SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three-month period and year ended December 31, 2016
with
INDEPENDENT AUDITORS' REVIEW REPORT

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three-month period and year ended December 31, 2016

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REVIEW REPORT
ON INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

Scope of review

We have reviewed the accompanying interim consolidated balance sheet of Savola Group Company (the "Company") and its subsidiaries (collectively referred as the "Group") as at December 31, 2016, the related interim consolidated statement of income for the three-month period and year then ended, interim consolidated statements of cash flows and changes in equity for the year then ended and the accompanying notes 1 through 15 which form an integral part of these interim consolidated financial statements. These interim consolidated financial statements are the responsibility of the Group's management and have been prepared by them and submitted to us together with all the information and explanations which we required. Our responsibility is to provide a conclusion on the review of these interim consolidated financial statements based on our review.

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

Review conclusion

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

For KPMG Al Fozan & Partners
Certified Public Accountants

Ebrahim Oboud Baeshen
License No. 382

Jeddah, Rabi Al Thani 21, 1438H
Corresponding to January 19, 2017

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

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

	Note	**December 31, 2016 (Unaudited)**	December 31, 2015 (Audited)
ASSETS			
Current assets:			
Cash and cash equivalents		**1,319,504**	2,067,074
Accounts receivable		**860,595**	920,620
Inventories		**3,251,076**	4,853,454
Prepayments and other current assets		**1,298,645**	1,490,571
Assets classified as held for sale	1 & 4	**1,036,001**	--
Total current assets		**7,765,821**	9,331,719
Non-current assets:			
Long-term receivables		**13,405**	177,207
Investments	5	**8,527,437**	8,430,233
Property, plant and equipment		**6,821,587**	7,911,467
Deferred tax asset		**35,782**	69,763
Intangible assets		**662,019**	1,113,720
Total non-current assets		**16,060,230**	17,702,390
Total assets		**23,826,051**	27,034,109
LIABILITIES AND EQUITY			
LIABILITIES			
Current liabilities:			
Short-term borrowings	6	**3,667,437**	4,481,757
Current maturity of long-term borrowings	7	**939,743**	528,785
Accounts payable		**2,020,681**	3,133,544
Accrued and other current liabilities		**2,531,587**	1,881,898
Liabilities classified as held for sale	1 & 4	**543,141**	--
Total current liabilities		**9,702,589**	10,025,984
Non-current liabilities:			
Long-term borrowings	7	**4,098,062**	4,579,096
Deferred tax liability		**59,840**	102,932
Deferred gain		**158,217**	175,314
Long-term payables		**216,103**	232,497
Employees’ end of service benefits		**439,380**	412,220
Total non-current liabilities		**4,971,602**	5,502,059
Total liabilities		**14,674,191**	15,528,043
EQUITY			
Share capital	8	**5,339,807**	5,339,807
Share premium reserve		**342,974**	342,974
Statutory reserve		**1,774,085**	1,774,085
General reserve		**4,000**	4,000
Fair value reserve		**(22,093)**	3,784
Effect of acquisition transactions with non-controlling interest without change in control		**(171,375)**	(171,375)
Currency translation differences		**(1,931,004)**	(1,019,087)
Retained earnings		**3,154,857**	4,275,841
Equity attributable to shareholders’ of the Parent Company		**8,491,251**	10,550,029
Non-controlling interest		**660,609**	956,037
Total equity		**9,151,860**	11,506,066
Total liabilities and equity		**23,826,051**	27,034,109
Contingencies and commitments	13		

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

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF INCOME
For the three-month period and year ended December 31, 2016
(Expressed in Thousands of Saudi Riyals, unless otherwise stated)

