u>
Lease liabilities – non-current portion	3,955,686
Lease liabilities – current portion	<u>676,840</u>
	<u>4,632,526</u>

22. EMPLOYEE BENEFITS

General Description of the plan

The Group operates an approved unfunded employees' end of service benefits scheme / plan for its permanent employees as required by the Saudi Arabian Labour law and in accordance with the local statutory requirements of the foreign subsidiaries.

The amount recognized in the consolidated statement of financial position is determined as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Present value of defined benefit obligation	<u>747,201</u>	<u>719,542</u>

An independent actuarial exercise has been conducted as at December 31, 2018 and December 31, 2019 to ensure the adequacy of provision for employees' end of service benefits in accordance with the rules stated under the Labour Laws of respective jurisdictions by using the Projected Unit Credit Method as required under International Accounting Standards 19: Employee Benefits.

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22. EMPLOYEE BENEFITS (continued)

Movement in net defined benefit liability

Net defined benefit liability comprises only of defined benefit plans. The movement in the defined benefit obligation during the year is as follows:

	<u>2019</u>	<u>2018</u>
Balance at beginning of year	719,542	663,732
Acquisition through Business acquisition	--	41,031
<i>Included in profit or loss</i>		
Current service cost	91,063	78,589
Interest cost	34,334	30,096
	125,397	108,685
<i>Included in other comprehensive income</i>		
<i>Re-measurement (gain) / loss:</i>		
Actuarial (gain) / loss	(16,448)	14,143
Effect of movement in exchange rates	(4,458)	(31,992)
Benefits paid	(76,832)	(76,185)
Adjustment related to transferred employees	--	128
Balance at end of year	747,201	719,542
Actuarial assumptions		

The following were the principal actuarial assumptions at the reporting date:

	December 31, <u>2019</u>	December 31, <u>2018</u>
Discount rate	3% - 19.4%	4% - 21%
Future salary growth / Expected rate of salary increase	3% - 21%	3% - 23%
Mortality rate	0.1% - 0.2%	0.1% - 0.32%
Employee turnover / withdrawal rates	3% - 10.28%	3% - 19.35%
Retirement age	60 years	60 years

The weighted average duration of the defined benefit obligation ranges between 5 to 11.78 years.

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22. EMPLOYEE BENEFITS (continued)

Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	December 31, 2019		December 31, 2018	
	<u>Increase</u>	<u>Decrease</u>	<u>Increase</u>	<u>Decrease</u>
Discount rate (1% movement)	(47,446)	54,943	(48,764)	46,555
Future salary growth (1% movement)	56,872	(50,069)	48,678	(51,365)
Withdrawal rates (10% movement)	(8,331)	8,783	(9,190)	8,679
Future mortality (1 year movement)	675	(660)	281	(283)

The analysis does not take account of the full distribution of cash flows expected under the plan, and only provides an approximation of the sensitivity of the assumptions considered.

23. DEFERRED TAX

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Property, plant and equipment	--	--	(85,562)	(70,840)	(85,562)	(70,840)
Provisions	4,360	4,091	(15,450)	(13,186)	(11,090)	(9,095)
Other items	4,142	6,887	(13,733)	(7,169)	(9,591)	(282)
Tax losses carry-forward	3,978	6,815	--	--	3,978	6,815
Net tax asset / (liabilities)	<u>12,480</u>	<u>17,793</u>	<u>(114,745)</u>	<u>(91,195)</u>	<u>(102,265)</u>	<u>(73,402)</u>

The movement in deferred tax liability-net, recognised in profit and loss and Other Comprehensive Income – Foreign Currency Translation differences (“OCI – CTR”), is as follows:

	<u>January 1, 2019</u>	<u>Recognised in profit of loss</u>	<u>Recognised in OCI – CTR</u>	<u>December 31, 2019</u>
Property, plant and equipment	(70,840)	(6,111)	(8,611)	(85,562)
Provisions	(9,095)	(1,481)	(514)	(11,090)
Other items	(282)	(10,326)	1,017	(9,591)
Tax carry-forwards	6,815	(2,884)	47	3,978
	<u>(73,402)</u>	<u>(20,802)</u>	<u>(8,061)</u>	<u>(102,265)</u>
	<u>January 1, 2018</u>	<u>Recognised in profit or loss</u>	<u>Recognised in OCI – CTR</u>	<u>December 31, 2018</u>
Property, plant and equipment	(58,749)	(12,326)	235	(70,840)
Provisions	851	(9,221)	(725)	(9,095)
Other items	(786)	573	(69)	(282)
Tax carry-forwards	20,412	(13,568)	(29)	6,815
	<u>(38,272)</u>	<u>(34,542)</u>	<u>(588)</u>	<u>(73,402)</u>

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24. TRADE PAYABLE

	<u>Note</u>	December 31, 2019	December 31, 2018
Third parties		2,113,044	2,221,758
Related parties	29	191,828	169,270
		2,304,872	2,391,028

25. ACCRUED AND OTHER LIABILITIES

	<u>Note</u>	December 31, 2019	December 31, 2018
Accrued expenses		450,985	500,391
Employee related accrual		290,187	236,675
Accrued zakat and tax	26	284,046	228,691
Marketing related accruals		159,659	137,301
Accrued utilities		135,606	146,667
Accrued financial charges		101,740	81,453
Provision against financial guarantee	27.1	100,735	100,735
Payable to contractors		94,674	122,097
Accrued rent	25.1	67,338	146,272
Negative fair value of derivatives	14	66,733	79,644
Payable to government authorities	25.2	65,483	111,451
Unclaimed dividend	25.3	59,538	60,016
Due to related parties	29	59,452	41,157
Advances from customers		39,284	23,552
Payable to Margarine Manufacturing Company	25.4	25,314	21,962
Change in fair value of hedged item (firm commitments)		15,724	15,145
Insurance related liabilities		11,089	15,110
Dividend payable to non-controlling interest		3,631	2,988
Other liabilities		211,735	210,734
		2,242,953	2,282,041

25.1 This includes additional accrued rent resulting from the lease cancellation of retail outlets.

25.2 Payable to government authorities represents estimated payments to be made to government authorities related to custom duties, value added tax, subsidies and price adjustments on edible oil purchases.

