

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

**CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS - (UNAUDITED)**

For the three-month period and year ended December 31, 2017  
together with the Independent Auditors' Review Report

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

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS - (UNAUDITED)**  
**FOR THE THREE MONTH AND YEAR ENDED DECEMBER 31, 2017**

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## **INDEPENDENT AUDITORS' REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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

### ***Introduction***

We have reviewed the accompanying December 31, 2017 condensed consolidated interim financial statements of Savola Group Company and its subsidiaries (collectively referred to as "the Group") which comprises:

- the condensed consolidated statement of financial position as at December 31, 2017;
- the condensed consolidated statement of profit or loss and other comprehensive income for the three months and year ended December 31, 2017;
- the condensed consolidated statement of changes in equity for the year ended December 31, 2017;
- the condensed consolidated statement of cash flows for the year ended December 31, 2017; and
- the notes to the condensed consolidated interim financial statements.

Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with IAS 34 'Interim Financial Reporting' as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

### ***Scope of review***

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" as endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying December 31, 2017 condensed consolidated interim financial statements of **Savola Group Company and its subsidiaries** are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' as endorsed in the Kingdom of Saudi Arabia.

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

Ebrahim Oboud Baeshen  
License No. 382

Jeddah, Jumada Al-Awal 26, 1439H  
Corresponding to February 12, 2018



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

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)**  
(Expressed in thousands of Saudi Riyal unless otherwise stated)

	Note	December 31, 2017	December 31, 2016	January 1, 2016
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment		7,559,599	7,951,282	8,803,367
Goodwill		450,155	686,998	1,064,738
Investment property		30,613	34,256	30,638
Investment in equity accounted investees	4	7,924,389	7,498,598	7,317,191
Available for sale investments	5	471,507	612,421	709,275
Long term receivables		73,844	10,751	177,207
Derivative	18	10,240	--	--
Deferred tax asset		28,296	28,693	69,763
<b>Total non-current assets</b>		<b>16,548,643</b>	<b>16,822,999</b>	<b>18,172,179</b>
<b>Current assets</b>				
Inventories		3,076,684	3,284,142	5,009,714
Trade receivables		979,084	1,270,621	828,091
Prepayments and other receivables		1,109,768	1,344,113	1,726,152
Cash and cash equivalents		1,344,093	1,404,750	2,089,982
		6,509,629	7,303,626	9,653,939
Assets classified as held for sale	6	39,677	1,132,026	--
<b>Total current assets</b>		<b>6,549,306</b>	<b>8,435,652</b>	<b>9,653,939</b>
<b>TOTAL ASSETS</b>		<b>23,097,949</b>	<b>25,258,651</b>	<b>27,826,118</b>
<b>EQUITY AND LIABILITIES</b>				
<b>EQUITY</b>				
Share capital	7	5,339,807	5,339,807	5,339,807
Share premium		342,974	342,974	342,974
Statutory reserve	8	1,774,085	1,774,085	1,774,085
General reserve		4,000	4,000	4,000
Fair value reserve		(108,649)	(32,023)	(618)
Effect of transactions with non-controlling interests without change in control		(161,598)	(171,375)	(171,375)
Foreign currency translation reserve		(1,260,509)	(926,287)	--
Retained earnings		2,898,756	1,885,843	2,938,282
<b>Equity attributable to equity holders of the Company</b>		<b>8,828,866</b>	<b>8,217,024</b>	<b>10,227,155</b>
Non-controlling interests	9	879,114	1,032,810	1,308,939
<b>TOTAL EQUITY</b>		<b>9,707,980</b>	<b>9,249,834</b>	<b>11,536,094</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Loans and borrowings	10	3,529,816	4,455,956	4,775,040
Employee benefits	11	663,732	609,251	543,115
Deferred tax liability		66,568	55,940	116,449
Long-term payables		210,436	215,581	232,497
Long term lease rentals		258,755	202,248	160,307
Derivative	18	159,979	--	--
Provision against asset restoration	21 (k)	98,078	92,326	97,083
<b>Total non-current liabilities</b>		<b>4,987,364</b>	<b>5,631,302</b>	<b>5,924,491</b>
<b>Current liabilities</b>				
Loans and borrowings	10	3,861,782	4,608,275	5,098,272
Trade payables		2,318,551	2,517,604	3,219,022
Current maturity of lease rentals		11,289	47,730	26,118
Accrued and other liabilities		2,210,983	2,189,741	2,022,121
		8,402,605	9,363,350	10,365,533
Liabilities classified as held for sale	6	--	1,014,165	--
<b>Total current liabilities</b>		<b>8,402,605</b>	<b>10,377,515</b>	<b>10,365,533</b>
<b>TOTAL LIABILITIES</b>		<b>13,389,969</b>	<b>16,008,817</b>	<b>16,290,024</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>23,097,949</b>	<b>25,258,651</b>	<b>27,826,118</b>

The notes on pages from 7 to 75 form an integral part of these condensed consolidated interim financial statements.

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

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED)**

For the three month period and year ended December 31

(Expressed in thousands of Saudi Riyal unless otherwise stated)

	Note	Three-months period ended December 31		Year ended December 31	
		<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
<b>Continuing operations:</b>					
Revenues	16	<b>5,795,792</b>	6,775,110	<b>23,831,736</b>	26,330,802
Cost of revenues	16	<b>(4,643,767)</b>	(5,859,195)	<b>(19,445,751)</b>	(21,626,400)
<b>Gross profit</b>		<b>1,152,025</b>	915,915	<b>4,385,985</b>	4,704,402
Share of profit of investment in equity-accounted investees, net of zakat and tax and dividend income		<b>160,715</b>	123,994	<b>752,382</b>	702,011
Administrative expenses		<b>(167,744)</b>	(178,807)	<b>(762,904)</b>	(760,656)
Selling and distribution expenses		<b>(834,205)</b>	(965,897)	<b>(3,352,948)</b>	(3,599,249)
Impairment losses	17	<b>(222,024)</b>	(573,892)	<b>(222,024)</b>	(573,892)
<b>Results from operating activities</b>		<b>88,767</b>	(678,687)	<b>800,491</b>	472,616
Finance income		<b>29,714</b>	61,314	<b>137,631</b>	196,083
Finance cost		<b>(166,610)</b>	(337,179)	<b>(518,923)</b>	(754,675)
<b>Net finance cost</b>		<b>(136,896)</b>	(275,865)	<b>(381,292)</b>	(558,592)
Gain on disposal of investment	4.1	--	--	<b>693,943</b>	--
Gain on disposal of leasehold rights	1	--	--	<b>68,144</b>	--
<b>Profit before zakat and income tax</b>		<b>(48,129)</b>	(954,552)	<b>1,181,286</b>	(85,976)
Zakat and income tax expense	12	<b>5,942</b>	(31,835)	<b>(76,772)</b>	(153,022)
<b>Profit from continuing operations</b>		<b>(42,187)</b>	(986,387)	<b>1,104,514</b>	(238,998)
<b>Discontinued operation:</b>					
Gain / (loss) from discontinued operation, net of tax	6	--	(23,569)	<b>15,605</b>	(176,260)
<b>Net profit / (loss) for the period / year</b>		<b>(42,187)</b>	(1,009,956)	<b>1,120,119</b>	(415,258)
<b>Other Comprehensive Income</b>					
<i>Items that will not be reclassified to profit or loss</i>					
Re-measurements of the defined benefit liability		<b>(13,746)</b>	(25,060)	<b>(13,746)</b>	(25,060)
<i>Items that are or may be reclassified to profit or loss</i>					
Foreign operations – foreign currency translation differences		<b>(399,045)</b>	(723,662)	<b>(434,385)</b>	(1,001,601)
Investment in equity accounted investees - share of Other Comprehensive Income		<b>6,357</b>	(95,332)	<b>57,018</b>	(122,164)
Cash flow hedges – effective portion of changes in fair value		<b>600</b>	15,210	<b>(7,707)</b>	10,027
Available for sale financial assets - net change in fair value		<b>(42,829)</b>	159,681	<b>(140,913)</b>	87,014
<b>Other comprehensive loss</b>		<b>(448,663)</b>	(669,163)	<b>(539,733)</b>	(1,051,784)
<b>Total comprehensive income for the period / year</b>		<b>(490,850)</b>	(1,679,119)	<b>580,386</b>	(1,467,042)

The notes on pages from 7 to 75 form an integral part of these condensed consolidated interim financial statements.

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

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

For the three month period and year ended December 31

(Expressed in thousands of Saudi Riyal unless otherwise stated)

	<u>Note</u>	<u>Three-months period ended December 31</u>		<u>Year ended December 31</u>	
		<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
<b>Profit for the period / year attributable to:</b>					
Owners of the Company		<b>(37,513)</b>	(915,695)	<b>1,025,618</b>	(363,287)
Non-controlling interests		<b>(4,674)</b>	(94,261)	<b>94,501</b>	(51,971)
<b>(Loss) / profit for the period / year</b>		<b>(42,187)</b>	(1,009,956)	<b>1,120,119</b>	(415,258)
<b>Total comprehensive income for the period/ year attributable to:</b>					
Owners of the Company		<b>(423,565)</b>	(1,537,269)	<b>567,469</b>	(1,342,655)
Non-controlling interests		<b>(67,285)</b>	(141,850)	<b>12,917</b>	(124,387)
<b>Total comprehensive (loss) / income for the period / year</b>		<b>(490,850)</b>	(1,679,119)	<b>580,386</b>	(1,467,042)
<b>Earnings / (loss) per share attributable to the Owners of the Company (in Saudi Riyals):</b>					
Basic and diluted	14	<b>(0.07)</b>	(1.71)	<b>1.92</b>	(0.68)
<b>(Loss) / earnings per share – Continuing operations attributable to the Owners of the Company (in Saudi Riyals):</b>					
Basic and diluted	14	<b>(0.07)</b>	(1.69)	<b>1.88</b>	(0.48)

The notes on pages from 7 to 75 form an integral part of these condensed consolidated interim financial statements.

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

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

	Equity attributable to the Shareholders of the Parent 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 shareholders' equity	Non- controlling interests	Total equity
Balance at January 1, 2017	5,339,807	342,974	1,774,085	4,000	(32,023)	(171,375)	(926,287)	1,885,843	8,217,024	1,032,810	9,249,834
<u>Total comprehensive income</u> <u>for the year</u>											
Net profit for the year	--	--	--	--	--	--	--	1,025,618	1,025,618	94,501	1,120,119
Other comprehensive loss	--	--	--	--	(85,558)	--	(362,086)	(10,505)	(458,149)	(81,584)	(539,733)
	--	--	--	--	(85,558)	--	(362,086)	1,015,113	567,469	12,917	580,386
<u>Transactions with owners of</u> <u>the Company</u>											
Dividends	--	--	--	--	--	--	--	--	--	(112,448)	(112,448)
Transaction with non- controlling interest without change in control	--	--	--	--	--	9,777	--	--	9,777	--	9,777
<u>Other changes / movements</u>											
Deconsolidation of USCE (Note 1 & 6)	--	--	--	--	--	--	27,864	--	27,864	(34,913)	(7,049)
Directors' remuneration	--	--	--	--	--	--	--	(2,200)	(2,200)	--	(2,200)
Other changes in non- controlling interest	--	--	--	--	8,932	--	--	--	8,932	(19,252)	(10,320)
Balance at December 31, 2017	<u>5,339,807</u>	<u>342,974</u>	<u>1,774,085</u>	<u>4,000</u>	<u>(108,649)</u>	<u>(161,598)</u>	<u>(1,260,509)</u>	<u>2,898,756</u>	<u>8,828,866</u>	<u>879,114</u>	<u>9,707,980</u>

The notes on pages from 7 to 75 form an integral part of these condensed consolidated interim financial statements.