	Note	Three-month period ended December 31, **2016 (Unaudited)**	2015 (Unaudited)	Year ended December 31, **2016 (Unaudited)**	2015 (Audited)
Continuing operations:					
Revenue		**6,248,444**	6,261,830	**25,008,253**	25,125,596
Cost of revenue		**(5,493,376)**	(4,987,705)	**(20,583,118)**	(20,100,206)
Gross profit		**755,068**	1,274,125	**4,425,135**	5,025,390
Share in net results of associates and dividend income of available-for-sale investments – net		**133,395**	188,446	**782,576**	796,114
		888,463	1,462,571	**5,207,711**	5,821,504
Expenses					
Selling and marketing		**(877,819)**	(927,895)	**(3,636,691)**	(3,454,515)
General and administrative		**(186,749)**	(156,552)	**(736,151)**	(581,619)
		(1,064,568)	(1,084,447)	**(4,372,842)**	(4,036,134)
(Loss) / income from operations		**(176,105)**	378,124	**834,869**	1,785,370
Other income / (expenses)					
Insurance claim reimbursement		**--**	126,500	**--**	126,500
Gain on disposal of investments	1	**--**	--	**--**	265,152
Gain on disposal of land		**--**	38,820	**--**	38,820
Financial (charges) / income - net		**(290,691)**	43,515	**(566,855)**	(167,394)
Impairment losses	9	**(573,892)**	--	**(573,892)**	--
(Loss) / income before Zakat, tax and non-controlling interest from continued operations		**(1,040,688)**	586,959	**(305,878)**	2,048,448
Discontinued operations:					
(Loss) / income from discontinued operations	4.2	**(23,569)**	33,865	**(176,260)**	1,161
(Loss) / income before Zakat, tax and non-controlling interest		**(1,064,257)**	620,824	**(482,138)**	2,049,609
Zakat and foreign income taxes		**(24,679)**	(26,607)	**(139,401)**	(138,505)
Net (loss) / income for the period / year		**(1,088,936)**	594,217	**(621,539)**	1,911,104
Net (loss) / income for the period / year attributable to:					
- Shareholders' of the Parent company		**(964,330)**	515,315	**(451,308)**	1,791,747
- Non-controlling interest		**(124,606)**	78,902	**(170,231)**	119,357
Net (loss) / income for the period / year		**(1,088,936)**	594,217	**(621,539)**	1,911,104
(Loss) / Earnings per share:	12				
(Loss) / income from operations		**(0.33)**	0.71	**1.56**	3.34
Net (loss) / income for the period / year attributable to the shareholders of Parent Company		**(1.81)**	0.97	**(0.85)**	3.36
Weighted average number of shares outstanding (in thousands)	8	533,981	533,981	533,981	533,981

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

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

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

	Note	2016 (Unaudited)	2015 (Audited)
Cash flow from operating activities			
Net (loss) / income for the year		**(621,539)**	1,911,104
Adjustments for non-cash items			
Depreciation, amortization		**742,573**	623,775
Impairment losses	9	**573,892**	--
Share in net results of associates		**(782,576)**	(796,114)
Insurance claim reimbursement - net		--	(126,500)
Financial charges - net		**566,855**	207,289
Gain on disposal of investments		--	(265,152)
Deferred gain amortization		**(17,097)**	(17,097)
Gain on disposal of property, plant and equipment		--	(38,820)
		462,108	1,498,485
Changes in working capital			
Accounts receivable		**(32,478)**	63,280
Inventories		**1,011,913**	(610,429)
Prepayments and other current assets		**20,312**	595,038
Accounts payable		**(664,063)**	384,369
Accrued and other current liabilities		**869,364**	86,616
		1,667,156	2,017,359
Employees' end of service benefits, net		**39,887**	44,634
Net cash generated from operating activities		**1,707,043**	2,061,993
Cash flow from investing activities			
Purchase of property, plant and equipment		**(1,481,683)**	(2,076,605)
Dividends received	5	**321,082**	290,476
Contribution to settle an associate's liabilities		**(41)**	--
Addition to investment in associates		**(20,403)**	--
Proceeds from sale of investment		--	984,911
Net change in long-term receivables		**163,651**	144,889
Proceeds from disposal of property, plant and equipment		--	134,756
Change in intangible assets		**276,541**	(5,162)
Net cash utilized in investing activities		**(740,853)**	(526,735)
Cash flow from financing activities			
Net change in short-term borrowings		**(232,423)**	585,987
Net change in long-term borrowings		**347,885**	(89,799)
Net change in long-term payables		**(1,957)**	1,897
Net change in deferred tax liability		**25,898**	26,771
Change in non-controlling interest		**(113,696)**	(209,747)
Financial charges paid		**(566,855)**	(207,289)
Dividends paid		**(655,028)**	(1,051,109)
Net cash utilized in from financing activities		**(1,196,176)**	(943,289)
Net change in cash and cash equivalents		**(229,986)**	591,969
Effect of currency exchange rates on cash and cash equivalents		**(196,365)**	(159,413)
Less: Cash and cash equivalents classified as held for sale	4	**(321,219)**	--
Cash and cash equivalents at beginning of the year		**2,067,074**	1,634,518
Cash and cash equivalents at end of the year		**1,319,504**	2,067,074
Supplemental schedule of non-cash financial information			
Fair value reserve		(25,877)	21,249
Currency translation differences		911,917	217,559
Effect of acquisition transaction with non-controlling interest without change in control		--	58,587