25.3 Unclaimed dividends represent dividend 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. In the opinion of management, the unclaimed dividend represents the amount which can be claimed during the next year. However, the amount which have not been claimed for over three years are unlikely to be paid during the next year and accordingly, classified under long term payables.

25.4 Payable to Margarine Manufacturing Company represents payable in connection with the price differences on subsidized crude oil consumed by Behshahr Industrial Company for production of free market products.

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26. ZAKAT AND INCOME TAXES

Zakat and taxes included in the consolidated statement of profit or loss comprises of the following:

	December 31, <u>2019</u>	December 31, <u>2018</u>
Current foreign income-tax charge	47,684	49,489
Zakat	35,232	18,043
	82,916	67,532
Deferred foreign income-tax charge (Note 23)	20,802	34,542
	103,718	102,074

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

	December 31, <u>2019</u>	December 31, <u>2018</u>
Balance at beginning of year	228,691	253,265
Charge for the year	82,916	67,532
Currency translation / other adjustments	84,398	(32,484)
Payments during the year	(111,959)	(59,622)
Balance at end of year	284,046	228,691

(a) Zakat status

During the year, the Company has finalised its Zakat status for the years 2005 to 2018. The General Authority for Zakat and Tax (GAZT) conducted a field audit on the Company's accounts for the years 2005 to 2012, and claimed additional Zakat difference of SR 85.8 million. Subsequently, the assessment was agreed with the GAZT Settlement Committee and the Company settled the liability with an amount of SR 10.2 million. Moreover, the years from 2013 to 2018 were also finalized based on amended returns and resulting in assessment of SR 5.4 million. The Company only has open years 1999 and 2000, for which there is an ongoing objection of SR 1.9 million against the assessment issued by GAZT. Certain subsidiaries in the foods processing sector have also received final or provisional zakat certificates until the year 2018. Accordingly, payment plans have been pursued as per the agreement with GAZT and liabilities have been adjusted against the final settlement amounts.

The Group additionally has pending appeals against assessments of certain subsidiaries with total Zakat differences of SR 8.2 million (December 31, 2018: approximately SR 10 million).

(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 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.

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26. ZAKAT AND INCOME TAXES (continued)

(b) Income tax status (continued)

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.

27. CONTINGENCIES AND COMMITMENTS

	December 31, 2019	December 31, 2018
Letters of credits	71	163
Bank guarantees	180	247
Commitments to buy raw sugar	189	350
Commitments to sell refined sugar	333	323
Capital commitments	70	99

	Quantity in Metric tonnes	
Commitments to buy raw sugar	174,752	306,259
Commitments to sell raw sugar	199,744	323,204

27.1 Savola Group Company has issued a corporate guarantee in favour of Saudi Industrial Development Fund ("SIDF") along with certain other entities (together referred to as the "SIDF Guarantors") for the loan facility availed by Eastern Industrial Company ("EICO", "Joussour Holding Company's subsidiary" or Group's affiliate). In 2018, the Company has received a call notice from SIDF to settle its share of the guarantee due to default in repayment by EICO of SIDF loan, triggered from the adverse financial performance.

Accordingly, the Company has recorded a provision amounting to SR 100.7 million. Subsequent to the reporting date, the Group has made a partial payment amounting to SR 26.4 million against the guarantee.

27.2 Also see note 20 with respect to guarantees given for certain loans and note 26 with respect to Zakat contingencies.

27.3 The Group has various operating leases for its offices, warehouses, retail outlets and production facilities. Future rental commitments under these operating leases are as follows:

	December 31, 2019	December 31, 2018
Within one year	46,137	631,942
Between two and five years	--	2,305,617
More than five years	--	3,977,613
Total	46,137	6,915,172

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28. EARNINGS PER SHARE

Basic earnings per share for the year ended December 31, 2019 have been computed by dividing the net profit / (loss) and profit / (loss) from continuing operations attributable to shareholders of the Parent Company for such periods by the weighted average number of shares outstanding 533.981 million (December 31, 2018: 533.981 million) during such periods.

Diluted earnings per share for the year ended December 31, 2019 and December 31, 2018, have been computed by dividing the net profit / (loss) and profit / (loss) from continuing operations 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, in the absence of any convertible liability, the diluted earnings per share does not differ from the basic earnings per share.

29. RELATED PARTIES

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.

Transactions with key management personnel

Key management personnel compensation

Compensation to the Group's key management personnel includes salaries, non-cash benefits, and post-employment benefits, in relation to which, the Group has recognized an expense of SR 32.5 million for the year ended December 31, 2019 (December 31, 2018: SR 30.4 million).

Board of Directors' remuneration for the year ended December 31, 2019 amounting to SR 2.1 million (December 31, 2018: SR 2.2 million) has been calculated in accordance with the Company's By-laws and is charged to the consolidated statement of profit and loss. Attendance allowances and other expenses to the directors and members of various board committees amounting to SR 3.0 million (December 31, 2018: SR 2.7 million) are charged to expenses and included under administrative expenses.

Other related party transactions

A number of companies transacted with the Group during the year. The terms and conditions of these transactions were no more favourable than those available, or which might reasonably be expected to be available, in similar transactions with non-key management personnel related companies on arm's length basis.

All outstanding balances with these related parties are priced on an arm's length basis and are to be settled in cash within agreed credit period from the date of transaction. None of the balances are secured. No expense has been recognized in the current year or prior year for bad or doubtful debts in respect of amounts owed by related parties.