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

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED) (CONTINUED)**

For the year ended December 31, 2016

(Expressed in thousands of Saudi Riyal unless otherwise stated)

	Equity attributable to the Shareholders of the Parent 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 shareholders' equity	Non- controlling interests	Total equity
Balance at January 1, 2016	5,339,807	342,974	1,774,085	4,000	(618)	(171,375)	--	2,938,282	10,227,155	1,308,939	11,536,094
<u>Total comprehensive loss</u> <u>for the period</u>											
Net loss for the year	--	--	--	--	--	--	--	(363,287)	(363,287)	(51,971)	(415,258)
Other comprehensive loss	--	--	--	--	(31,405)	--	(926,287)	(21,676)	(979,368)	(72,416)	(1,051,784)
	--	--	--	--	(31,405)	--	(926,287)	(384,963)	(1,342,655)	(124,387)	(1,467,042)
<u>Transactions with owners of</u> <u>the Company</u>											
Dividends	--	--	--	--	--	--	--	(667,476)	(667,476)	(151,742)	(819,218)
Balance at December 31, 2016	<u>5,339,807</u>	<u>342,974</u>	<u>1,774,085</u>	<u>4,000</u>	<u>(32,023)</u>	<u>(171,375)</u>	<u>(926,287)</u>	<u>1,885,843</u>	<u>8,217,024</u>	<u>1,032,810</u>	<u>9,249,834</u>

The notes on pages from 7 to 75 form an integral part of these condensed consolidated interim financial statements.

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

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)**

For the year ended December 31

(Expressed in thousands of Saudi Riyal unless otherwise stated)

	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities</b>		
Net profit / (loss) for the year	1,120,119	(415,258)
Adjustments for:		
Depreciation and amortization	794,127	714,221
Net finance cost	381,292	558,592
Share of profit of investment in equity accounted investees, net of zakat and tax and dividend income	(752,382)	(702,011)
Share of associates' liability	--	20,403
Gain on sale of discontinued operation	(30,482)	--
Gain on disposal of investment	(693,944)	--
Impairment loss	222,024	573,892
Gain on disposal of leasehold Rights	(68,143)	--
Loss on sale of property, plant and equipment	13,656	9,448
Provision for employee benefits	104,656	98,538
Lease rentals charge	20,066	63,553
Zakat and income tax expense	85,279	153,021
	<u>1,196,268</u>	<u>1,074,399</u>
<b>Changes in:</b>		
Inventories	65,580	1,048,029
Trade receivables	235,687	(504,906)
Prepayments and other receivables	157,182	56,749
Trade payables	(152,134)	(261,175)
Accrued and other liabilities	361,435	946,259
<b>Cash generated from operating activities</b>	<u>1,864,018</u>	<u>2,359,355</u>
Finance cost paid	(335,636)	(596,685)
Zakat and income tax paid	(146,790)	(87,247)
Employee benefits paid	(56,386)	(45,668)
<b>Net cash from operating activities</b>	<u>1,325,206</u>	<u>1,629,755</u>
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment	(549,696)	(1,268,161)
Proceeds from sale of property, plant and equipment	85,011	16,837
Acquisition of investments	(70,781)	(41)
Proceeds from sale of investment	1,120,000	--
Proceeds from asset classified as held for sale	16,076	--
Net change in long term receivable	(63,093)	166,456
Net change in deferred tax asset	876	--
Contribution to settle an associate's liability	--	(20,403)
Dividends received	273,499	321,082
<b>Net cash from / (used in) investing activities</b>	<u>811,892</u>	<u>(784,230)</u>
<b>Cash flows from financing activities</b>		
Net change in loans and borrowings – current	(727,933)	(259,031)
Net change in loans and borrowings – non-current	(938,780)	259,502
Change in restricted deposit	--	13,312
Dividends paid	(7,911)	(836,691)
Net change in long-term payables	231	539
Net change in deferred tax liability	8,790	--
Net changes in non-controlling interests	(341,439)	(148,757)
<b>Net cash used in financing activities</b>	<u>(2,007,042)</u>	<u>(971,126)</u>

The notes on pages from 7 to 75 form an integral part of these condensed consolidated interim financial statements.

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

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED) (CONTINUED)**

For the year ended December 31

(Expressed in thousands of Saudi Riyal unless otherwise stated)

	<u>2017</u>	<u>2016</u>
<b>Net change in cash and cash equivalents</b>	<b>130,056</b>	(125,601)
Effect of movement in exchange rates on cash and cash equivalents	(190,713)	(204,361)
Less: Cash and cash equivalents classified as held for sale	--	(154,458)
Cash and cash equivalents at beginning of the period	<b>1,404,750</b>	1,835,952
<b>Cash and cash equivalents at end of the period - for cash flow purposes</b>	<u><b>1,344,093</b></u>	<u>1,351,532</u>
<b>Restricted cash deposit</b>	<u>--</u>	<u>53,218</u>
<b>Cash and cash equivalents</b>	<u><b>1,344,093</b></u>	<u>1,404,750</u>
 <b>Supplemental schedule of non-cash financial information:</b>		
Fair value reserve	(76,626)	(31,405)
Foreign currency translation reserve	(334,222)	(926,287)
Effect of transaction with non-controlling interest without change in control	<b>9,777</b>	--
Directors remuneration	(2,200)	--
Actuarial reserve	(10,505)	(21,676)

The notes on pages from 7 to 75 form an integral part of these condensed consolidated interim financial statements.

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

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the year ended December 31, 2017

(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 condensed consolidated interim 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, 2017, the Company had investments in the following subsidiaries (collectively referred to as the "Group"):

**(I) Direct subsidiaries of the Company**

**i) Operating subsidiaries**

<b><u>Subsidiary name</u></b>	<b><u>Country of incorporation</u></b>	<b><u>Principal business activity</u></b>	<b><u>Direct ownership interest (%)</u></b>	
			<b><u>December 31, 2017</u></b>	<b><u>December 31, 2016</u></b>
Savola Foods Company ("SFC")	Saudi Arabia	Foods	<b>100</b>	100
Panda Retail Company ("Panda")	Saudi Arabia	Retail	<b>91</b>	91
Al Matoun International for Real Estate Investment Holding Company	Saudi Arabia	Real Estate	<b>80</b>	80
Herfy Food Services Company ("Herfy")	Saudi Arabia	Restaurant & manufacturing bakery products	<b>49</b>	49
United Sugar Company, Egypt ("USCE") (refer note 4 & 6)	Arab Republic of Egypt	Manufacturing of Sugar	--	19.32
Giant Stores Trading Company ("Giant")*	Saudi Arabia	Retail	<b>10</b>	10

\* Group holds controlling equity ownership interest in Giant through indirect shareholding of Panda. During December 2017, the Company entered into a Shares Sale/Purchase Agreement with Panda to transfer its 10% ownership interest in Giant at mutually agreed price. As at year end, the legal formalities of the transfer have not been completed.

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

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the year ended December 31, 2017

(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>Direct ownership interest (%)</u>	
			<u>December 31, 2017</u>	<u>December 31, 2016</u>
Adeem Arabia Company Limited (Adeem)*	Saudi Arabia	Holding company	100	80
Al Utur Arabian Company for Commercial Investment (Formerly Al Utur Arabian Holding Company for Commercial Investment)	Saudi Arabia	Holding company	100	100
Al Mojammat Al Mowahadah Real Estate Company (under liquidation)	Saudi Arabia	Holding company	100	100
Madarek Investment Company	Jordan	Holding company	100	100
United Properties Development Company	Saudi Arabia	Dormant company	100	100
Savola Industrial Investment Company ("SIIC") **	Saudi Arabia	Holding company	5	5
Afia Foods Arabia (Transferred to Savola Foods Company)	Saudi Arabia	Dormant company	--	100

\* During December 2017, the Company acquired remaining 20% ownership interest in Adeem for a consideration amounting to SR 52.29 million resulting in the increase in Group's ownership interest to 100%. This has resulted into an acquisition retaining control and the resulting gain amounting to SR 9.77 million has been recorded in equity under "Effect of transactions with non-controlling interest without change in control"

\*\* Group holds controlling equity ownership interest in SIIC through indirect shareholding of SFC. Further, during December 2017, the Company has entered into a Shares Sale/Purchase Agreement with SFC to transfer its 5% ownership in SIIC at a mutually agreed price. As at year end, the legal formalities of the transfer have not been completed.

**(II) Savola Foods Company**

The Parent Company has a 100% (2016: 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.

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**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>Direct ownership interest (%)</u>	
			<u>December 31, 2017</u>	<u>December 31, 2016</u>
Afia International Company ("AIC")	Saudi Arabia	Manufacturing of edible oils	<b>95.19</b>	95.19
Savola Industrial Investment Company ("SIIC")	Saudi Arabia	Holding company	<b>95</b>	95
El Maleka for Food Industries Company	Egypt	Manufacturing of pasta	<b>100</b>	100
El Farasha for Food Industries Company	Egypt	Manufacturing of pasta	<b>100</b>	100
Savola Foods Emerging Markets Company Limited	British Virgin Islands (BVI)	Holding company	<b>95.43</b>	95.43
Afia International Distribution and Marketing Company	Saudi Arabia	Trading and distribution	<b>99</b>	99
Savola Foods for Sugar Company	Cayman Islands	Holding company	<b>95</b>	95
Savola Foods Company International Limited	United Arab Emirates (UAE)	Holding company	<b>100</b>	100
International Foods Industries Company Limited ("IFI")*	Saudi Arabia	Manufacturing of specialty fats	<b>75</b>	75
Seafood International Two FZCO	UAE	Seafood products trading and distribution	<b>60</b>	60
Afia Foods Arabia (Transferred from Savola Group)	Saudi Arabia	Dormant company	<b>100</b>	--
Al Maoun International Holding Company ("Al Maoun")	Saudi Arabia	Holding company	<b>100</b>	100
Marasina International Real Estate Investment Limited ("Marasina")	Saudi Arabia	Holding company	<b>100</b>	100

\* During July 2017, SFC decided to inject additional capital of SR 77 million in its subsidiary, IFI. Consequently, SFC's ownership in IFI would increase from 75% to 93% upon completion of legal formalities.

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**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>Direct ownership interest (%)</u>	
			<u>December 31, 2017</u>	<u>December 31, 2016</u>
Savola Behshahr Company ("SBeC")	Iran	Holding company	<b>90</b>	90
Malintra Holdings	Luxembourg	Dormant company	<b>100</b>	100
Savola Foods Limited ("SFL")	BVI	Holding company	<b>100</b>	100
Afia International Company – Jordan	Jordan	Dormant company	<b>97.4</b>	97.4
Inveskz Inc.	BVI	Dormant company	<b>90</b>	90
Afia Trading International	BVI	Dormant company	<b>100</b>	100
Savola Foods International	BVI	Dormant company	<b>100</b>	100
KUGU Gıda Yatım Ve Ticaret A.Ş. ("KUGU")	Turkey	Holding company	<b>100</b>	100
Aseel Food – Hold Co. (Note 1(f))	Cayman Island	Holding company	<b>100</b>	--

**SBeC**

Behshahr Industrial Company	Iran	Manufacturing of edible oils	<b>79.9</b>	79.9
Tolue Pakshe Aftab Company	Iran	Trading and distribution	<b>100</b>	100
Savola Behshahr Sugar Company	Iran	Trading and distribution	<b>100</b>	100
Notrika Golden Wheat Company	Iran	Manufacturing of Food and confectionery	<b>90</b>	90

**SFL**

Afia International Company, Egypt	Egypt	Manufacturing of edible oils	<b>99.95</b>	99.95
Latimar International Limited	BVI	Dormant company	<b>100</b>	100
Elington International Limited	BVI	Dormant company	<b>100</b>	100

**KUGU**

Savola Gıda Sanayi Ve Ticaret Anonim Şirketi (Formerly Yudum Gıda Sanayi ve Ticaret A.Ş.)	Turkey	Manufacturing of edible oils	<b>100</b>	100
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**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>Direct ownership interest (%)</u>	
			<u>December 31, 2017</u>	<u>December 31, 2016</u>
United Sugar Company ("USC")	Saudi Arabia	Manufacturing of sugar	<b>74.48</b>	74.48
<b><u>USC</u></b>				
Alexandria Sugar Company, Egypt ("ASCE")*	Egypt	Manufacturing of sugar	<b>62.13</b>	62.13
USCE** (see note 4 & 6)	Egypt	Manufacturing of sugar	--	56.75
Beet Sugar Industries	Cayman Islands	Dormant company	<b>100</b>	100
<b><u>ASCE</u></b>				
Alexandria United Company for Land Reclamation	Egypt	Agro cultivation	<b>100</b>	100

c) Subsidiaries controlled through Savola Foods Emerging Markets Company Limited:

Savola Morocco Company	Morocco	Manufacturing of edible oils	<b>100</b>	100
Savola Edible Oils (Sudan) Ltd.	Sudan	Manufacturing of edible oils	<b>100</b>	100
Afia International Company – Algeria	Algeria	Manufacturing of edible oils	<b>100</b>	100

d) Subsidiaries controlled through Savola Foods Company International Limited:

Modern Behtaam Royan Kaveh Company	Iran	Food and confectionery	<b>100</b>	100
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e) Subsidiaries controlled through Al Maoun and Marasina

Alofog Trading DMMC	UAE	Trading and distribution	<b>100</b>	100
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\* The effective ownership interest in ASCE is 68% (December 31, 2016:72.82%)

\*\* During March 2016 as part of the Group's strategic assessment of its core operations; the Group 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"). Accordingly, the assets and liabilities of USCE at December 31, 2016, had been classified as 'held for sale' in the consolidated statement of financial position and its results of operations for the year then ended had been disclosed as 'loss from discontinued operations' in the condensed consolidated statement of profit or loss.