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

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

	Equity attributable to the Shareholders of the Parent Company										
	Share capital	Share premium reserve	Statutory reserve	General reserve	Fair value reserve	Effect of transactions with non-controlling interest without change in control	Currency translation differences	Retained earnings	Total	Non-controlling interest	Total equity
January 1, 2016 (Audited)	5,339,807	342,974	1,774,085	4,000	3,784	(171,375)	(1,019,087)	4,275,841	10,550,029	956,037	11,506,066
Net loss for the year	--	--	--	--	--	--	--	(451,308)	(451,308)	(170,231)	(621,539)
Dividends (Note 8)	--	--	--	--	--	--	--	(667,476)	(667,476)	--	(667,476)
Fair value reserve adjustment	--	--	--	--	(25,877)	--	--	--	(25,877)	--	(25,877)
Currency translation differences	--	--	--	--	--	--	(911,917)	--	(911,917)	--	(911,917)
Directors remuneration	--	--	--	--	--	--	--	(2,200)	(2,200)	--	(2,200)
Other changes in non-controlling interests	--	--	--	--	--	--	--	--	--	(125,197)	(125,197)
December 31, 2016 (Unaudited)	**5,339,807**	**342,974**	**1,774,085**	**4,000**	**(22,093)**	**(171,375)**	**(1,931,004)**	**3,154,857**	**8,491,251**	**660,609**	**9,151,860**

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

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

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

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

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

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

1. GENERAL INFORMATION

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

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

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

These accompanying interim 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"), collectively involved in the manufacturing and sale of vegetable oils and to set up related industries, retail outlets, dairy products, fast foods, exports and imports, commercial contracting, trade agencies, development of agricultural products and real estate related investment activities.

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

(a) Direct subsidiaries of the Company

i) Operating subsidiaries

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

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

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

1. GENERAL INFORMATION (continued)

ii) Dormant and Holding subsidiaries

Subsidiary name	Country of incorporation	Principal business activity	Direct ownership interest (%) at December 31, 2016	2015
Adeem Arabia Company Limited	Saudi Arabia	Holding company	80	80
Arabian Al Utur Holding Company for Commercial Investment	Saudi Arabia	Holding company	**100**	100
Al Mojammat Al Mowahadah Real Estate Company	Saudi Arabia	Holding company	**100**	100
Madarek Investment Company	Jordan	Holding company	**100**	100
United Properties Development Company	Saudi Arabia	Dormant company	**100**	100
Afia Foods Arabia	Saudi Arabia	Dormant company	**100**	100
Al Maoun International Holding Company (transferred to Savola Foods Company)	Saudi Arabia	Dormant company	--	100
Marasina International Real Estate Investment Limited (transferred to Savola Foods Company)	Saudi Arabia	Holding company	--	100

iii) Dormant and Holding subsidiaries (liquidated)

Kafazat Al Kawniah for Real Estate Limited	Saudi Arabia	Holding company	--	100
Alwaqat Al Kawniah Limited	Saudi Arabia	Holding company	--	100
Aalinah Al Kawniah Limited	Saudi Arabia	Holding company	--	100
Abtkar Al Kawniah Limited	Saudi Arabia	Holding company	--	100
Asda'a International Real Estate Investment Limited	Saudi Arabia	Holding company	--	100
Masa'ay International Real Estate Investment Limited	Saudi Arabia	Holding company	--	100
Saraya International Real Estate Investment	Saudi Arabia	Holding company	--	100
Kamin Al Sharq for Industrial Investments	Saudi Arabia	Dormant company	--	100
Arabian Sadouk for Telecommunications Company	Saudi Arabia	Dormant company	--	100
Savola Trading International Limited	British Virgin Island ("BVI")	Dormant company	--	100
Al Mustabshiroun International for Real Estate Investment Company	Saudi Arabia	Dormant company	--	100