The aggregate value of related party transactions and outstanding balances including those related to key management personnel, and entities over which they have control or significant influence are as follows:

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29. RELATED PARTIES (continued)

<u>Name</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Amount of transactions</u>		<u>Closing balance</u>	
			<u>December 31,</u>	<u>December 31,</u>	<u>December 31,</u>	<u>December 31,</u>
			<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
<u>Due from related parties – Trade receivables</u>						
Certain shareholders of USC	Shareholders of a subsidiary	Trade	131,021	179,542	14,295	22,372
Certain shareholders of AIC	Shareholders of a subsidiary	Trade	70,744	59,937	21,305	15,469
Almarai	Associate	Trade	49,256	61,145	1,495	3,593
Western Bakeries Company Limited	Affiliate	Trade	63,377	29,368	5,449	1,596
Others			475	107	590	2,095
					43,134	45,125
<u>Due from related parties – Prepayments and other receivables</u>						
Khairat AlSharq for General Trade and Manufacturing Foodstuff Company	Affiliate	Non-trade	19,853	1,664	22,322	2,768
Arabian Centers Company	Shareholder of a subsidiary	Non-trade	52,200	43,901	--	7,513
Al Mehbaj Al Shamiyah Trading Company	Affiliate	Non-trade	7,399	--	3,159	--
Intaj	Associate	Non-trade	6,819	5,716	--	--
Waste Collection & Recycling Company	Affiliate	Non-trade	5,945	--	3,060	--
Del Monte Saudi Arabia Limited	Affiliate	Non-trade	3,300	3,150	--	--
Seafood International Holdco.	Joint venture	Non-trade	--	--	6,011	6,011
Kinan (Note 29.1)	Associate	Non-trade	--	--	--	73,015
Zohoor Alreef	Affiliate	Non-trade	482	229	174	144
Knowledge Economic City	Affiliate	Non-trade	468	--	--	--
					34,726	89,451

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29. RELATED PARTIES (continued)

<u>Name</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Amount of transactions</u>		<u>Closing balance</u>	
			<u>December 31, 2019</u>	<u>2018</u>	<u>December 31, 2019</u>	<u>2018</u>
<u>Due from related parties – Long-term receivables</u>						
Kinan (Note 29.1)	Associate	Non-trade	--	--	--	69,075
<u>Due to related parties – Trade payables</u>						
Almarai	Associate	Trade	753,422	742,548	100,516	83,915
Nestle Group	Affiliate	Trade	383,240	368,916	41,152	41,115
Mayar Food Company	Affiliate	Trade	134,736	136,958	38,243	34,124
Del Monte Saudi Arabia Limited	Affiliate	Trade	70,807	85,312	5,943	4,194
Al Mehbaj Al Shamiyah Trading Company	Affiliate	Trade	22,806	8,036	3,676	2,584
Al Manhal Water Factory Company Limited	Affiliate	Trade	5,798	12,886	1,157	1,894
Seafood International One	Associate	Trade	28,465	20,804	--	--
USCE	Associate	Trade	14,167	20,625	--	--
Al Jazirah Dates & Food Factory	Associate	Trade	164	147	29	33
Others			17,379	14,941	1,112	1,411
					191,828	169,270
<u>Due to related parties – accrued and other liabilities</u>						
USCE	Associate	Non-trade	49,061	74,382	52,935	20,372
Kinan	Associate	Non-trade	31,377	32,437	--	10,300
Abdul Kader Al Muhaidib & Sons Co.	Shareholder	Non-trade	6,783	6,783	6,517	3,125
Dur Hospitality Company	Affiliate	Non-trade	10,500	12,167	--	3,333
Seafood International One	Associate	Non-trade	147	18,175	--	4,027
					59,452	41,157

29.1 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. During the year ended December 31, 2017, an agreement was signed between the parties whereby the receivable balance of SR 153.9 million was rescheduled and agreed to be settled in 2 installments amounting to SR 79.7 million and SR 74.3 million on December 1, 2018 and June 30, 2019 respectively. During the period ended September 30, 2019, the outstanding balance was received.

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30. OPERATING SEGMENTS

The Group has five reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Group's Chief Executive Officer (Chief Operating Decision Maker) reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

Food processing - includes manufacturing, sale and distribution of Edible oils, Sugar, Pasta and food products.

Retail - includes hyper markets, super markets and convenience stores operations.

Food services - includes food products and fast food restaurants' chain operated by Herfy.

Frozen Food - includes manufacturing, wholesale and retail distribution of frozen food products operated by Good Food Company.

Investments - includes real estate activities, investments in associates, FVTPL, FVOCI and other investments.

The segments which do not meet any of the quantitative thresholds for determining reportable segments, are classified as "Others / Eliminations", which mainly include the eliminations.

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30. OPERATING SEGMENTS (continued)

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit net of income tax, as included in the internal management reports. Management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

<u>December 31, 2019</u>	Reportable Segments					Others / Eliminations	Total
	Food Processing	Retail	Food services	Frozen Food	Investments		
External revenues	8,904,804	11,492,903	1,259,294	586,362	--	--	22,243,363
Inter segment revenue	304,409	3,802	29,016	33,693	43,599	(414,519)	--
Segment Revenue	9,209,213	11,496,705	1,288,310	620,055	43,599	(414,519)	22,243,363
Cost of revenues	(7,864,325)	(8,952,280)	(895,673)	(397,702)	--	370,921	(17,739,059)
Segment net profit / (loss)	292,380	(342,412)	194,354	62,368	397,779	(128,839)	475,630
Segment assets	6,870,235	7,510,918	2,033,463	910,403	13,648,202	(4,315,510)	26,657,711
Segment liabilities	4,578,329	6,648,725	1,035,109	704,236	5,796,953	(644,711)	18,118,641
 <u>December 31, 2018</u>							
External revenues	9,411,816	11,114,241	1,198,957	89,549	--	--	21,814,563
Inter segment revenue	323,656	3,354	28,313	4,557	47,035	(406,915)	--
Segment Revenue	9,735,472	11,117,595	1,227,270	94,106	47,035	(406,915)	21,814,563
Cost of revenues	(8,514,731)	(8,803,345)	(882,200)	(72,856)	--	356,526	(17,916,606)
Segment net (loss) / profit	(17,272)	(917,429)	204,170	(4,059)	277,590	(63,380)	(520,380)
Segment assets	6,787,542	4,502,327	1,442,400	909,159	12,562,714	(3,951,691)	22,252,451
Segment liabilities	4,569,707	4,109,721	508,627	763,094	4,901,214	(621,853)	14,230,510