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**1. GENERAL INFORMATION (continued)**

**(II) Savola Foods Company (continued)**

On March 28, 2017, consequent to completion of all legal formalities, 12.77 million shares of USCE have been issued to EBRD. The ownership of the Group in USCE has been diluted after issuance of such shares, resulting in the loss of control over USCE and accordingly, deconsolidated from the books of the Group resulting in the recognition of a net gain amounting to SR 30.48 million in the condensed consolidated interim statement of profit or loss and other comprehensive income. This gain is the net of the put and call options valuing SR 99.73 million, which entitles EBRD to sell USCE shares to the shareholders at the agreed price as per the Put and Call option agreement (“the Agreement”) during the period stipulated in the agreement.

Further, as at year end, the put and call options have been remeasured at fair value using “Black Scholes” model and changes therein have been recognised under finance cost and finance income amounting to SR 60.25 million and SR 10.24 million respectively.

The Group continues to have significant influence over the strategic, operational and financial activities of USCE and the Group’s retained effective ownership interest of 33.82% in USCE is recognized as ‘investment in equity accounted investees’ at fair value as at the date of the transaction.

- f) In accordance with the terms and conditions of the Sale and Purchase Agreement signed on March 23, 2017 between SFC and Aves, SFC has agreed to purchase from AVES İÇ VE DIŞ TICARET A.Ş, (“Aves”) (a company incorporated in Turkey), 51% shares of United Edible Oils (company incorporated in Cayman Islands) in exchange for the consideration of USD 18.87 million (SR 70.78 million). The transaction has been effected through its 100% owned subsidiary, Aseel Food, a company incorporated in the Cayman Islands. All the legal formalities were completed upon payment of consideration on April 10, 2017. United Edible Oils owns 100% of Bonus Food Company LLC, which is incorporated in the Republic of Iraq and is engaged in the business of refining and packaging edible oil and vegetable ghee.

**(III) Panda Retail Company**

The Parent Company has a 91% (2016: 91%) ownership interest in Panda Retail Company (“Panda”), which was incorporated as a closed Saudi joint stock company pursuant to Ministerial Resolution No. 235/G dated Rajab 22, 1431H (July 3, 2010). Prior to its conversion to a closed joint stock company, Panda was operating as a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration number 1010137417 issued in Riyadh on Rabi-ul-Awal 1, 1416H (July 28, 1995).

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

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**1. GENERAL INFORMATION (continued)**

**(III) Panda Retail Company (continued)**

Subsidiaries controlled through Panda:

<u>Subsidiary name</u>	<u>Country of incorporation</u>	<u>Principal business activity</u>	<u>Direct ownership interest (%)</u>	
			<u>December 31, 2017</u>	<u>December 31, 2016</u>
Giant Stores Trading Company	Saudi Arabia	Retail	<b>90</b>	90
Panda for Operations, Maintenance and Contracting Services	Saudi Arabia	Services and maintenance	<b>100</b>	100
Panda International for Retail Trading	Egypt	Retail	<b>100</b>	100
Panda International Retail Trading*	UAE	Retail	<b>100</b>	100
Panda Bakeries Company	Saudi Arabia	Bakery	<b>100</b>	100
<b><u>Giant</u></b>				
Lebanese Sweets and Bakeries	Saudi Arabia	Dormant company	<b>95</b>	95

\*Panda, through its subsidiary, has entered into an agreement with Dubai Festival City Real Estate Development Company LLC to sell all its assets at April 15, 2017 including leasehold rights, inventories and fixed assets of its Hyper Panda store ("Store") in Dubai Festival City Mall, UAE for a total consideration of AED 80 million. The disposal has resulted in a gain of SR 68.1 million during the three months ended June 30, 2017.

During September 2017, the shareholders of Panda resolved in the Extraordinary General Assembly Meeting, the reduction of its accumulated losses amounting to SR 824.79 million as at June 30, 2017 against the reduction in the share capital, share premium and statutory reserve amounting to SR 452.84 million, SR 191.60 million and SR 180.35 million respectively.

**2. BASIS OF PREPARATION**

**a) Statement of compliance**

The accompanying condensed consolidated interim financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards for Interim Financial Reporting ("IAS 34") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Certified Public Accountants (SOCPA).

For all periods up to and including the year ended December 31, 2016, the Group prepared and presented statutory financial statements in accordance with the generally accepted accounting standards in the Kingdom of Saudi Arabia issued by SOCPA (referred to as the "pre-convergence GAAP"), the requirements of the Saudi Arabian Regulations for Companies and the Company's By-laws in so far as they relate to the preparation and presentation of the consolidated financial statements.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the year ended December 31, 2017

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

**a) Statement of compliance (continued)**

For financial periods commencing January 1, 2017, the applicable regulations require the Group to prepare and present financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by SOCPA ("IFRS"). As part of this requirement, the Group has prepared these condensed consolidated interim financial statements. In preparing these financial statements, the Group's opening statement of consolidated financial position was prepared as at January 1, 2016; the Group's date of transition, in accordance with IFRS as endorsed in the Kingdom of Saudi Arabia.

As required by the Capital Market Authority ("CMA") through its circular dated October 16, 2016 the Group needs to apply the cost model to measure the property, plant and equipment, investment property, and intangible assets upon adopting the IFRS for three years period starting from the IFRS adoption date.

As these condensed consolidated interim financial statements prepared in accordance with IAS 34 Interim Financial Reporting are for part of a period covered by its first IFRS financial statements, IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied.

An explanation of how the transition to IFRS has affected the previously reported financial position and equity as at December 31, 2016; and comprehensive income of the Group for the three months and year ended December 31, 2016, including the nature and effect of significant changes in accounting policies from those used in the Group's financial statements for the year ended December 31, 2016 is provided in note 21.

The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements. The condensed consolidated interim financial statements should be read in conjunction with the Group's pre-convergence GAAP annual financial statements for the year ended December 31, 2016, and the Group's interim financial statements for the periods ended March 31, 2017, June 30, 2017 and September 30, 2017 prepared in accordance with IFRS applicable to interim financial statements.

**i) Accounting convention / Basis of Measurement**

These condensed consolidated interim financial statements have been prepared under the historical cost basis, except for available-for-sale investments, firm commitments and inventory under fair value hedging relationship, derivative financial instruments and employee benefits which are stated at fair value; using the accrual basis of accounting and the going concern concept. Certain comparative amounts have been reclassified to conform to the current period's presentation.

**ii) Functional and presentation currency**

These condensed consolidated interim financial statements are presented in Saudi Riyals (SR) which is the Company's functional currency.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the year ended December 31, 2017

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

**b) Critical accounting estimates and judgments**

The preparation of these condensed consolidated interim 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 condensed consolidated interim 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 a joint arrangement
- (iii) Note 3(b)(ii) - application of hedge accounting
- (iv) Note 3(q) - lease classification

***Assumptions and estimation uncertainties***

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

***i) Impairment of available for sale investments***

The Group 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 other than temporary decline in the value of investments. Any significant or prolonged decline in the fair value of equity investment below its cost is considered as objective evidence for the impairment. The determination of what is 'significant' and 'prolonged' requires judgment. The Group considers a decline of 20% to be significant and a period of nine months to be prolonged. The Group also considers impairment 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.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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

**b) Critical accounting estimates and judgments (continued)**

*ii) Provision for doubtful debts*

A provision for impairment of trade receivables 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 receivables. 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 that the trade receivable is impaired. For significant individual amounts, assessment is made at 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 the past recovery rates.

*iii) 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.

*iv) 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.

*v) 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.

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.

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

**b) Critical accounting estimates and judgments (continued)**

*v) Impairment of non-financial assets (continued)*

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

Impairment losses are 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.

*vi) Employee benefits – defined benefit obligation*

Certain actuarial assumptions have been adopted as disclosed in note 11 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.

*vii) 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.

*viii) Other assumptions*

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

- i) Note 3(h) - allowance for inventory losses
- ii) Note 3(b) & 18- measurement of fair values
- iii) Note 3(j) - impairment in financial and non-financial assets
- iv) Note 3(l) - measurement of defined benefit obligations
- v) Note 3(k) - provision against assets restoration

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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**3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements and in preparing the opening IFRS statement of financial position at January 1, 2016 for the purposes of the transition to the IFRSs as explained in note 21, 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. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

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.

As part of its transition to IFRS and in accordance with the exemptions available to a first time adopter of IFRS under IFRS 1, the Group has elected to restate only those business combinations that occurred on or after January 1, 2016.

**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.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**a) Business combinations (continued)**

**(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.

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 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.

As part of its transition to IFRS and in accordance with the exemptions available to a first time adopter of IFRS under IFRS 1, goodwill is measured at deemed cost, which represents the amount recorded under pre-convergence GAAP, adjusted for the subsumption of certain intangibles recognized at the time of corresponding business combination transactions (note 21 (d)).



**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**a) Business combinations (continued)**

**(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, over the financial and operating policies, generally accompanying a shareholding between 20% and 50% of the voting rights. 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.

Investments in associates and joint ventures are accounted for using the equity method (equity accounted investees), 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 profit or loss and its share in post-acquisition movements in reserves is recognized in the Group's Other Comprehensive Income (OCI). 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 disposals / acquisition of non-controlling interests are also recorded in equity.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**b) Financial instruments**

**(i) Non-derivative financial assets**

The Group initially recognizes trade receivables and deposits on the date that they are originated. All other financial assets are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

The Group has the following non-derivative financial assets: available-for sale investments, loans and receivables and cash and cash equivalents.

**Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale. 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. The Group's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value (unless the fair value for equity securities can't be reliably measured and they are carried at cost) and changes therein, other than impairment losses and foreign currency differences on available-for sale equity instruments, are recognized in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

**Loans and receivables**

Loans and receivables comprise trade and other receivables which are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method, less any allowance for doubtful debts. Allowance for doubtful debts 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 receivables. Such allowances are charged to the profit or loss and reported under "General and administrative expenses". When account receivable is uncollectible, it is written-off against the allowances for doubtful debts. Any subsequent recoveries of amounts previously written-off are credited against "General and administrative expenses" in the profit or loss.

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For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**b) Financial instruments (continued)**

**(i) Non-derivative financial assets (continued)**

*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.

*Offsetting*

Financial assets and liabilities are offset and the net amount presented in the condensed consolidated interim statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

**(ii) Derivative financial instruments, including 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. 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 of 80-125 percent. 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 the 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 equity. The gain or loss relating to the ineffective portion is recognized immediately in the profit or loss 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 profit or loss within ‘Cost of revenue’.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**b) Financial instruments (continued)**

**(ii) Derivative financial instruments, including hedge accounting (continued)**

*Cash flow hedge (continued)*

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 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 profit or loss within 'Financial charges, net'.

*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 'Financial charges, net'. Changes in the fair value of the hedge futures are recognized in the profit or loss within 'Cost of revenue'.

*Other non-trading 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 profit or loss within 'Financial charges, net'.

**(iii) Non-derivative financial liabilities**

All non-derivative financial liabilities are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. Such financial liabilities are recognized initially net of any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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.

**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 retranslated 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 retranslated 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 available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation (see below), 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, 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 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 profit or loss.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**d) Foreign currency translations (continued)**

**(ii) Foreign operations (continued)**

When a foreign operation is disposed of, the relevant amount in the translation 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 reserve.

**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 net within other income in profit or loss.

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.

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.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**e) Property, plant and equipment (continued)**

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 “j”.

**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 losses.

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.

**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.

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For the year ended December 31, 2017

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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) Assets and liabilities classified as held for sale**

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are re-measured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets and investment property, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

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:

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

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held for sale. When an operation is classified as a discontinued operation, the comparative statement of profit or loss and other comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period; whereas, the statement of financial position for the comparative period is not restated.