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

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

1. GENERAL INFORMATION (continued)

(b) Savola Foods Company

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

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

Subsidiaries controlled through Savola Foods Company:

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

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

1. GENERAL INFORMATION (continued)

Subsidiaries controlled through Afia International Company:

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

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

1. GENERAL INFORMATION (continued)

Subsidiaries controlled through Savola Industrial Investment Company:

Subsidiary name	Country of incorporation	Principal business activity	Direct ownership interest (%) at December 31, 2016	2015
United Sugar Company ("USC")	Saudi Arabia	Production of sugar	**74.48**	74.48
USC				
United Sugar Company, Egypt*	Egypt	Production of sugar	**56.75**	56.75
Alexandria Sugar Company, Egypt ("ASCE")	Egypt	Production of sugar	**62.13**	62.13
Beet Sugar Industries	Cayman Islands	Dormant company	**100**	100
USCE				
Alexandria Sugar Company Egypt	Egypt	Production of sugar	**18.87**	18.87
ASCE				
Alexandria United Company for Land Reclamation	Egypt	Agro cultivation	**100**	100

Subsidiaries controlled through Savola Foods Emerging Markets Company Limited:

Savola Morocco Company	Morocco	Production of edible oils	**100**	100
Savola Edible Oils (Sudan) Ltd.	Sudan	Production of edible oils	**100**	100
Afia International Company – Algeria	Algeria	Production of edible oils	**100**	100

Subsidiaries controlled through Savola Foods Company International Limited:

Modern Behtaam Royan Kaveh Company	Iran	Food and confectionery	**100**	100

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

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

1. GENERAL INFORMATION (continued)

In view of the above resolution, the assets and liabilities of USCE at December 31, 2016, have been classified as 'held for sale' in the interim consolidated balance sheet and its results of operations for the three-month period and year then ended have been disclosed as 'loss from discontinued operations' in the interim consolidated statement of income (Note 4). The Group has received SR 187.5 million from EBRD on account of issuance of new shares, subject to completion of legal formalities. On January 5, 2017, USCE has received approval from General Authority for Investment and Free Zones for the issuance of shares to EBRD. Upon issuance of shares to EBRD, USCE will be deconsolidated and a gain or loss on the transaction will be recognized.

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

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

(c) Panda Retail Company

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

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

Subsidiaries controlled through Panda

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

1. GENERAL INFORMATION (continued)

(c) Panda Retail Company (continued)

In line with the recent changes in the consumer behaviors; management has carried out a detailed exercise to rationalize the inventory levels with the help of an external consultant. The study has revealed certain Stock Keeping Units (SKUs) that are experiencing declining demands and therefore require changes in disposal strategies. Hence, certain mega promotions have been offered during the last two months. Moreover, a consistent approach has been followed from prior years to identify and recognize Net Realizable Value (NRV) losses for items that are not recoverable at their carrying values.

In this regard, a cumulative amount of SR 224 million (2015: SR 79 million) and SR 256 million (2015: SR 92 million) has been recognized in the cost for revenue for the three months and year ended December 31, 2016.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The accompanying interim consolidated financial statements have been prepared in accordance with Saudi Accounting Standard for interim financial information issued by Saudi Organization for Certified Public Accountants ("SOCPA"). These interim consolidated financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia and should be read in conjunction with the Group's annual audited consolidated financial statements for the year ended December 31, 2016.

Certain comparative figures have been regrouped to conform to the presentation in the current period. These reclassifications are not material in nature (refer Note 4a).