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31. REVENUE

The Group generates revenue primarily from the sale of goods. Other sources of revenue include promotion and display income, rental income and commission income.

<u>December 31, 2019</u>	<u>Reportable Segments</u>					<u>Others / Eliminations</u>	<u>Total</u>
	<u>Food Processing</u>	<u>Retail</u>	<u>Food services</u>	<u>Frozen Food</u>	<u>Investments</u>		
Products transferred at a point in time	9,208,738	10,627,439	1,288,310	620,055	--	(370,920)	21,373,622
Products and services transferred over time	475	869,266	--	--	43,599	(43,599)	869,741
Total revenue	<u>9,209,213</u>	<u>11,496,705</u>	<u>1,288,310</u>	<u>620,055</u>	<u>43,599</u>	<u>(414,519)</u>	<u>22,243,363</u>

<u>December 31, 2018</u>	<u>Reportable Segments</u>					<u>Others / Eliminations</u>	<u>Total</u>
	<u>Food Processing</u>	<u>Retail</u>	<u>Food services</u>	<u>Frozen Food</u>	<u>Investments</u>		
Products transferred at a point in time	9,735,472	10,306,388	1,227,270	94,106	--	(359,880)	21,003,356
Products and services transferred over time	--	811,207	--	--	47,035	(47,035)	811,207
Total revenue	<u>9,735,472</u>	<u>11,117,595</u>	<u>1,227,270</u>	<u>94,106</u>	<u>47,035</u>	<u>(406,915)</u>	<u>21,814,563</u>

32. COST OF REVENUES

	<u>2019</u>	<u>2018</u>
Inventories consumed / sold	15,881,794	16,400,186
Salaries and employee related expenses	665,344	593,404
Overheads	549,540	462,290
Depreciation on property, plant and equipment	286,452	278,234
Depreciation on right-of-use assets	119,254	--
Freight & handling	236,675	182,492
	<u>17,739,059</u>	<u>17,916,606</u>

33. SELLING AND DISTRIBUTION EXPENSES

	<u>2019</u>	<u>2018</u>
Salaries and employee related expenses	1,397,496	1,281,060
Depreciation on right-of-use assets	410,226	--
Advertisement	305,769	286,017
Depreciation on property, plant and equipment	291,104	396,139
Utilities	245,867	270,669
Rent	97,223	746,145
Maintenance	65,438	55,777
Commission	40,316	34,102
Insurance	33,977	41,730
Communication	10,130	11,246
Others	44,140	79,304
	<u>2,941,686</u>	<u>3,202,189</u>

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34. ADMINISTRATIVE EXPENSES

	<u>2019</u>	<u>2018</u>
Salaries and employee related expenses	501,949	486,422
Depreciation on property, plant and equipment	86,536	87,765
Professional fees	53,657	46,685
IT related cost	35,790	31,418
Insurance	17,767	19,540
Utilities, telephone and communication cost	16,841	15,174
Traveling	15,987	11,009
Public relations and advertising	9,377	8,338
Repairs and maintenance	8,822	7,330
Depreciation on right-of-use assets	7,636	--
Rent	4,757	8,080
Training	4,646	6,150
Others	56,515	65,729
	820,280	793,640

35. HYPERINFLATIONARY ACCOUNTING

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

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 year ended December 31, 2019 are as follows:

	<u>2019</u>	<u>2018</u>
Revenue decreased by	23,934	59,539
Income from operations decreased by	12,697	18,492
Total non-current assets decreased by	1,443	13,486
Currency translation differences impacted by	8,162	15,138

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:

Conversion factor for the year ended December 31, 2019	1.5908
Conversion factor for the year ended December 31, 2018	1.6553

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36. IMPAIRMENT LOSS

The Group reviews the carrying amounts of its non-financial assets including goodwill to determine whether their carrying values exceed the recoverable amounts. For impairment testing, assets are grouped together into the smallest group of assets that generate 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 established based on the estimated future cash flows based on 5 year management's approved plan, discounted to their present value using the following growth rates, pre-tax discount rates and a terminal value percentages.

a) *Impairment loss on recoverable amount of freehold land parcels:*

The Group recognized an impairment of SR 12.1 million (2018: SR 69.7 million) on freehold land. This represents the write-down of the carrying amount of these lands to their recoverable amounts due to unfavorable changes in economic environment and market dynamics.

The recoverable amount is based on "comparable" method and was determined at the level of individual assets as identified by management. In determining market value, properties with similar characteristics in the same market area that have recently been sold were selected. Once those properties were found, they were compared to the property in question and an adjustment in value was made for comparative deficiencies and advantages.

b) *Impairment loss on recoverable amount of non-current assets excluding freehold land:*

During the year, the Group has recognised a net impairment loss of SR 60.6 million (2018: SR 129.8 million) against items of property, plant and equipment and right-of-use assets, due to changes in economic environment affecting footfall and basket size (Note 6 and Note 7).