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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**j) Impairment**

**(i) 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.

Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are 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 losses recognized in prior periods are 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.

**(ii) Financial assets**

An assessment is made at each reporting 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 profit or loss.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**j) Impairment (continued)**

**(ii) Financial assets (continued)**

Objective evidence that financial assets (excluding equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Impairment losses on available-for-sale investment securities are recognized by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss.

If, in a subsequent period, the fair value of a financial asset increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income

**k) 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)**

**l) 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.

**m) Revenues**

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

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

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

*Sale of goods*

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

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**m) Revenue (continued)**

*Rental income*

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 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.

*Commission income*

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognized is the net amount of commission made by the Group

**n) 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 condensed 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 condensed 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 profit or loss.

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.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**o) Finance income and finance cost**

Finance income comprises gains / (losses) on the disposal of available-for-sale financial assets, and gains on hedging instruments that are recognized in condensed 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 condensed 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 sukuk, losses on disposal of available-for-sale financial assets and unwinding of the discount on provisions and losses on hedging instruments that are recognized in condensed 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 condensed 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.

**p) 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.

**q) Leases**

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Payments made under operating leases are recognized in 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.

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

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**4. INVESTMENT IN EQUITY ACCOUNTED INVESTEEES**

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

<u>Name</u>	<u>Principal business sector</u>	<u>Country of incorporation</u>	<u>Ownership interest (%)</u>		<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>January 1, 2016</u>
			<u>2017</u>	<u>2016</u>			
Almarai Company ("Almarai") (Note 4.1)	Fresh food products	Saudi Arabia	<b>34.52</b>	36.52	<b>6,942,521</b>	6,768,064	6,350,580
Kinan International for Real Estate Development Company ("Kinan")	Real Estate	Saudi Arabia	<b>29.9</b>	29.9	<b>506,513</b>	562,492	617,143
	Sugar						
USCE (Note 4.2)	Manufacturing	Egypt	<b>33.82</b>	--	<b>246,449</b>	--	--
Al-Seera City Company for Real Estate Development	Real Estate	Saudi Arabia	<b>40</b>	40	<b>147,597</b>	151,607	151,790
Knowledge Economic City Developers Company	Real Estate	Saudi Arabia	<b>2.07</b>	2.07	<b>16,270</b>	16,435	16,435
Intaj Capital Limited ("Intaj") reclassified as held for sale (note 6)	Fund management	Republic of Tunisia	<b>49</b>	49	--	--	179,244
United Edible Oils Holding Limited	Holding Company	Cayman Islands	<b>51</b>	--	<b>65,039</b>	--	--
Others	--	--	--	--	--	--	1,999
					<b>7,924,389</b>	<b>7,498,598</b>	<b>7,317,191</b>

4.1 During September 2017, the Group sold its 2% ownership interest in Almarai for SR 1.1 billion and realised gain amounting to SR 693.94 million.

4.2 The direct ownership interest of the Company in USCE is 10.62% (December 31, 2016: 19.32%, Group's effective ownership 61.51%).

**5. AVAILABLE FOR SALE INVESTMENTS**

Available for sale (AFS) investments comprise the following:

<u>Quoted investments</u>	<u>Principal business sector</u>	<u>Country of incorporation</u>	<u>Ownership interest (%)</u>		<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>January 1, 2016</u>
Knowledge Economic City	Real Estate	Saudi Arabia	<b>6.4</b>	<b>6.4</b>	<b>278,667</b>	392,265	336,660
Emaar the Economic City	Real Estate	Saudi Arabia	<b>0.9</b>	<b>0.9</b>	<b>100,413</b>	127,729	96,319
Taameer Jordan Holding Company	Real Estate	Kingdom of Jordan	<b>5</b>	<b>5</b>	--	--	--
<u>Unquoted investments</u>							
Joussour Holding Company	Holding Company Investment	Saudi Arabia	<b>14.81</b>	<b>14.81</b>	--	--	135,869
Swicorp, Saudi Arabia	Management	Saudi Arabia	<b>15</b>	<b>15</b>	<b>67,674</b>	67,674	115,674
Dar Al Tamleek ( Note 5.1)	Real Estate	Saudi Arabia	<b>5</b>	<b>5</b>	<b>24,753</b>	24,753	24,753
					<b>471,507</b>	<b>612,421</b>	<b>709,275</b>

5.1 Subsequent to December 31, 2017, the Company sold its ownership interest in Dar Al Tamleek for SR 28.02 million and realised a gain amounting to SR 3.27 million.

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**6. ASSETS AND LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATION**

Assets and liabilities classified as held for sale comprise the following:

	Note	December 31, <u>2017</u>	December 31, <u>2016</u>
Assets classified as held for sale, relating to:			
– Investment in Intaj	6.1	<b>39,677</b>	80,844
– USCE	6.2	<u>--</u>	<u>1,051,182</u>
		<b>39,677</b>	<b>1,132,026</b>
Liabilities classified as held for sale, relating to:			
– USCE	6.2	<u>--</u>	<u>1,014,165</u>

- 6.1 During the last quarter of 2016, the investment in Intaj has been classified as held for sale pursuant to management's decision for selling the interest in Intaj. Consequently, this investment has been reclassified as such and written down to its fair value. 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 Net Asset Value (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 was recognized during the year ended December 31, 2016.

As part of Intaj's investment portfolio dilution process, the fund manager reassessed the exit strategy and divested its significant investments. As a result of divestment, during the period ended December 31, 2017, the fund manager made payment amounting to SR 41.17 million representing Company's share in divestment proceeds. Consequently, the carrying value of investment in Intaj decreased to SR 39.67 million as at year end. Since the recoverable amount from the underlying investments has not significantly declined therefore, no impairment charge has been recorded for the period ended December 31, 2017.

- 6.2 As disclosed in note 1, on March 28, 2017 USCE issued 12.77 million shares to EBRD and it has been deconsolidated from the Group. The following assets and liabilities of USCE classified as held for sale in 2016 have now been deconsolidated.

	December 31, <u>2016</u>
<b>Assets</b>	
Cash and cash equivalents	341,958
Accounts receivable and other receivables	194,305
Inventories	237,549
Property, plant and equipment	273,513
Other non-current assets	<u>3,857</u>
Disclosed as 'Assets classified as held for sale' in the condensed consolidated interim statement of financial position	<u>1,051,182</u>
<b>Liabilities</b>	
Loans and borrowings	118,070
Accounts payable and other liabilities	485,333
Non-current liabilities	35,762
Subscription money received from EBRD	<u>375,000</u>
Disclosed as 'Liabilities classified as held for sale' in the condensed consolidated interim statement of financial position	<u>1,014,165</u>

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**6. ASSETS AND LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATION**  
**(continued)**

Details of gain / (loss) from discontinued operations for the period/ year ended as follows:

	<b>March 28, 2017</b>	December 31, 2016
Revenue	<b>359,820</b>	1,328,627
Expenses	<b>(373,730)</b>	(1,500,975)
Loss before foreign income taxes	<b>(13,910)</b>	(172,348)
Foreign income tax	<b>(967)</b>	(3,912)
Results from operating activities, net of tax	<b>(14,877)</b>	(176,260)
Gain on sale of discontinued operation, net	<b>30,482</b>	--
Gain / (loss) from discontinued operation, net of tax	<b>15,605</b>	(176,260)
Gain / (loss) from discontinued operation attributable to:		
Owners of the Company	<b>21,320</b>	(108,556)
Non-controlling interests	<b>(5,715)</b>	(67,704)
	<b>15,605</b>	(176,260)
Basic and diluted earnings/(loss) per share (in Saudi Riyals)	<b>0.04</b>	0.20

The supplemental schedule of non-cash financial information relating to USCE is as follows:

	<b>March 28, 2017</b>
Assets classified as held for sale	867,644
Liabilities classified as held for sale	789,651

**7. SHARE CAPITAL**

At December 31, 2017 , the Group's share capital of SR 5.3 billion consists of 533.981 million fully paid shares of SR 10 each (December 31, 2016, SR 5.3 billion, January 1, 2016: SR 5.3 billion consisting of 533.981 million fully paid shares of SR 10 each).

**8. 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 period end.

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



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**9. NON-CONTROLLING INTERESTS**

As disclosed in note 21, upon transition to IFRS, the Group reassessed its control over its investees based on which the investment in Herfy Foods Services ("Herfy") was concluded to be an 'Investment in Subsidiary' as defined under IFRS 10 and accordingly, assets and liabilities of Herfy have been consolidated in the condensed consolidated interim financial statements. As a result, the balance as at December 31, 2017 includes the non-controlling interest in Herfy amounting to SR 442.09 million (December 31, 2016: SR 409.38 million, January 1, 2016: SR 370.02 million).

**10. 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:

	<b>December 31, 2017</b>	December 31, 2016	January 1, 2016
<b>Non-current liabilities</b>			
Secured bank loans	<b>1,211,286</b>	2,031,232	2,297,125
Unsecured bond issues (Sukuk) (note 10.2)	<b>1,500,000</b>	1,500,000	1,500,000
Unsecured bank loans	<b>818,530</b>	924,724	977,915
	<b>3,529,816</b>	4,455,956	4,775,040
<b>Current liabilities</b>			
Current portion of secured bank loans	<b>873,713</b>	967,446	616,515
Unsecured bank loans	<b>2,988,069</b>	3,640,829	4,481,757
	<b>3,861,782</b>	4,608,275	5,098,272
	<b>7,391,598</b>	9,064,231	9,873,312

- 10.1 These represent borrowings obtained from commercial banks and other financial institutions by the Parent Company and its consolidated subsidiaries. These borrowings are in Saudi Riyals, Egyptian Pounds, Iranian Riyals, US Dollars, Algerian Dinar, Turkish Lira 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.
- 10.2 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.
- 10.3 Property, plant and equipment amounting to SR 435.35 million (December 31, 2016: SR 440 million, January 1, 2016: SR 1,434.7 million) of certain subsidiaries of the Group are pledged as collateral with commercial banks.
- 10.4 Inventories amounting to SR 43 million (December 31, 2016: SR 0.14 million, January 1, 2016: SR 366.8 million) are pledged with foreign banks as collateral against the bank borrowing facilities of certain overseas subsidiaries.

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**11. 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 condensed consolidated statement of financial position is determined as follows:

	<b>December 31, <u>2017</u></b>	December 31, <u>2016</u>	January 1, <u>2016</u>
Present value of defined benefit obligation	<u><b>663,732</b></u>	<u>609,251</u>	<u>543,115</u>

**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:

	<b>December 31, <u>2017</u></b>	December 31, <u>2016</u>
<b>Balance at beginning of year</b>	<b>609,251</b>	543,115
<i><b>Included in profit or loss</b></i>		
Current service cost	<b>81,706</b>	71,513
Interest cost	<b>22,950</b>	27,025
	<b>104,656</b>	98,538
<i><b>Included in other comprehensive income</b></i>		
<i>Re-measurement (gain) / loss:</i>		
Actuarial loss	<b>13,746</b>	25,060
Effect of movement in exchange rates	<b>(8,443)</b>	(9,446)
Benefits paid	<b>(56,386)</b>	(45,668)
Adjustment related to transferred employees	<b>908</b>	2,054
Classified within 'liabilities associated with assets held for sale'	<b>--</b>	(4,402)
<b>Balance at end of year</b>	<u><b>663,732</b></u>	<u>609,251</u>

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**11. EMPLOYEE BENEFITS (continued)**

**Actuarial assumptions**

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

	<b>December 31, <u>2017</u></b>	<b>December 31, <u>2016</u></b>	<b>January 1, <u>2016</u></b>
Discount rate	<b>4% - 20.25%</b>	4% - 20.4%	3.95% - 20.3%
Future salary growth / Expected rate of salary increase	<b>6% - 21%</b>	6% - 21%	7% - 21%
Mortality rate	<b>0.1% - 0.24%</b>	0.1% - 0.24%	0.1% - 0.24%
Employee turnover / withdrawal rates	<b>6% - 17%</b>	6% - 17%	5% - 21%
Retirement age	<b>60 years</b>	60 years	60 years

The weighted average duration of the defined benefit obligation ranges between 4.5 to 9.65 years

An independent actuarial exercise has been conducted as at January 1, 2016, December 31 2016 and December 31, 2017 to ensure the adequacy of provision for employees' end of service benefits in accordance with the rules stated under the Saudi Arabian Labour Law by using the Projected Unit Credit Method as required under International Accounting Standards 19: Employee Benefits.