2.2 Basis of measurement

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

2.3 Presentation currency

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

2. BASIS OF PREPARATION (continued)

2.4 Critical accounting estimates and judgments

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

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

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

(a) Impairment of goodwill

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

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

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

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

2. BASIS OF PREPARATION (continued)

2.4 Critical accounting estimates and judgments (continued)

(b) Impairment of available for sale investments

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

(c) Provision for doubtful debts

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

(d) Provision for inventory obsolescence

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

(e) Useful lives of property, plant and equipment

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Business Combination

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

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

(a) Subsidiaries

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Business Combination (continued)

(b) Associates

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

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

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

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

(c) Non-controlling interests

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Business Combination (continued)

(d) Intangible assets

i) Goodwill

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

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

ii) Other intangible assets

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

iii) Deferred charges

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

3.2 Available for sale investments

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Segment reporting

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

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

3.4 Foreign currency translations

(a) Presentation currency

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

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

(b) Transactions and balances

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

(c) Group companies

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Foreign currency translations (continued)

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

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

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

(d) Hyperinflationary economies

When the economy of a country in which the Group operates is deemed hyperinflationary and the functional currency of a Group entity is the local currency of that hyperinflationary economy, the financial statements of such Group entities are adjusted so that they are stated in terms of the measuring unit currency at the end of the reporting period. This involves restatement of income and expenses to reflect changes in the general price index from the start of the reporting period and, restatement of non-monetary items in the interim consolidated balance sheet, such as property, plant and equipment and inventories, to reflect current purchasing power as at the period 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 period. 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 interim consolidated financial statements of the Group. For the purpose of consolidation of foreign components operating in hyperinflation economies; items of balance sheet and income and expenses are translated at the closing rate.

During 2016, as per information provided by IMF combined with other indicators Sudan ceased to be a hyper-inflationary economy as of December 31, 2016. Accordingly, the Group has ceased to apply hyper-inflation accounting for Sudan.

3.5 Cash and cash equivalents

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Accounts receivable

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

3.7 Inventories

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

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

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

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

3.8 Assets and liabilities classified as held for sale

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

Discontinued Operations

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 Property, plant and equipment

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

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

Depreciation is charged to the interim consolidated statement of income on a straight-line basis over the estimated useful lives of individual items of property, plant and equipment. The estimated useful lives of assets is as follow:

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

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

3.10 Impairment

(a) Non-financial assets

Long term non-financial assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is estimated as the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets that suffered impairment, other than intangible assets, are reviewed for possible reversal of impairment at each reporting date. 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.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Impairment (continued)

(b) Financial assets

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

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

3.11 Sukuk

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

3.12 Accounts payable and accruals

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

3.13 Provision

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

3.14 Employees' end of service benefits

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15 Zakat and taxes

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

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

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

Deferred tax is provided for, using the liability method, on all temporary differences between the tax bases of assets and liabilities and their carrying amounts at the reporting date. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on laws that have been enacted in the respective countries at the reporting date. Deferred tax assets are recognised 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 utilised. 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 utilised.

3.16 Revenues

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.16 Revenues (continued)

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

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

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

3.17 Expenses

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

3.18 Dividends

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

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

3.19 Derivative financial instruments

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

The Group designates certain derivatives as either:

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.19 Derivative financial instruments (continued)

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

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

(a) Fair value hedge

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

(b) Cash flow hedge

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

Amounts accumulated in equity are reclassified to gain or loss in the periods when the hedged item affects gain or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of commodity value is recognized in the interim consolidated statement of income within ‘Cost of revenue’. However, when the forecast transaction that is hedged, results in the recognition of a non-financial asset (for example, inventory), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost. The deferred amounts are ultimately recognized in cost of revenue for inventory.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.20 Operating leases

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

3.21 Offsetting

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

4. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

a) Following the decision of the Board of directors of SFC in their meeting dated December 26, 2016, the Group has resolved to cease the disposal plans for edible oil business in Morocco and reinstated the classification of amount in the balance sheet for the current and comparative periods including a favorable adjustment of SR 26.5 million in the carrying value of property, plant and equipment to reflect amendment in the plan.

b) During the last quarter of 2016, the investment in Intaj Capital Limited ("Intaj") has been classified as held for sale pursuant to management's decision to sale off its interest in Intaj within one year. Consequently, this investment has been written down to its fair value at SR 80.8 million from carrying value of SR 169.2 million resulting in the recognition of an impairment loss of SR 88.4 million and reclassified in the balance sheet (Note 9).

c) As disclosed in Note 1, the Group has classified the assets and liabilities of USCE as held-for-sale at December 31, 2016. Further, at January 1, 2016, USCE changed its functional currency, which is deemed to be more appropriately representing the underlying operations of that entity.