Cash flow projections were prepared using budgeted earnings before interest, zakat, depreciation and amortization (EBITDA) taking into account past experience, and following factors:

(i) Estimated revenue and EBITDA Growth for future five years based on expected sales volume and price growth for these years.

(ii) Estimated improvement in gross margins and EBITDA as a result of improvement plans currently being carried out by the Group.

These cash flows were discounted using a post-tax discount rate which was estimated using industry average weighted-average cost of capital and cost of debt, with a target debt to equity ratio of 53.8% at a post Zakat cost of debt of 2.5%.

The key assumptions used for determination of recoverable amounts are as follows:

	<u>2019</u>	<u>2018</u>
Budgeted gross margin	22.5% to 29.7%	25.2% to 27.8%
Weighted average revenue growth rate	-2% to 12%	-2% to 12%
Operating expenses	7.3% to 28.0%	19.4% to 24.4%
Budgeted EBITDA margins	-1.5% to 20.2%	1.3% to 8.5%
Discount rate	10.2%	12%

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

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37. NET FINANCE COST

	<u>2019</u>	<u>2018</u>
Commission income on bank deposits	54,125	70,463
Gain on re-measurement of other commodity futures	39,253	--
Positive fair value of options	9,037	--
Finance income	102,415	70,463
Financial charges on borrowings	429,065	398,840
Interest expense on lease liabilities	261,921	--
Bank commission	54,053	46,619
Foreign exchange loss, net	42,708	99,308
Negative fair value of options	497	44,896
Loss on re-measurement of other commodity futures, net	--	13,922
Unwinding of discount on site restoration	833	2,927
Finance cost	789,077	606,512
Net finance cost recognized in profit or loss	686,662	536,049

38. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value and cash flow interest rate risks and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management framework

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 market risk, credit risk and liquidity risk.

The Board of Directors has overall responsibility for establishment and oversight of the Group's risk management framework. The executive management team is responsible for developing and monitoring the Group's risk management policies. The team regularly meets and any changes and compliance issues are reported to the Board of Directors through the audit committee.

Risk management systems are reviewed regularly by the executive management team to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The audit committee oversees compliance by management with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

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38. FINANCIAL RISK MANAGEMENT (continued)

Risk management framework (continued)

Financial instruments carried on the consolidated statement of financial position include cash and cash equivalents, trade and other receivables, investments, long term receivables, borrowings, derivatives, accounts payable and accrued and other current liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Financial asset and liability is offset and net amounts reported in the financial statements, when the Group has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and liability simultaneously.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk.

Interest rate risk

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 positions and cash flows.

The Group's interest rate risks arise mainly from its borrowings and short-term deposits, which are at floating rate of interest and are subject to re-pricing on a regular basis and for which the management closely monitors the changes in interest rates.

During 2014, the Group entered into Interest Rate Swaps ("IRSs") to partially manage its exposure to interest rate risk on Sukuk issuance value of SR 1.5 billion, up to the extent of SR 750 million. This has been designated as a Cash flow hedge. The IRSs expired on January 22, 2020.

The interest rate profile of the Group's interest-bearing financial instruments as reported to the management of the Group is as follows:

	December 31, <u>2019</u>	December 31, <u>2018</u>
Fixed rate instruments		
Financial assets	<u>413,609</u>	<u>499,546</u>
Financial liabilities	<u>1,236,165</u>	<u>239,341</u>
Variable rate instruments		
Financial assets	<u>34,852</u>	<u>674</u>
Financial liabilities	<u>6,351,181</u>	<u>7,716,570</u>

Sensitivity analysis for fixed rate instruments

Change in 100 basis points in interest rates, with all other variables held constant, would have increased or decreased the equity and profit before zakat and income tax for the year by SR 8 million (December 31, 2018: SR 2.9 million).

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38. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Interest rate risk (continued)

Sensitivity analysis for variable rate instruments

Change in 100 basis points in interest rates, with all other variables held constant, would have increased or decreased the equity and profit before zakat and income tax for the year by SR 66.5 million (December 31, 2018: SR 50.5 million).

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates for its transactions principally in Saudi Riyals, US Dollars, Iranian Riyals, Egyptian Pounds, United Arab Emirates Dirhams, Sudanese Pounds and Turkish Lira. The Group operates internationally and is exposed to foreign exchange risk. The Group's investments in foreign subsidiaries and associates, whose net assets are exposed to currency translation risk. Currently, such exposures are mainly related to exchange rate movements between foreign currencies against Iranian Riyals, Egyptian Pounds, Sudanese Pounds and Turkish Lira. Such fluctuations are recorded as a separate component of equity "Foreign Currency Translation Reserve" in the accompanying consolidated financial statements. The Group's management monitors such fluctuations and manages its effect on the consolidated financial statements accordingly.

Generally, borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Group. In addition, interest on borrowings is denominated in the currency of the borrowings. This provides an economic hedge without derivatives being entered into and therefore hedge accounting is not applied in these circumstances.

Following is the significant gross financial position exposure (in thousands) classified into separate foreign currencies:

	December 31, 2019					
	US Dollars	Iranian Riyals	Egyptian Pounds	Sudanese Pounds	Turkish Lira	United Arab Emirates Dirhams
Trade receivables	22,578	2,008,037,075	368,714	110,367	223,675	34,083
Other receivables	11,838	18,025,389	325,155	135,925	6,120	2,492
Cash and cash equivalents	9,478	3,108,459,981	247,071	532,778	1,053	72
	<u>43,894</u>	<u>5,134,522,445</u>	<u>940,940</u>	<u>779,070</u>	<u>230,848</u>	<u>36,647</u>
Trade payables	(83,538)	(2,381,970,302)	(380,454)	(46,275)	(66,669)	(18,898)
Other payables	(1,586)	(249,617,632)	(656,513)	(251,669)	(5,512)	(5,120)
Loans and borrowings	(13,184)	(2,013,150,154)	(2,062,955)	(675,025)	(281,260)	(41,239)
	<u>(98,308)</u>	<u>(4,644,738,088)</u>	<u>(3,099,922)</u>	<u>(972,969)</u>	<u>(353,441)</u>	<u>(65,257)</u>
Net exposure	<u>(54,414)</u>	<u>489,784,357</u>	<u>(2,158,982)</u>	<u>(193,899)</u>	<u>(122,593)</u>	<u>(28,610)</u>