**12. ZAKAT AND INCOME TAXES**

**(a) Zakat status**

The Company has finalised its Zakat status up to the year 1998. The Company has an ongoing objection against the Zakat assessment issued by the General Authority of Zakat and Income Tax (GAZT) for the years 1999 and 2000 which showed Zakat differences of 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 2016. The GAZT conducted a field audit on the Company's accounts for the years 2005 to 2012.

The Company's Saudi subsidiaries received final zakat certificates for certain years and provisional zakat certificates for other years. They have also received queries from the GAZT for the open years, for which replies have been / will be filed by the respective companies. Some Saudi subsidiaries received assessments from the GAZT concerning their zakat declarations for the years 2005 to 2012, in which the GAZT assessed additional zakat liabilities of approximately SR 42.7 million (2016: SR 42.7 million). The subsidiaries have appealed against such additional assessments.

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**12. ZAKAT AND INCOME TAXES (continued)**

**(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 advances 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.

**13. CONTINGENCIES AND COMMITMENTS**

- i) The Group has outstanding bank guarantees and letters of credit amounting to SR 418.47 million at December 31, 2017 (December 31, 2016: SR 198.9 million, January 1, 2016: SR 466 million), which were issued in the normal course of business;
- ii) Also see note 10 with respect to guarantees given for certain loans and note 12 with respect to Zakat contingencies;
- iii) At December 31, 2017, one of the subsidiary had commitments to sell refined sugar of approximately 360,478 MT in 2018 (December 31, 2016: 243,695 MT to sell in 2017, January 1, 2016: 409,861 MT in 2016) at prices, which would approximate the prevailing market prices at the contract date. The raw sugar price of committed sale contracts is hedged through forward contracts;
- iv) At December 31, 2017, the Group had outstanding commitments of SR Nil (December 31, 2016: SR 49.6 million, January 1, 2016: SR 49.6 million) for investments;
- v) At December 31, 2017, the Group had outstanding capital commitments of SR 175.6 million (December 31, 2016: SR 253 million, January 1, 2016: SR 518 million); and
- vi) The Company has also issued a corporate guarantee, amounting to SR 102 million (December 31, 2016: SR 102 million, January 1, 2016: SR 102 million), to Saudi Industrial Development Fund for their loan to an associated company.

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**14. EARNINGS PER SHARE**

Basic earnings per share for the year ended December 31, 2017 have been computed by dividing the net profit and profit 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, 2016: 533.981 million) during such periods.

Diluted earnings per share for the period ended December 31, 2017 and December 31, 2016, have been computed by dividing the net profit and profit 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.

**15. 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. The Group has recognized an expense of SR 25.07 million for the year ended December 31, 2017 (December 31, 2016: SR 25.23 million).

Board of Directors' remuneration for the year ended December 31, 2017 amounting to SR 2.2 million (December 31, 2016: SR Nil) has been calculated in accordance with the Company's By-laws and is considered as appropriation shown in the condensed consolidated statement of changes in equity. Attendance allowances and other expenses to the directors and members of various board committees amounting to SR 2.77 million (December 31, 2016: SR 2.60 million) are charged to expenses and included under administrative expenses.

***Other related party transactions***

A number of companies transacted with the Group during the period. 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.

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**15. RELATED PARTIES (continued)**

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

<u>Name</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Amount of transactions</u> December 31, <u>2017</u> <u>2016</u>		<u>Closing balance</u> December 31, <u>2017</u> <u>2016</u>	
<u><b>Due from related parties – Trade and other receivables</b></u>						
Certain shareholders of USC	Shareholders of a subsidiary	Trade	<b>308,900</b>	207,508	<b>31,054</b>	3,826
Certain shareholders of AIC	Shareholders of a subsidiary	Trade	<b>79,755</b>	131,937	<b>9,129</b>	40,922
Almarai	Associate	Trade	<b>79,432</b>	83,426	<b>5,014</b>	7,855
Western Bakeries Company Limited	Affiliate	Trade	<b>26,391</b>	25,515	<b>1,852</b>	2,882
Abdul Kader Al Muhaidib & Sons Co.	Shareholder	Trade	<b>1,736</b>	3,506	--	936
Al Mehbaj Al Shamiyah Trading Company	Affiliate	Trade	<b>9,329</b>	11,829	<b>3,379</b>	3,302
		Non- trade	<b>120</b>	3,890		
Others			--	--	--	788
					<b>50,428</b>	60,511
<u><b>Due from related parties – Prepayments and other current assets</b></u>						
Kinan ( Note 15.1)	Associate	Non-trade	<b>10,000</b>	--	<b>75,043</b>	149,405
Intaj	Associate	Non-trade	<b>16,076</b>	--	--	27,200
Arabian Centers Company	Affiliate	Non-trade	<b>43,901</b>	44,248	<b>8,221</b>	19,730
Seafood International One FZCO	Associate	Trade	<b>8,325</b>	23,467	<b>14,907</b>	19,346
		Non-trade	<b>12,761</b>	42,810		
Seafood International Holdco.	Joint venture	Non-trade	<b>6,011</b>	--	<b>6,011</b>	--
Bonus Foods Company Limited	Associate	Non-trade	<b>1,104</b>	--	<b>1,104</b>	--
Joussour Holding Company	Investee	Non-trade	<b>3,750</b>	--	<b>3,750</b>	--
Abdul Kader Al Muhaidib & Sons Co.	Shareholder	Non-trade	<b>11,161</b>	9,171	<b>266</b>	1,393
USCE	Associate	Trade	<b>31,646</b>	--	<b>169</b>	--
		Non-trade	<b>45,254</b>	--	--	--
					<b>109,471</b>	217,074

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**15. RELATED PARTIES (continued)**

<u>Name</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Amount of transactions</u>		<u>Closing balance</u>	
			<u><b>December 31,</b></u>	<u><b>December 31,</b></u>	<u><b>December 31,</b></u>	<u><b>December 31,</b></u>
			<u><b>2017</b></u>	<u><b>2016</b></u>	<u><b>2017</b></u>	<u><b>2016</b></u>
<b><u>Due from related parties – Long-term receivables</u></b>						
Kinan (Note 15.1)	Associate	Non-trade	--	--	<b>69,075</b>	--
Shareholder of USC – Net	Shareholder of a subsidiary	Trade	--	--	--	<b>3,966</b>
					<u><b>69,075</b></u>	<u><b>3,966</b></u>
<b><u>Due to related parties – Trade and other payables</u></b>						
Almarai	Associate	Trade	<b>541,645</b>	514,611	<b>82,163</b>	55,202
Hail Agricultural Development Company	Affiliate	Trade	<b>104,544</b>	91,946	<b>15,373</b>	12,759
Al Mehbaj Al Shamiyah Trading Company	Affiliate	Trade	<b>2,420</b>	1,407	<b>802</b>	--
Mayar Food Company	Affiliate	Trade	<b>234,643</b>	233,759	<b>57,080</b>	30,725
Nestle Saudi arabia Limited	Affiliate	Trade	<b>332,696</b>	324,564	<b>40,453</b>	5,199
Al Manhal Water Factory Company Limited	Affiliate	Trade	<b>23,382</b>	19,834	<b>2,587</b>	3,684
Kinan	Affiliate	Non- trade	<b>43,020</b>	41,403	<b>9,329</b>	--
Del Monte Saudi Arabia Limited	Affiliate	Trade	<b>100,386</b>	132,976	<b>5,957</b>	6,506
		Non-trade	<b>3,349</b>	2,500		
Others			<b>3,560</b>	3,681	<b>2,943</b>	1,483
					<u><b>216,687</b></u>	<u><b>115,558</b></u>

- 15.1** 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 period ended December 31, 2017, an agreement dated December 25, 2017 was signed between the parties whereby the receivable balance of SR 153.97 million was rescheduled and agreed to be settled in 2 installments amounting to SR 79.70 million and SR 74.27 million on December 1, 2018 and June 30, 2019 respectively. The receivable balances as disclosed above are reported at the present values of the installment amounts.

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**16. OPERATING SEGMENTS**

The Group has four 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.

**Investments** - includes real estate activities, investments in associates, available-for-sale investments and other investments.

The segments which do not meet any of the quantitative thresholds for determining reportable segments in 2017 and 2016, are classified as "Others / Eliminations", which mainly include the eliminations.

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.

	<b>Reportable Segments</b>						<b>Total</b>
	<b>Food Processing</b>	<b>Retail</b>	<b>Food services</b>	<b>Investments</b>	<b>Discontinued operations</b>	<b>Others / Eliminations</b>	
<b>December 31, 2017</b>							
External revenues	11,061,962	11,640,093	1,129,681	--	--	--	23,831,736
Inter segment revenue	322,258	4,191	28,112	46,085	--	(400,646)	--
<b>Segment Revenue</b>	<b>11,384,220</b>	<b>11,644,284</b>	<b>1,157,793</b>	<b>46,085</b>	<b>--</b>	<b>(400,646)</b>	<b>23,831,736</b>
Cost of revenues	(9,653,571)	(9,318,623)	(820,566)	--	--	347,009	(19,445,751)
Segment net profit / (loss)	589,806	(1,011,072)	199,921	1,269,522	15,605	(38,164)	1,025,618
Segment assets	7,363,050	5,387,994	1,385,552	13,167,076	--	(4,205,723)	23,097,949
Segment liabilities	4,139,752	5,065,842	518,702	3,773,748	--	(108,075)	13,389,969



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**16. OPERATING SEGMENTS (continued)**

	Reportable Segments						Total
	Food Processing	Retail	Food services	Investments	Discontinued operations	Others / Eliminations	
<b>December 31, 2016</b>							
External revenues	11,634,851	13,567,934	1,128,017	--	--	--	26,330,802
Inter segment revenue	251,871	4,441	28,666	137,611	--	(422,589)	--
<b>Segment Revenue</b>	<b>11,886,722</b>	<b>13,572,375</b>	<b>1,156,683</b>	<b>137,611</b>	<b>--</b>	<b>(422,589)</b>	<b>26,330,802</b>
Cost of revenues	(10,017,294)	(11,215,290)	(815,760)	--	--	421,944	(21,626,400)
Segment net profit / (loss)	302,348	(848,752)	217,579	313,332	(176,260)	(171,534)	(363,287)
Segment assets	7,641,599	6,220,423	1,342,063	13,594,981	1,051,182	(4,591,597)	25,258,651
Segment liabilities	4,626,274	4,878,571	539,354	4,988,409	1,014,165	(37,956)	16,008,817

**17. 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 222.02 million (December 31, 2016 SR: 573.89 million).

The breakup of the amount by class of assets and basis of determination are provided below:

	<b>2017</b>	<b>2016</b>
Impairment loss on:		
- recoverable amount of non-financial assets including goodwill (Note 'a' below)	222,024	301,623
- fair valuation of AFS Investment (Note 'b' below)	--	183,869
- re-measurement of an associate held for sale (Note 'c' below)	--	88,400
<b>Total impairment losses</b>	<b>222,024</b>	<b>573,892</b>

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

The Group has reviewed the carrying amounts of its non-financial assets including goodwill to determine whether their carrying values 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.

At December 31, 2017 impairment loss has been recognized relating to Geant operations (Geant) representing the write-down of its carrying amount including Goodwill to the recoverable amount by SR 222 million.

Based on the assessment performed as at December 31, 2016, since there was a headroom available between the recoverable amount and the carrying value of Geant, no impairment loss was recognized.

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 following growth rates, pre-tax discount rates and a terminal value percentages (disclosed as key assumptions in the table below).