	2016
	(Unaudited)
Assets classified as held for sale, relating to:	
- Investment in Intaj Capital Limited	**80,844**
- United Sugar Company, Egypt (Note 4.1)	**955,157**
At December 31	**1,036,001**
Liabilities classified as held for sale, relating to:	
- United Sugar Company, Egypt (Note 4.1)	**543,141**

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

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

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

4.1 Assets and liabilities held for sale

	2016 (Unaudited)
Assets	
Cash and cash equivalents	**321,219**
Accounts receivable and other current assets	**119,018**
Inventories	**237,549**
Property, plant and equipment	**273,514**
Other non-current assets	**3,857**
Disclosed as 'Assets classified as held for sale' in the interim consolidated balance sheet	**955,157**
Liabilities	
Borrowings	**118,070**
Accounts payable and other liabilities	**389,308**
Non-current liabilities	**35,763**
Disclosed as 'Liabilities classified as held for sale' in the interim consolidated balance sheet	**543,141**

4.2 (Loss) / income from discontinued operations

Details of the income from discontinued operations of United Sugar Company, Egypt for the year ended December 31 are as follows:

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

4.3 Cash flows from discontinued operations

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

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

5. INVESTMENTS

	Note	**2016 (Unaudited)**	2015 (Audited)
Investments in associates	5.1	**7,915,016**	7,720,958
Available for sale (AFS) investments	5.2	**612,421**	709,275
		8,527,437	8,430,233

5.1 Investments in associates

	Effective ownership interest %			
	2016	2015	**2016 (Unaudited)**	2015 (Audited)
Almarai Company Limited ("Almarai")	**36.52**	36.52	**6,755,515**	6,362,608
Kinan International for Real Estate Development Company ("Kinan")	**29.9**	29.9	**562,492**	617,143
Herfy Foods Services Company	**49**	49	**428,967**	391,739
Al-Seera City Company for Real Estate Development	**40**	40	**151,607**	151,790
Knowledge Economic City Developers Company	**17**	17	**16,435**	16,435
Intaj Capital Limited ("Intaj") – reclassified as held for sale (note 4 (b))	**49**	49	**--**	179,244
Seafood International One FZCO	**40**	--	**--**	--
Others	**Various**	Various	**--**	1,999
			7,915,016	7,720,958

Movement in the investments in associates is as follows:

	2016 (Unaudited)	2015 (Audited)
At January 1	**7,720,958**	7,188,197
Additions during the year	**20,444**	--
Share in net results for the year	**781,408**	794,948
Share in net reserves for the year	**(118,636)**	27,121
Less: Dividends	**(319,914)**	(289,308)
Less: Investment in Intaj - transferred to held for sale (Note 4)	**(169,244)**	--
At December 31	**7,915,016**	7,720,958

In September 2014, the Company sold its direct and indirect ownership in Diyar Al Mashreq (Masharef Project) to its associate Kinan at a total price of Saudi Riyals 593.6 million. Accordingly, the Group recorded a capital gain on this transaction amounting to Saudi Riyals 187.5 million. As per the terms of the agreement, Kinan will pay the proceeds in four installments. First instalment of Saudi Riyals 112 million was paid upon signing of contract and the second and third installments of Saudi Riyals 167.6 million and Saudi Riyals 150.4 million were paid during 2015 and 2016 respectively. The remaining installment is discounted at its present value at SR 148.9 million and is due in 2017.