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38. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Currency risk (continued)

	December 31, 2018					
	US Dollars	Iranian Riyals	Egyptian Pounds	Sudanese Pounds	Turkish Lira	United Arab Emirates Dirhams
Trade receivables	19,188	1,114,905,409	449,847	38,802	163,419	52,804
Other receivables	13,145	1,945,259,196	299,891	41,271	--	2,156
Cash and cash equivalents	27,560	2,656,160,765	247,753	338,058	231	8,910
	59,893	5,716,325,370	997,491	418,131	163,650	63,870
Trade payables	(16,310)	(505,193,866)	(350,792)	(182,551)	(62,934)	(22,651)
Other payables	(423)	(2,440,000,367)	(681,093)	(78,696)	(5,795)	(17,132)
Loans and borrowings	(18,603)	(1,175,592,310)	(2,310,317)	(569,512)	(141,632)	(94,303)
	(35,336)	(4,120,786,543)	(3,342,202)	(830,759)	(210,361)	(134,086)
Net exposure	24,557	1,595,538,827	(2,344,711)	(412,628)	(46,711)	(70,216)

Significant exchange rates applied during the year were as follows:

	Average rate		Spot rate	
	For the year ended		As at December 31,	
	December 31,		December 31,	
	2019	2018	2019	2018
<i>Foreign currency per Saudi Riyal</i>				
US Dollars	0.27	0.27	0.27	0.27
Iranian Riyals	27,145	16,609	30,136	24,155
Egyptian Pounds	4.54	4.76	4.29	4.79
Sudanese Pounds	20.67	14.85	23.73	17.60
Turkish Lira	1.45	1.47	1.51	1.40
United Arab Emirates Dirhams	1.02	1.02	1.02	1.02

The Group's investment in foreign subsidiaries are not hedged.

Sensitivity analysis

Every 1% increase or decrease in exchange rate with all other variables held constant will decrease or increase profit before zakat and income tax for the year by SR 6.5 million (December 31, 2018: SR 3.9 million).

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38. FINANCIAL RISK MANAGEMENT (continued)

Price risk

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 since the Group holds investment in certain listed equities which are classified on the statement of financial position as FVOCI investments. The management of the Group monitors the proportion of equity securities in its investment portfolio based on market indices. Such investments are managed on an individual basis and all buy and sell decisions are approved by the Investment Committee. In addition, United Sugar Company uses derivative financial instruments (Commodity future contracts) to hedge its price risk of raw material in the Sugar business.

Further, as disclosed in Note 14, the put and call option are periodically valued based on Black Scholes' model using certain assumptions including the sugar prices; the fluctuations of which affects the valuations.

Details of the Group's investment portfolio exposed to price risk, at the reporting date are disclosed in note 11 to these consolidated financial statements. As at December 31, 2019, the Company's overall exposure to price risk is limited to the fair value of those positions.

Sensitivity analysis

The net assets of the Group will increase / (decrease) by SR 2.9 million (December 31, 2018: SR 2.6 million) if the prices of quoted equity vary due to increase / decrease in fair values by 1% with all other factors held constant.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group has no significant concentration of credit risk. To reduce exposure to credit risk, the Group has an approval process whereby credit limits are applied to its customers. The management also regularly monitors the credit exposure towards the customers whereby the customers are grouped according to their credit characteristics, payment history, whether they are an individual or a legal entity, whether they are a wholesale/retail or manufacturers, their geographic location, existence of any financial/economic difficulties including the default risk associated with the industry and country in which they operate and accordingly records impairment loss against those balances considered doubtful of recovery. Outstanding customer receivables are regularly monitored. In order to cater the credit risk from debtors, the Group has also entered into insurance arrangements in certain geographies.

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38. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

The Group's maximum exposure to credit risk at the reporting date is as follows:

	December 31, 2019	December 31, 2018
Financial assets		
Long term receivables	7,268	7,443
Trade receivables	1,190,657	1,073,572
Other receivables	326,263	462,007
Derivatives	41,632	103,527
Investment at fair value through profit or loss	26,516	30,888
Bank balances	908,538	866,410
	<u>2,500,874</u>	<u>2,543,847</u>

Trade receivables are carried net of impairment loss.

As at the reporting date, receivable overdue for more than six months amounted to SR 145.6 million (December 31, 2018: SR 81.6 million). The total allowance for Expected Credit Losses ("ECL") at December 31, 2019 amounted to SR 122.5 million (December 31, 2018: SR 104.8 million). There were no past due or impaired receivables from related parties other than SR 3.8 million receivable from an investee company, Jousour Holding Company, as disclosed in Note 29. "Related Parties". Company has recorded full impairment against the said receivable balance.

Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll rates are calculated separately for exposures in different segments based on the following common credit risk characteristics – geographic region, age of customer relationship and type of product purchased.

The following table provides information about the exposure to credit risk for trade and long term receivables as at December 31, 2019:

	Gross carrying amount 2019	2018
Current (not past due)	915,526	817,869
1–30 days past due	146,563	98,013
31–60 days past due	46,899	121,937
61–90 days past due	45,792	29,456
More than 90 days past due	165,649	118,522
Total	<u>1,320,429</u>	<u>1,185,797</u>

Loss rates are based on historical credit loss experience and are adjusted to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

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38. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Other receivables

Impairment on other receivables has been measured on a life time expected loss basis and reflects the short maturities of the exposures having low credit risk.