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**17. IMPAIRMENT LOSSES (continued)**

- a) *Impairment loss on recoverable amount of non-financial assets, including goodwill (continued):*

As at December 31, following is the breakup of impairment loss on goodwill:

CGU	Impairment loss		Key assumptions
	<u>2017</u>	<u>2016</u>	
Geant operations	<b>222,024</b>	--	<ul style="list-style-type: none"> <li>▪ Budgeted EBITDA growth rate 2.9%</li> <li>▪ Discount rate 13.9 %</li> <li>▪ Terminal value growth rate 2.6 %</li> </ul>
El Maleka for Food Industries Company	--	41,550	<ul style="list-style-type: none"> <li>▪ Budgeted EBITDA growth rate 33.7%</li> <li>▪ Discount rate 24.86 %</li> <li>▪ Terminal value growth rate 5.5%</li> </ul>
El Farasha for Food Industries Company	--	3,627	<ul style="list-style-type: none"> <li>▪ Budgeted EBITDA growth rate 17.51%</li> <li>▪ Discount rate 24.86 %</li> <li>▪ Terminal value growth rate 5.5%</li> </ul>
Savola Industrial Investment Company – USCE	--	39,338	<ul style="list-style-type: none"> <li>▪ Budgeted EBITDA growth rate (1.08)%</li> <li>▪ Discount rate 12.8 %</li> <li>▪ Terminal value growth rate 3%</li> </ul>
Alexandria Sugar Company, Egypt (ASC)	--	17,908	<ul style="list-style-type: none"> <li>▪ Budgeted EBITDA growth rate (5.7)%</li> <li>▪ Discount rate 25.6 %</li> <li>▪ Terminal value growth rate 5.5%</li> </ul>
<b>Total</b>	<b><u>222,024</u></b>	<b><u>102,423</u></b>	

**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 price inflation have been made based on the publicly available information and historical results, which have been used as an indicator of future results.

The calculation of value in use is most sensitive to the assumptions on sales growth rate of 5% and used to extrapolate cash flows beyond the budget period of 5 years, as well as the terminal value.

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**17. IMPAIRMENT LOSSES (continued)**

*Other non-financial assets:*

As at December 31, 2016, the impairment of SR 199.2 million was recognised on other non-financial assets representing 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.

The recoverable amount is 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. 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 13.9% (December 31, 2016: 12.8% to 25.6%) on a post-tax basis and were projected up to the year 2022. The estimated average growth rate used to extrapolate the cash flows beyond the five-year period was 2.6% (December 31, 2016: 3% to 5.5%) 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

*b) Impairment loss on Fair valuation of AFS investments:*

The Group holds investments in equity of Swicorp, Saudi Arabia and Joussor Holding Company and classifies these under Available for Sale investments. The Group had carried out an internal study to estimate the reliable Fair Values of these unquoted investments at December 31, 2016 using multiple valuation techniques including Price Earnings Multiples, Price to Book value and Price to Tangible Book Value the decline in the fair value was considered significant and accordingly, impairment losses amounting to SR 48 million and SR 135.9 million have been recognized on Swicorp, Saudi Arabia and Joussor Holding Company, respectively.

As at December 31, 2017 there were no impairment indicators that require any additional impairment charge against such investments.

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

As fully explained in note 6, during the last quarter of 2016, the investment in Intaj Capital Limited was 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 NAV report available from the Fund Manager, and adjusted the same with the probable exit timing, appropriate EBITDA multiples and current liquidity discount. Consequently, investment was written down to its estimated fair value of SR 80.8 million and an impairment loss of SR 88.4 million was recognized as at December 31, 2016. No additional impairment has been recognised during the period ended December 31, 2017.

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**18. 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.

Financial instruments carried on the condensed 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.

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**18. FINANCIAL RISK MANAGEMENT (continued)**

**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 ("IRS") 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 interest rate profile of the Group's interest-bearing financial instruments as reported to the management of the Group is as follows:

	<b>December 31, <u>2017</u></b>	December 31, <u>2016</u>
<b>Fixed rate instruments</b>		
Financial assets	<u>471,882</u>	556,693
Financial liabilities	<u>222,425</u>	<u>303,418</u>
<b>Variable rate instruments</b>		
Financial assets	<u>267,792</u>	303,880
Financial liabilities	<u>6,844,274</u>	<u>8,760,813</u>

**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, 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 in the accompanying condensed consolidated interim financial statements. The Group's management monitors such fluctuations and manages its effect on the condensed consolidated interim 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.

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**18. FINANCIAL RISK MANAGEMENT (continued)**

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

	December 31, 2017				
	US Dollars	Iranian Riyals	Egyptian Pounds	Sudanese Pounds	Turkish Lira
Trade receivables	17,488	1,098,444,415	462,406	129,997	140,149
Other receivables	1,281	756,816,731	193,500	20,673	27,447
Cash and cash equivalents	39,969	6,030,049,102	177,546	129,997	1,978
	58,738	7,885,310,248	833,452	280,667	169,574
Trade payables	(17,123)	(3,612,122,638)	(256,061)	(25,232)	(101,310)
Other payables	(234)	(547,387,226)	(620,176)	(53,871)	(3,428)
Loans and borrowings	(206,329)	(389,052,630)	(2,679,191)	(325,884)	(99,917)
	(223,686)	(4,548,562,494)	(3,555,428)	(404,987)	(204,655)
<b>Net exposure</b>	<b>(164,948)</b>	<b>3,336,747,754</b>	<b>(2,721,976)</b>	<b>(124,320)</b>	<b>(35,081)</b>

  

	December 31, 2016				
	US Dollars	Iranian Riyals	Egyptian Pounds	Sudanese Pounds	Turkish Lira
Trade receivables	4,761	951,535,486	212,273	39,701	168,210
Other receivables	3,015	508,515,472	68,353	28,267	30,627
Cash and cash equivalents	35,673	6,039,189,228	560,324	64,082	4,095
	43,449	7,499,240,186	840,950	132,050	202,932
Trade payables	(62,622)	(860,001,733)	(197,684)	(59,573)	(102,364)
Other payables	(68,000)	(2,718,097,152)	(300,567)	(22,954)	(5,142)
Loans and borrowings	(189,631)	(192,304,052)	(1,096,735)	(312,248)	(68,128)
	(320,253)	(3,770,402,937)	(1,594,986)	(394,775)	(175,634)
<b>Net exposure</b>	<b>(276,804)</b>	<b>3,728,837,249</b>	<b>(754,036)</b>	<b>(262,725)</b>	<b>27,298</b>

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**18. FINANCIAL RISK MANAGEMENT (continued)**

Significant exchange rates applied during the period were as follows:

	<b>Average rate</b>		<b>Spot rate</b>	
	<b>For the year ended December 31,</b>		<b>As at December 31,</b>	
	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>
<i><b>Foreign currency per Saudi Riyal</b></i>				
US Dollars	<b>0.27</b>	0.27	<b>0.27</b>	0.27
Iranian Riyals	<b>9,057</b>	8,105	<b>11,320</b>	8,120
Egyptian Pounds	<b>4.76</b>	2.28	<b>4.74</b>	4.9
Sudanese Pounds	<b>5.63</b>	3.98	<b>7.40</b>	5.19
Turkish Lira	<b>0.97</b>	0.81	<b>1.01</b>	0.94

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

**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 because Group holds investment in certain listed equities which are classified on the statement of financial position as available-for-sale 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.

Details of the Group's investment portfolio exposed to price risk, at the reporting date are disclosed in note 5 to these condensed consolidated interim financial statements. As at December 31, 2017, the Company's overall exposure to price risk is limited to the fair value of those positions.

**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 continuously monitors the credit exposure towards the customers and makes provision against those balances considered doubtful of recovery which is based on customer profile and payments history. 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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**18. FINANCIAL RISK MANAGEMENT (continued)**

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

	<b>December 31, <u>2017</u></b>	December 31, <u>2016</u>
<b>Financial assets</b>		
Long term receivables	<b>73,844</b>	10,751
Trade receivables	<b>979,084</b>	1,270,621
Other receivables	<b>357,501</b>	421,541
Derivatives	<b>64,387</b>	52,573
Bank balances	<b><u>1,219,415</u></b>	<u>1,281,569</u>
	<b><u>2,694,231</u></b>	<u>3,037,055</u>

Trade and other receivables are carried net of provision for doubtful debts.

As at the reporting date, receivable overdue for more than six months amounting to SR 115.1 million (December 31, 2016: SR 123.7 million). The total allowance for credit losses at December 31, 2017 amounted to SR 84.89 million (December 31, 2016: SR 72.73 million). There were no past due or impaired receivables from related parties other than SR 3.75 million receivable from an investee company, Joussour holding Company, as disclosed in Note 15. "Related Parties". Company has recorded full impairment against the said receivable balance.

**Concentration Risk**

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

	<b>December 31, <u>2017</u></b>	December 31, <u>2016</u>
Wholesale / Retail	<b>759,135</b>	778,379
Manufacturing	<b>177,597</b>	366,567
Exports	<b>96,784</b>	90,015
Others	<b><u>104,305</u></b>	<u>119,144</u>
	<b>1,137,821</b>	1,354,105
Less: Provision for doubtful trade debts	<b><u>(84,893)</u></b>	<u>(72,733)</u>
	<b><u>1,052,928</u></b>	<u>1,281,372</u>



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**18. FINANCIAL RISK MANAGEMENT (continued)**

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

	<b>December 31, <u>2017</u></b>	December 31, <u>2016</u>
Saudi Arabia	<b>702,541</b>	970,523
Iran	<b>117,713</b>	142,260
Turkey	<b>145,127</b>	134,290
Egypt	<b>112,709</b>	59,691
Other Regions	<b>59,731</b>	47,341
	<b>1,137,821</b>	1,354,105
Less: Provision for doubtful trade debts	<b>(84,893)</b>	(72,733)
	<b><u>1,052,928</u></b>	<u>1,281,372</u>

**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, 2017, the Group has unused bank financing facilities amounting to SR 4.7 billion (December 31, 2016: SR 3.7 billion) to manage the short term and the long term liquidity requirements.

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**18. FINANCIAL RISK MANAGEMENT (continued)**

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.

December 31, 2017	Carrying Amount	Contractual cash flows				
		Less than 6 months	6 months to 1 year	1 year to 3 years	3 years to 5 years	More than 5 years
<i>Non derivative financial liabilities</i>						
Loans and borrowings	7,391,598	3,563,577	541,275	3,444,077	281,361	--
Trade payables	2,318,551	2,318,551	--	--	--	--
Accrued and other liabilities	1,977,152	1,977,152	--	--	--	--
Unclaimed dividends	257,114	257,114	--	--	--	--
	<u>11,944,415</u>	<u>8,116,394</u>	<u>541,275</u>	<u>3,444,077</u>	<u>281,361</u>	<u>--</u>
<i>Derivative financial liabilities</i>						
Interest rate swaps used for hedging	4,735	(770)	348	9,831	--	--
Derivative contracts used for hedging	54,826	54,707	119	--	--	--
Put Option	159,979	--	--	--	--	162,400
Other derivatives contracts not for hedging	(7,978)	(7,978)	--	--	--	--
	<u>211,562</u>	<u>45,959</u>	<u>467</u>	<u>9,831</u>	<u>--</u>	<u>162,400</u>

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amount.

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**18. FINANCIAL RISK MANAGEMENT (continued)**

December 31, 2016	Carrying Amount	Contractual cash flows				
		Less than 6 months	6 months to 1 year	1 year to 3 years	3 years to 5 years	More than 5 years
<i>Non derivative financial liabilities</i>						
Loans and borrowings	9,064,231	4,046,347	687,048	2,281,650	2,495,776	--
Trade payables	2,517,604	2,517,604	--	--	--	--
Accrued and other liabilities	1,562,677	1,562,677	--	--	--	--
Unclaimed dividends	265,024	265,024	--	--	--	--
	<u>13,409,536</u>	<u>8,391,652</u>	<u>687,048</u>	<u>2,281,650</u>	<u>2,495,776</u>	<u>--</u>
<i>Derivative financial liabilities</i>						
Interest rate swaps used for hedging	3,030	(2,131)	(2,252)	3,965	3,924	--
Derivative contracts used for hedging	66,635	62,781	3,854	--	--	--
Other Derivatives contracts not for hedging	94,722	90,379	4,343	--	--	--
	164,387	151,029	5,945	3,965	3,924	--

**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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**18. FINANCIAL RISK MANAGEMENT (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 available-for-sale 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 doesn't 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.