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

5. INVESTMENTS (continued)

5.2 Available for Sale (AFS) investments

AFS investments at December 31 principally comprise the following:

	Effective ownership interest %		**2016**	2015
	2016	2015	**(Unaudited)**	(Audited)
Quoted investments				
Knowledge Economic City	**6.4**	6.4	**392,265**	336,660
Emaar the Economic City ("Emaar")	**0.9**	0.9	**127,729**	96,319
Taameer Jordan Holding Company	**5**	5	**--**	--
Unquoted investments				
Joussor Holding Company ("Joussor") (Note 9)	**14.81**	14.81	**--**	135,869
Swicorp, Saudi Arabia (Note 9)	**15**	15	**67,674**	115,674
Dar Al Tamleek	**5**	5	**24,753**	24,753
			612,421	709,275

6. SHORT-TERM BORROWINGS

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

7. LONG-TERM BORROWINGS

	Note	**2016 (Unaudited)**	2015 (Audited)
Commercial banks	(a)	**3,537,805**	3,607,881
Sukuk	(b)	**1,500,000**	1,500,000
Current maturity shown under current liabilities		**(939,743)**	(528,785)
		4,098,062	4,579,096

(a) Borrowings from commercial banks and other financial institutions represent financing for the Parent Company and its consolidated subsidiaries. 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.

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

7. LONG-TERM BORROWINGS (continued)

(b) On January 22, 2013, the Group completed its initial offering under this program by issuing Sukuk with a total value of Saudi Riyals 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%. The covenants require certain financial and other conditions to be complied during the tenure including but not limited to, the Sukuk tranches not exceeding Company's paid-up capital.

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

8. SHARE CAPITAL AND DIVIDENDS DECLARATION

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

The Board of Directors approved interim dividends during the year ended December 31, 2016 as follows:

Date of approval	Interim / Final	Per share value (SR)	Total Amount (SR)
January 20, 2016	Final 2015	0.5	266.99 million
April 19, 2016	Interim 2016	0.25	133.5 million
July 27, 2016	Interim 2016	0.25	133.5 million
October 19, 2016	Interim 2016	0.25	133.5 million

9. IMPAIRMENT LOSSES

As part of Group's assessment exercise of the Fair values of available for sale securities and recoverable amounts of certain assets, including a disposal group and intangibles at the year end; the Group has recognized a cumulative impairment loss of SR 573.89 million during the three months period ended December 31, 2016. The breakup of the amount by class of assets and basis of determination are provided below:

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

a) Impairment loss on Fair Valuation of AFS investments:

The Group holds investment in equity shares of Swicorp, Saudi Arabia and Joussor Holding Company and classify these under Available for Sale investments. The Group has carried out an internal study to estimate the reliable Fair Values of these unquoted investments at December 31, 2016 using multiple valuation techniques. The study captures the deteriorating financial performance of the companies and also refers to the range of acceptable fair valuation techniques such as Price Earnings Multiples, Price to Book value and Price to Tangible Book Value. The decline in the recent fair value has been considered significant and therefore impairment losses amounting to SR 48 million and 136 million has been recognized on Swicorp, Saudi Arabia and Joussor Holding Company, respectively.

9. IMPAIRMENT LOSSES (continued)

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

As fully explained in note 4, the investment in Intaj Capital Limited has been classified as held for sale resulting its measurement at lower of carrying amount or Fair value less cost to sell. The determination of fair value less cost to sell was principally based on bid prices from potential buyers but also supported by detailed internal analysis of underlying investments. The Group considered the latest available NAV report from the Fund Manager, and adjusted the same with the probable exit timing, appropriate EBITDA multiples and current liquidity discount. Consequently, this investment has been written down to its estimated fair value of SR 80.8 million and an impairment loss of SR 88.4 million has been recognized during the three month period ended December 31, 2016.

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

Goodwill is subject to an annual impairment testing. Assets are tested for impairment by comparing the carrying amount of each cash-generating unit (CGU) to the recoverable amounts, which has been determined based on a value in use calculation using cash flow projections based on financial forecasts approved by senior management covering a five year period. The discount rate applied to the cash flow projections varies between 12.8% and 25.6% as applicable to each CGU. The terminal growth rate was determined based on management's estimate of the long-term compound annual EBITDA growth rate, consistent with the assumptions that a market participant would make.

At December 31, 2016, the Group has reviewed the carrying amounts of its non-financial assets including goodwill to determine whether the carrying values exceed the recoverable amounts. The Group re-assessed the business plans and operational conditions of the CGUs Pasta segment (El Maleka and El Farasha), Savola Industrial Investment Company (relating to USCE), Alexandria Sugar Company and the related impact on the goodwill thereof. The study applied value in use approach and established that full amount of goodwill of SR 45 million, SR 39 million and SR 18 million, respectively has been impaired. In case of Alexandria Sugar Company, the residual impairment of SR 160 has been allocated to other assets of the on the prorate basis.