Cash and cash equivalent

Impairment on cash and cash equivalents has been measured on a life time expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

Concentration Risk

The sector wise analysis of receivables, comprising trade and long term receivables is given below:

	December 31, <u>2019</u>	December 31, <u>2018</u>
Wholesale / Retail	871,568	768,568
Manufacturing	253,767	188,023
Exports	73,622	102,809
Others	121,472	126,397
	1,320,429	1,185,797
Less: Impairment loss	(122,504)	(104,782)
	<u>1,197,925</u>	<u>1,081,015</u>

The maximum exposure to credit risk for trade and long term receivables by geographic region is as follows:

	December 31, <u>2019</u>	December 31, <u>2018</u>
Saudi Arabia	802,999	715,629
Turkey	150,233	135,274
Egypt	129,526	145,053
Iran	78,476	61,274
UAE	34,857	39,419
Other Regions	124,338	89,148
	1,320,429	1,185,797
Less: Impairment loss	(122,504)	(104,782)
	<u>1,197,925</u>	<u>1,081,015</u>

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38. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk

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 an 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 through committed credit facilities to meet any future commitments.

The Group's approach to managing liquidity is to ensure, as far as possible that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. For this purpose, the Group has maintained credit lines with various commercial banks in order to meet its liquidity requirements. As at December 31, 2019, the Group has unused bank financing facilities amounting to SR 5.26 billion (December 31, 2018: SR 4.62 billion) to manage the short term and the long term liquidity requirements.

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include contractual interest payments and exclude the impact of netting agreements.

		Contractual cash flows				
<u>December 31, 2019</u>	<u>Carrying Amount</u>	<u>Less than 6 months</u>	<u>6 months to 1 year</u>	<u>1 year to 3 years</u>	<u>3 years to 5 years</u>	<u>More than 5 years</u>
<u><i>Non-derivative financial liabilities</i></u>						
Loans and borrowings	7,544,495	3,442,283	890,424	1,648,431	780,344	1,931,556
Lease liabilities	4,632,526	321,673	304,398	1,163,518	1,075,268	3,067,968
Trade payables	204,146	204,146	--	--	--	--
Accrued and other liabilities	1,858,329	1,858,329	--	--	--	--
Unclaimed dividends	263,684	263,684	--	--	--	--
	<u>14,503,180</u>	<u>6,090,115</u>	<u>1,194,822</u>	<u>2,811,949</u>	<u>1,855,612</u>	<u>4,999,524</u>
<u><i>Derivative financial liabilities</i></u>						
Interest rate swaps used for hedging	547	547	--	--	--	--
Derivative contracts used for hedging	52,303	49,481	1,235	960	289	--
Put Option	188,094	--	--	--	207,848	--
Other derivative contracts not for hedging	13,883	3,756	3,841	6,287	--	--
	<u>254,827</u>	<u>53,784</u>	<u>5,076</u>	<u>7,247</u>	<u>208,137</u>	<u>--</u>

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amount with the exception of unclaimed dividend. Accordingly, it has been classified as such.

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38. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

		Contractual cash flows				
<u>December 31, 2018</u>	<u>Carrying Amount</u>	<u>Less than 6 months</u>	<u>6 months to 1 year</u>	<u>1 year to 3 years</u>	<u>3 years to 5 years</u>	<u>More than 5 years</u>
<i><u>Non-derivative financial liabilities</u></i>						
Loans and borrowings	7,955,911	2,905,625	972,644	4,184,824	166,929	--
Trade payables	2,391,028	2,391,028	--	--	--	--
Accrued and other liabilities	1,851,603	1,851,603	--	--	--	--
Unclaimed dividends	266,090	266,090	--	--	--	--
	<u>12,464,632</u>	<u>7,414,346</u>	<u>972,644</u>	<u>4,184,824</u>	<u>166,929</u>	<u>--</u>
<i><u>Derivative financial liabilities</u></i>						
Interest rate swaps used for hedging – (asset)	(1,286)	(1,780)	(2,821)	(3,924)	--	--
Derivative contracts used for hedging	29,467	29,376	91	--	--	--
Put Option	197,131	--	--	--	--	228,973
Other derivative contracts not for hedging	50,177	31,554	14,782	3,841	--	--
	<u>275,489</u>	<u>59,150</u>	<u>12,052</u>	<u>(83)</u>	<u>--</u>	<u>228,973</u>

Fair value of assets and liabilities

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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

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38. FINANCIAL RISK MANAGEMENT (continued)

Fair value of assets and liabilities (continued)

When measuring the fair value of an asset or liability, the Group uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or liability falls into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest input level that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

As the Group's financial instruments are compiled under the historical cost convention, except for FVOCI investments, FVTPL investments, inventory and firm commitments under fair value relationships, and derivative financial instruments which are carried at fair values, differences can arise between the book values and 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.

The following table shows the carrying amount and fair values of the financial assets and financial liabilities, including their levels and fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying value is a reasonable approximation of fair value.