	<b>Carrying amount</b>			<b>Fair Value</b>			
	Designated at fair value	Fair value hedging instruments	Available for sale	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>December 31, 2017</b>							
<i>Financial assets measured at fair value</i>							
Future exchange contracts used for hedging	--	13,326	--	--	13,326	--	13,326
Other future exchange contracts	40,821	--	--	--	40,821	--	40,821
Call option	10,240	--	--	--	--	10,240	10,240
Equity securities	--	--	471,507	379,080	92,427	--	471,507
	<u>51,061</u>	<u>13,326</u>	<u>471,507</u>	<u>379,080</u>	<u>146,574</u>	<u>10,240</u>	<u>535,894</u>
<i>Other assets measured at fair value</i>							
Inventory held under fair value hedge relationship	--	16,913	--	--	16,913	--	16,913
Firm commitment under fair value hedge relationship	--	19,298	--	--	19,298	--	19,298
	<u>--</u>	<u>36,211</u>	<u>--</u>	<u>--</u>	<u>36,211</u>	<u>--</u>	<u>36,211</u>

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

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**18. FINANCIAL RISK MANAGEMENT (continued)**

	Carrying amount			Fair Value			
	Designated at fair value	Fair value hedging instruments	Available for sale	Level 1	Level 2	Level 3	Total
<b>December 31, 2017</b>							
<i>Financial liabilities measured at fair value</i>							
Interest rate swaps used for hedging	--	(4,735)	--	--	(4,735)	--	(4,735)
Future exchange contracts used for hedging	--	(54,826)	--	--	(54,826)	--	(54,826)
Other future exchange contracts	(7,978)	--	--	--	(7,978)	--	(7,978)
Put option	(159,979)	--	--	--	--	(159,979)	(159,979)
	<u>(167,957)</u>	<u>(59,561)</u>	<u>--</u>	<u>--</u>	<u>(67,539)</u>	<u>(159,979)</u>	<u>(227,518)</u>
<b>December 31, 2016</b>							
<i>Financial assets measured at fair value</i>							
Future exchange contracts used for hedging	--	50,906	--	--	50,906	--	50,906
Other future exchange contracts	1,667	--	--	--	1,667	--	1,667
Equity securities	--	--	612,421	519,994	92,427	--	612,421
	<u>1,667</u>	<u>50,906</u>	<u>612,421</u>	<u>519,994</u>	<u>145,000</u>	<u>--</u>	<u>664,994</u>
<i>Other assets measured at fair value</i>							
Inventory held under fair value hedge relationship	--	(32,849)	--	--	(32,849)	--	(32,849)
Firm commitment under fair value hedge relationship	--	(7,131)	--	--	(7,131)	--	(7,131)
	<u>--</u>	<u>(39,980)</u>	<u>--</u>	<u>--</u>	<u>(39,980)</u>	<u>--</u>	<u>(39,980)</u>
<i>Financial liabilities measured at fair value</i>							
Interest rate swaps used for hedging	--	(3,030)	--	--	(3,030)	--	(3,030)
Future exchange contracts used for hedging	--	(15,127)	--	--	(15,127)	--	(15,127)
Other future exchange contracts	(144,922)	--	--	--	(144,922)	--	(144,922)
	<u>(144,922)</u>	<u>(18,157)</u>	<u>--</u>	<u>--</u>	<u>(163,079)</u>	<u>--</u>	<u>(163,079)</u>

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**18. 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 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

**19. 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 net debt, interest bearing loans and borrowings including finance cost thereon, trade and other payables, less cash and bank balances. Capital signifies equity as shown in the consolidated statement of financial position plus net debt. The gearing ratio as at December 31, 2017 and December 31, 2016 is as follows:

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**19. CAPITAL MANAGEMENT (continued)**

	December 31, <u>2017</u>	December 31, <u>2016</u>
Total liabilities	<b>13,389,969</b>	16,008,817
Less: Cash and cash equivalents	<b>(1,344,093)</b>	(1,404,750)
<b>Adjusted net debt</b>	<b>12,045,876</b>	14,604,067
 Total equity	 <b>9,707,980</b>	 9,249,834
Less: Hedging reserve	<b>(4,735)</b>	(3,030)
<b>Adjusted equity</b>	<b>9,703,245</b>	9,246,804
 <b>Adjusted net debt to adjusted equity ratio</b>	 <u><b>1.24</b></u>	 <u>1.58</u>

**20. NEW STANDARDS, AMENDMENTS TO STANDARDS AND STANDARDS ISSUED AND NOT YET EFFECTIVE**

*New Standards, Amendment to Standards and Interpretations*

The Group has adopted, as appropriate, the following new and amended IASB Standards, effective January 1, 2017.

a) Disclosure Initiative (Amendments to IAS 7)

The amendments require disclosures that enable users of Financial Statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

Group's financing activities, as disclosed in Condensed Consolidated Statement of Cash Flows, represents only cash flow changes, except for finance cost paid for which non cash change is reflected in cash flow from operating activities.

b) Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)

The amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.

Group does not hold any debt instruments measured at fair value; therefore, there is no impact of this amendment on Financial Statements.

c) Annual Improvements to IFRSs 2014–2016 Cycle (Amendments to IFRS 12 Disclosure of Interests in Other Entities)

The amendments clarify that disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution. There is no impact of this amendment on Financial Statements.

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**20. NEW STANDARDS, AMENDMENTS TO STANDARDS AND STANDARDS ISSUED AND NOT YET EFFECTIVE (continued)**

*Standards issued but not yet effective*

Following are the new standards and amendments to standards are effective for annual periods beginning after January 1, 2018 or later and earlier application is permitted; however, the Group has not early adopted them in preparing these condensed consolidated interim financial statements.

a) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

IFRS 15 is effective for annual periods beginning on or after January 1, 2018. There is not going to be a significant impact on Group's revenue recognition policy.

b) IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group is in the process of evaluating the impact of application of IFRS 9.

*Classification – Financial assets*

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

*Impairment – Financial Assets and Contract Assets*

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets.



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**20. NEW STANDARDS, AMENDMENTS TO STANDARDS AND STANDARDS ISSUED AND NOT YET EFFECTIVE (continued)**

*Standards issued but not yet effective (continued)*

b) IFRS 9 Financial Instruments (continued)

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs are those that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs are those that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; an entity may choose to apply this policy also for trade receivables and contract assets with a significant financing component.

Classification – Financial Liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in Other Comprehensive Income
- the remaining amount of change in the fair value is presented in profit or loss.

Hedge accounting

When initially applying IFRS 9, the Group may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9.

IFRS 9 will require the Group to ensure that hedge accounting relationships are aligned with the Group's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. IFRS 9 also introduces new requirements regarding rebalancing of hedge relationships and prohibiting voluntary discontinuation of hedge accounting. Under the new model, it is possible that more risk management strategies, particularly those involving hedging a risk component (other than foreign currency risk) of a non-financial item, will be likely to qualify for hedge accounting.

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**20. NEW STANDARDS, AMENDMENTS TO STANDARDS AND STANDARDS ISSUED AND NOT YET EFFECTIVE (continued)**

*Standards issued but not yet effective (continued)*

b) IFRS 9 Financial Instruments (continued)

Under IAS 39, for all cash flow hedges, the amounts accumulated in the cash flow hedge reserve are reclassified to profit or loss as a reclassification adjustment in the same period as the hedged expected cash flows affect profit or loss. However, under IFRS 9, for cash flow hedges of foreign currency risk associated with forecast non-financial asset purchases, the amounts accumulated in the cash flow hedge reserve and the cost of hedging reserve will instead be included directly in the initial cost of the non-financial asset when it is recognised.

Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit losses.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Group plans to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognised in retained earnings and reserves as at January 1, 2018.
- New hedge accounting requirements should generally be applied prospectively. However the Group may elect to apply the expected change in accounting for forward points retrospectively.

c) IFRS 16 Leases

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including 'IAS 17 – Leases', 'IFRIC 4 - Determining whether an Arrangement contains a Lease', 'SIC-15 - Operating Leases – Incentives' and 'SIC 27 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.

The standard is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

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**20. NEW STANDARDS, AMENDMENTS TO STANDARDS AND STANDARDS ISSUED AND NOT YET EFFECTIVE (continued)**

*Standards issued but not yet effective (continued)*

c) IFRS 16 Leases (continued)

*Determining whether an arrangement contains a lease*

On transition to IFRS 16, the Group can choose whether to:

- Apply the IFRS 16 definition of a lease to all its contracts; or
- Apply a practical expedient and not reassess whether a contract is, or contains, a lease.

*Transition*

As a lessee, the Group can either apply the standard using a:

- Retrospective approach; or
- Modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases. The Group currently plans to apply IFRS 16 initially on January 1, 2019. The Group has not yet determined which transition approach to apply.

As a lessor, the Group is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

d) Annual Improvements to IFRSs 2014–2016 Cycle

- IFRS 1 First-time Adoption of IFRS - Outdated exemptions for first-time adopters of IFRS are removed. Effective for annual periods beginning on or after January 1, 2018.
- IAS 28 Investments in Associates and Joint Ventures - A venture capital organisation, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss. This election can be made on an investment-by-investment basis.
- A non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture. Effective retrospectively for annual periods beginning on or after January 1, 2018; early application is permitted.

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**20. NEW STANDARDS, AMENDMENTS TO STANDARDS AND STANDARDS ISSUED AND NOT YET EFFECTIVE (continued)**

*Standards issued but not yet effective (continued)*

e) Other Amendments

The following new or amended standards which are not yet effective and neither expected to have a significant impact on the Group's consolidated financial statements.

- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4) Amendments respond to industry concerns about the impact of differing effective dates.
- Transfers of Investment Property (Amendments to IAS 40) – A property asset is transferred when, and only when, there is evidence of an actual change in its use.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration - clarifies the transaction date used to determine the exchange rate.

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**21. EXPLANATION OF TRANSITION TO IFRSs**

As stated in note 2 (a), the Group prepared its first condensed consolidated interim financial statements for the period ended March 31, 2017 in accordance with IAS 34 “Interim Financial Reporting” that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by SOCPA. Further, the Group’s opening Statement of Financial Position was prepared as at January 1, 2016, being the date of transition to IFRS Standards.

The accounting policies set out in note 3 have been applied in preparing the condensed consolidated interim financial statements for the periods / years ended December 31, 2017, December 31, 2016 and in the preparation of an opening IFRS statement of financial position as at January 1, 2016 (the Group’s date of transition).

In preparing its opening IFRS statement of financial position, the Group has adjusted amounts reported previously in financial statements prepared in accordance with generally accepted accounting standards as issued by SOCPA (pre-convergence GAAP). An explanation of how the transition from pre-convergence GAAP to IFRS has affected the Group’s financial position, for the respective periods, is set out in the following tables and the notes that accompany the tables.

Certain comparative amounts under pre-convergence GAAP have been reclassified to conform to the IFRS presentation.

***Reconciliation of consolidated statement of financial position***

	<i>Note</i>	<i>Pre – convergence GAAP</i>	<i>Effect of transition to IFRS December 31, 2016</i>	<i>IFRS</i>	<i>Pre – convergence GAAP</i>	<i>Effect of transition to IFRS January 1, 2016</i>	<i>IFRS</i>
<i>Assets</i>							
Property, plant and equipment	a, b, k	6,864,808	1,086,474	7,951,282	7,852,712	950,655	8,803,367
Intangible assets and goodwill	a, c, d	661,669	25,329	686,998	1,113,720	(48,982)	1,064,738
Investment property	a	--	34,256	34,256	--	30,638	30,638
Investments in equity accounted investees	e	7,915,016	(416,418)	7,498,598	7,720,958	(403,767)	7,317,191
Available for sale (AFS) investments		612,421	--	612,421	709,275	--	709,275
Long term receivables		10,751	--	10,751	177,207	--	177,207
Deferred tax asset	j	28,693	--	28,693	69,763	--	69,763
<i>Total non-current assets</i>		<u>16,093,358</u>	<u>729,641</u>	<u>16,822,999</u>	<u>17,643,635</u>	<u>528,544</u>	<u>18,172,179</u>

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**21. EXPLANATION OF TRANSITION TO IFRSs (continued)**