The cash flow projections included specific estimates for five years and a terminal growth rate thereafter.

Key assumptions used in value in use calculation:

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

9. IMPAIRMENT LOSSES (continued)

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

Property, plant and equipment:

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

Due to the above mentioned factors, the carrying value of property, plant and equipment of ASC and AUCR have been written-down by SR 160 million and SR 39 million respectively, to their recoverable amounts.

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

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

10. SEASONALITY IN OPERATIONAL RESULTS

The Group's activities are duly affected by seasonal movements related to the holy months of Ramadan, Shawwal and Hajj, which causes revenue to increase significantly during those periods. The effect of such period for 2016 and 2015 principally fall in second and third quarters of the financial year.

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

11. SEGMENT INFORMATION

An operating segment is a component of an entity:

(a) that engages in business activities from which it may earn revenue and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),
(b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
(c) for which discrete financial information is available.

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

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

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

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

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

2016 (Unaudited)	**Retail**	**Foods**	**USCE (discontinued operations)**	**Investments and other activities**	**Eliminations**	**Total**
Revenues - net	**13,474,674**	**11,781,614**	**--**	**137,610**	**(385,645)**	**25,008,253**
Cost of revenue	**(10,830,267)**	**(10,000,886)**	**--**	**--**	**248,035**	**(20,583,118)**
Net (loss) / income	**(772,509)**	**190,741**	**(176,260)**	**299,972**	**6,748**	**(451,308)**
Property, plant and equipment - net	**3,973,000**	**2,302,321**	**--**	**546,266**	**--**	**6,821,587**
Other non-current Assets	**297,776**	**413,431**	**--**	**8,527,436**	**--**	**9,238,643**

2015 (Audited)	Retail	Foods	USCE (discontinued operations)	Investments and other activities	Eliminations	Total
Revenues - net	13,532,732	11,812,204	--	144,856	(364,196)	25,125,596
Cost of revenue	(10,303,388)	(10,031,350)		-	234,532	(20,100,206)
Net income / (loss)	146,359	686,398	1,161	972,386	(14,557)	1,791,747
Property, plant and equipment - net	3,885,458	3,120,580	295,215	610,214	--	7,911,467
Other non-current assets	338,738	918,243	3,700	8,530,242	--	9,790,923

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

11. SEGMENT INFORMATION (continued)

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

2016 (Unaudited)	**Saudi Arabia**	**Egypt**	**Iran**	**Other countries**	**Total**
Revenues – net	17,956,301	2,017,558	2,755,529	2,278,865	**25,008,253**
Cost of revenue	(14,589,030)	(1,604,947)	(2,371,600)	(2,017,541)	**(20,583,118)**
Net (loss) / income	(224,948)	(486,745)	135,972	124,413	**(451,308)**
Property, plant and equipment – net	5,488,319	424,965	723,572	184,731	**6,821,587**
Other non-current assets	9,036,489	112,495	40,699	48,960	**9,238,643**
2015 (Audited)					
Revenues - net	17,557,819	2,164,537	2,701,598	2,701,642	25,125,596
Cost of revenue	(13,562,273)	(1,854,430)	(2,308,818)	(2,374,685)	(20,100,206)
Net income / (loss)	1,483,058	(28,760)	232,106	105,343	1,791,747
Property, plant and equipment – net	5,358,457	1,616,303	730,105	206,602	7,911,467
Other non-current assets	9,304,118	411,435	61,699	13,671	9,790,923

12. EARNINGS PER SHARE

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

13. CONTINGENCIES AND COMMITMENTS

At December 31, 2016, the Group had outstanding commitments of Saudi Riyals 49.6 million (2015: Saudi Riyals 49.6 million) for investments.

14. ZAKAT AND INCOME TAX

i) Zakat status

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

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

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

ii) Income tax status

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

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

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

15. BOARD OF DIRECTORS' APPROVAL

These interim consolidated financial statements were authorized for issue by the Company's Board of Directors on Rabi Al Thani 21, 1438H, corresponding to January 19, 2017.