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38. FINANCIAL RISK MANAGEMENT (continued)

Fair value of assets and liabilities (continued)

	Carrying amount				Fair Value			
	Mandatorily at FVTPL - others	Designated at fair value	Fair value hedging instruments	FVOCI	Level 1	Level 2	Level 3	Total
December 31, 2019								
<i>Financial assets measured at fair value</i>								
Investment at fair value through profit or loss	26,516	--	--	--	26,516	--	--	26,516
Future exchange contracts used for hedging	--	--	15,606	--	--	15,606	--	15,606
Other future exchange contracts	--	24,364	--	--	--	24,364	--	24,364
Call option	--	1,999	--	--	--	--	1,999	1,999
Equity securities (Note 11)	--	--	--	347,590	286,982	--	60,608	347,590
	<u>26,516</u>	<u>26,363</u>	<u>15,606</u>	<u>347,590</u>	<u>313,498</u>	<u>39,970</u>	<u>62,607</u>	<u>416,075</u>
<i>Financial liabilities measured at fair value</i>								
Interest rate swaps used for hedging	--	--	547	--	--	547	--	547
Future exchange contracts used for hedging	--	--	52,303	--	--	52,303	--	52,303
Other future exchange contracts	--	13,883	--	--	--	13,883	--	13,883
Put option	--	188,094	--	--	--	--	188,094	188,094
	<u>--</u>	<u>201,977</u>	<u>52,850</u>	<u>--</u>	<u>--</u>	<u>66,733</u>	<u>188,094</u>	<u>254,827</u>

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38. FINANCIAL RISK MANAGEMENT (continued)

Fair value of assets and liabilities (continued)

	Carrying amount				Fair Value			
	Mandatorily at FVTPL - others	Designated at fair value	Fair value hedging instruments	FVOCI	Level 1	Level 2	Level 3	Total
<u>December 31, 2018</u>								
<i>Financial assets measured at fair value</i>								
Investment at fair value through profit or loss	30,888	--	--	--	30,888	--	--	30,888
Future exchange contracts used for hedging	--	--	18,284	--	--	18,284	--	18,284
Other future exchange contracts	--	82,747	--	--	--	82,747	--	82,747
Call option	--	2,496	--	--	--	--	2,496	2,496
Interest rate swaps used for hedging	--	--	1,286	--	--	1,286	--	1,286
Equity securities (Note 11)	--	--	--	324,204	256,530	--	67,674	324,204
	<u>30,888</u>	<u>85,243</u>	<u>19,570</u>	<u>324,204</u>	<u>287,418</u>	<u>102,317</u>	<u>70,170</u>	<u>459,905</u>
<i>Financial liabilities measured at fair value</i>								
Future exchange contracts used for hedging	--	--	29,467	--	--	29,467	--	29,467
Other future exchange contracts	--	50,177	--	--	--	50,177	--	50,177
Put option	--	197,131	--	--	--	--	197,131	197,131
	<u>--</u>	<u>247,308</u>	<u>29,467</u>	<u>--</u>	<u>--</u>	<u>79,644</u>	<u>197,131</u>	<u>276,775</u>

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38. FINANCIAL RISK MANAGEMENT (continued)

Valuation technique and significant unobservable inputs

The following table shows the valuation techniques used in measuring Level 2 and Level 3 fair value, as well as significant unobservable input used.

Financial instruments measured at fair value

<u>Type</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Inter-relationship between significant unobservable inputs and fair value measurements</u>
Equity securities	Market comparison technique. PE multiple, Price to Book value.	Price Earnings Multiples, Price to Book value and Price to Tangible Book Value.	Not applicable
Future contracts	Broker quotes	Not applicable	Not applicable
Call and Put Option	Black Scholes Model	Strike price Volatility of Sugar index Spot price (fair value)	Increase in fair value will decrease the Put Option and increase the Call option values. Increase in volatility index will increase the value of Put and Call options.
Interest rate swaps	DCF	Not applicable	Not applicable

39. CAPITAL MANAGEMENT

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and to maintain a strong capital base to support the sustained development of its businesses.

The Group manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders or issue new shares. The Group also monitors capital using a gearing ratio, which is calculated as total liabilities (as shown in the statement of financial position) less cash and cash equivalent. Adjusted equity comprises all components of equity other than amounts accumulated in the hedging reserves. The gearing ratio as at December 31, 2019 and December 31, 2018 is as follows:

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39. CAPITAL MANAGEMENT (continued)

	December 31, 2019	December 31, 2018
Total liabilities	18,118,641	14,230,510
Less: Cash and cash equivalents	(940,536)	(901,573)
Adjusted net debt	17,178,105	13,328,937
Total equity	8,539,070	8,021,941
Less: Hedging reserve	547	(1,286)
Adjusted equity	8,539,617	8,020,655
Adjusted net debt to adjusted equity ratio	2.01	1.66

40. NEW STANDARDS OR AMENDMENTS FOR 2019 AND FORTHCOMING REQUIREMENTS

The adoption of the following amendments to the existing standards had no significant financial impact on the consolidated financial statements of the Group on the current year or prior years and is expected to have no significant effect in future periods:

a) Annual Improvements to IFRSs 2015–2017 Cycle

- IFRS 3 Business Combinations – A company remeasures its previously held interest in a joint operation when it obtains control of the business.
- IFRS 11 Joint Arrangements – A company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
- IAS 12 Income Taxes – A company accounts for all income tax consequences of dividend payments in the same way.
- IAS 23 Borrowing Costs – A company treats as part of general borrowings, any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

b) Other Amendments

The following amended standards and interpretations do not have a significant impact on the Group's consolidated financial statements:

- IFRIC 23 Uncertainty over Tax Treatments.
- Prepayment Features with Negative Compensation (Amendments to IFRS 9).
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28).
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19).

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40. NEW STANDARDS OR AMENDMENTS FOR 2019 AND FORTHCOMING REQUIREMENTS (continued)

PRONOUNCEMENTS ISSUED AND NOT YET EFFECTIVE

A number of new pronouncements are effective for annual periods beginning on or after January 1, 2020 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

- Amendments to References to Conceptual Framework in IFRS Standards.
- Definition of a Business (Amendment to IFRS 3)
- Definition of Material (Amendment to IAS 1 and IAS 8)
- Insurance Contracts (IFRS 17)
- Sale or Contribution of Assets between an Investor and its Associates or Joint Venture (Amendments to IFRS 10 and IAS 28)

41. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorized for issue by the Company's Board of Directors on Rajab 22, 1441H, corresponding to March 17, 2020.