***Reconciliation of consolidated statement of financial position (continued)***

	<i>Note</i>	<i>Pre – convergence GAAP</i>	<i>Effect of transition to IFRS</i>	<i>IFRS</i>	<i>Pre – convergence GAAP</i>	<i>Effect of transition to IFRS</i>	<i>IFRS</i>
		<i>December 31, 2016</i>			<i>January 1, 2016</i>		
Inventories	a, f, g	3,204,482	79,660	3,284,142	4,853,454	156,260	5,009,714
Trade receivables	a, g	1,228,616	42,005	1,270,621	920,620	(92,529)	828,091
Prepayments and other receivables	a, h	1,302,308	41,805	1,344,113	1,669,208	56,944	1,726,152
Cash and cash equivalents	a	1,331,524	73,226	1,404,750	2,067,074	22,908	2,089,982
		7,066,930	236,696	7,303,626	9,510,356	143,583	9,653,939
Asset classified as held for sale		1,132,026	--	1,132,026	--	--	--
<i>Total current assets</i>		8,198,956	236,696	8,435,652	9,510,356	143,583	9,653,939
<i>Total assets</i>		24,292,314	966,337	25,258,651	27,153,991	672,127	27,826,118
<b><i>Equity</i></b>							
Share capital		5,339,807	--	5,339,807	5,339,807	--	5,339,807
Share premium		342,974	--	342,974	342,974	--	342,974
Statutory reserves		1,774,085	--	1,774,085	1,774,085	--	1,774,085
General reserve		4,000	--	4,000	4,000	--	4,000
Fair value reserve	a, e	(22,093)	(9,930)	(32,023)	3,784	(4,402)	(618)
Effect of transactions with non-controlling interest without change in control		(171,375)	--	(171,375)	(171,375)	--	(171,375)
Foreign currency translation reserve	m	(1,941,088)	1,014,801	(926,287)	(1,019,087)	1,019,087	--
Retained earnings		3,157,057	(1,271,214)	1,885,843	4,275,841	(1,337,559)	2,938,282
<i>Total equity attributable to shareholders of the Company</i>		8,483,367	(266,343)	8,217,024	10,550,029	(322,874)	10,227,155
Non-controlling interest	a	634,279	398,531	1,032,810	956,037	352,902	1,308,939
<i>Total equity</i>		9,117,646	132,188	9,249,834	11,506,066	30,028	11,536,094

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**21. EXPLANATION OF TRANSITION TO IFRSs (continued)**

***Reconciliation of consolidated statement of financial position (continued)***

	<i>Note</i>	<i>Pre – convergence GAAP</i>	<i>Effect of transition to IFRS December 31, 2016</i>	<i>IFRS</i>	<i>Pre – convergence GAAP</i>	<i>Effect of transition to IFRS January 1, 2016</i>	<i>IFRS</i>
<i>Liabilities</i>							
Loans and borrowings	a	4,217,478	238,478	4,455,956	4,579,096	195,944	4,775,040
Employee benefits	a, i	439,381	169,870	609,251	412,220	130,895	543,115
Deferred tax liabilities	j	50,551	5,389	55,940	102,932	13,517	116,449
Deferred income	l	158,217	(158,217)	--	175,314	(175,314)	--
Long term payables		215,581	--	215,581	232,497	--	232,497
Long term lease rentals		--	202,248	202,248	--	160,307	160,307
Provision against assets restoration cost	k	--	92,326	92,326	--	97,083	97,083
<i>Total non-current liabilities</i>		<u>5,081,208</u>	<u>550,094</u>	<u>5,631,302</u>	<u>5,502,059</u>	<u>422,432</u>	<u>5,924,491</u>
Loans and borrowings	a	4,486,198	122,077	4,608,275	5,010,542	87,730	5,098,272
Trade payables	a, f	2,415,503	102,101	2,517,604	3,123,979	95,043	3,219,022
Current maturity of lease rentals		--	47,730	47,730	--	26,118	26,118
Accrued and other liabilities	a	2,177,594	12,147	2,189,741	2,011,345	10,776	2,022,121
		<u>9,079,295</u>	<u>284,055</u>	<u>9,363,350</u>	<u>10,145,866</u>	<u>219,667</u>	<u>10,365,533</u>
Liabilities classified as held for sale		1,014,165	--	1,014,165	--	--	--
<i>Total current liabilities</i>		<u>10,093,460</u>	<u>284,055</u>	<u>10,377,515</u>	<u>10,145,866</u>	<u>219,667</u>	<u>10,365,533</u>
<i>Total liabilities</i>		<u>15,174,668</u>	<u>834,149</u>	<u>16,008,817</u>	<u>15,647,925</u>	<u>642,099</u>	<u>16,290,024</u>
<i>Total liabilities and equity</i>		<u>24,292,314</u>	<u>966,337</u>	<u>25,258,651</u>	<u>27,153,991</u>	<u>672,127</u>	<u>27,826,118</u>

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**21. EXPLANATION OF TRANSITION TO IFRSs (continued)**

***Reconciliation of consolidated statement of profit or loss and other comprehensive income***

	<i>Note</i>	<i>For the three months period ended December 31, 2016</i>			<i>For the year ended December 31, 2016</i>		
		<i>Pre – convergence GAAP</i>	<i>Effect of transition to IFRS</i>	<i>IFRS</i>	<i>Pre – convergence GAAP</i>	<i>Effect of transition to IFRS</i>	<i>IFRS</i>
<b>Continuing operations</b>							
Revenue	a, g, l	6,507,303	267,807	6,775,110	25,105,954	1,224,848	26,330,802
Cost of sales	a, h, i, k	(5,696,135)	(163,060)	(5,859,195)	(20,840,134)	(786,266)	(21,626,400)
<b>Gross profit</b>		811,168	104,747	915,915	4,265,820	438,582	4,704,402
Share of profit of equity accounted investees, net of zakat and tax	e	132,227	(9,401)	122,826	781,408	(80,565)	700,843
Dividend income from available-for-sale investments – net		1,168	--	1,168	1,168	--	1,168
Administrative expenses	a, b, c, i	(190,182)	11,375	(178,807)	(739,584)	(21,072)	(760,656)
Selling and marketing expenses	a, b, i	(932,945)	(32,952)	(965,897)	(3,476,402)	(122,847)	(3,599,249)
Impairment loss		(573,892)	--	(573,892)	(573,892)	--	(573,892)
<b>Results from operating activities</b>		(752,456)	73,769	(678,687)	258,518	214,098	472,616
Finance income	a, k	61,314	--	61,314	196,083	--	196,083
Finance costs	a, k	(334,859)	(2,320)	(337,179)	(745,792)	(8,883)	(754,675)
<b>Net finance costs</b>		(273,545)	(2,320)	(275,865)	(549,709)	(8,883)	(558,592)
<b>(Loss) / Profit before zakat and income tax</b>		(1,026,001)	71,449	(954,552)	(291,191)	205,215	(85,976)
Zakat and income tax expense	a, j	(42,178)	10,343	(31,835)	(156,900)	3,878	(153,022)
<b>Profit from continuing operations</b>		(1,068,179)	81,792	(986,387)	(448,091)	209,093	(238,998)
<b>Discontinued operation</b>							
Loss from discontinued operation, net of tax		(23,569)	--	(23,569)	(176,260)	--	(176,260)
<b>Profit for the period</b>		(1,091,748)	81,792	(1,009,956)	(624,351)	209,093	(415,258)



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**21. EXPLANATION OF TRANSITION TO IFRSs (continued)**

***Reconciliation of consolidated statement of profit or loss and other comprehensive income (continued)***

**Other comprehensive income**

	<i>For the three months period ended December 31, 2016</i>			<i>For the year ended December 31, 2016</i>		
	<i>Pre –</i>	<i>Effect of</i>	<i>IFRS</i>	<i>Pre –</i>	<i>Effect of</i>	<i>IFRS</i>
	<i>convergence</i>	<i>transition to</i>		<i>convergence</i>	<i>transition to</i>	
	<u>GAAP</u>	<u>IFRS</u>		<u>GAAP</u>	<u>IFRS</u>	
<b><i>Items that will never be classified to profit or loss</i></b>						
Defined benefit actuarial losses	--	(25,060)	(25,060)	--	(25,060)	(25,060)
<b><i>Items that are or may be classified to profit or loss*</i></b>						
Foreign operations – foreign currency translation differences	(723,662)	--	(723,662)	(1,001,601)	--	(1,001,601)
Investment in equity accounted investees - share of Other Comprehensive Income	(95,332)	--	(95,332)	(122,164)	--	(122,164)
Cash flow hedges – effective portion of changes in fair value	15,210	--	15,210	10,027	--	10,027
Available for sale financial assets – net change in fair value	159,681	--	159,681	87,014	--	87,014
<b>Other comprehensive (loss)</b>	<u>(644,103)</u>	<u>(25,060)</u>	<u>(669,163)</u>	<u>(1,026,724)</u>	<u>(25,060)</u>	<u>(1,051,784)</u>
Total comprehensive income for the period	<u>(1,735,851)</u>	<u>56,732</u>	<u>(1,679,119)</u>	<u>(1,651,075)</u>	<u>184,033</u>	<u>(1,467,042)</u>

\* Under the pre-convergence GAAP, the Other Comprehensive Income movement was included as part of condensed consolidated statement of changes in equity.

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**21. EXPLANATION OF TRANSITION TO IFRSs (continued)**

*Reconciliation of retained earnings*

	<i>Note</i>	<i>December 31, 2016</i>	<i>January 1, 2016</i>
<b>Retained earnings under pre-convergence GAAP</b>		3,157,057	4,275,841
Property, plant and equipment	<i>b</i>	26,966	(21,220)
Intangible assets	<i>c &amp; d</i>	--	(57,682)
Investment in equity accounted investees	<i>e</i>	8,051	(16,893)
Sales to distributors	<i>g</i>	--	(33,976)
Operating lease arrangement- lease rentals normalization	<i>h</i>	(253,277)	(213,807)
Employee benefits	<i>i</i>	(98,368)	(68,532)
Deferred tax liability	<i>j</i>	(5,799)	(13,517)
Assets restoration cost	<i>k</i>	(44,470)	(35,392)
Deferred income	<i>l</i>	114,770	142,547
Reclassification of currency translation reserve	<i>m</i>	(1,019,087)	(1,019,087)
<b><i>Decrease in retained earnings</i></b>		<b><u>(1,271,214)</u></b>	<b><u>(1,337,559)</u></b>
<b>Retained earnings under IFRS as at end of the year</b>		<b><u>1,885,843</u></b>	<b><u>2,938,282</u></b>

**a) Consolidation of an entity previously recognized as an associate under SOCPA**

Under the pre-convergence GAAP, the Group had a policy of recognizing an entity as a subsidiary if the Group has the power to govern the financial and operating policies to obtain economic benefit generally accompanying a shareholding of more than one half of the voting rights. Under IFRS, an entity controlled by the Group is considered as a subsidiary, where the Group is exposed to or has rights to the variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Upon transition to the IFRS, the Group has reassessed its control over its investees based on which it was concluded that the Company has control over Herfy Food Services Company ("Herfy") as per the requirements of IFRS 10. Accordingly, assets and liabilities of Herfy have been consolidated in this condensed consolidated interim financial statements. Resultantly, net assets amounting to SR 725.53 million as reported in the audited financial statements for the year ended January 1, 2016 (December 31, 2016: SR 802.71 million) have been included, after required IFRS adjustments, in this financial statements. This has resulted in the recognition of goodwill amounting to SR 25.33 million (included under intangibles assets) as at January 1, 2016 in accordance with IFRS 1. Further, a non-controlling interest amounting to SR 370.02 million has also been recognized as at the date of transition (December 31, 2016: SR 409.38 million).

The assets and liabilities included in these condensed consolidated interim financial statements as a result of consolidation of Herfy are as follows:

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**21. EXPLANATION OF TRANSITION TO IFRSs (continued)**

**a) Consolidation of an entity previously recognized as an associate under SOCPA (continued)**

	December 31, <u>2016</u>	January 1, <u>2016</u>
<i>Non-current Assets</i>		
Property, plant and equipment	1,005,863	910,078
Investment property	34,256	30,638
Total non-current assets	<u>1,040,119</u>	<u>940,716</u>
<i>Current Assets</i>		
Inventories	101,762	108,946
Trade receivables	50,020	40,972
Prepayments and other receivables	76,935	67,575
Cash and cash equivalents	73,226	22,908
Total current assets	<u>301,943</u>	<u>240,401</u>
Total assets	<u><u>1,342,062</u></u>	<u><u>1,181,117</u></u>
<i>Liabilities</i>		
<i>Non-current Liabilities</i>		
Loans and borrowings	238,478	195,944
Employee benefits	59,276	53,269
Total non-current liabilities	<u>297,754</u>	<u>249,213</u>
<i>Current Liabilities</i>		
Loans and borrowings	122,077	87,730
Trade payables	107,377	105,669
Accrued and other liabilities	12,147	12,976
Total current liabilities	<u>241,601</u>	<u>206,375</u>
Total Liabilities	<u><u>539,355</u></u>	<u><u>455,588</u></u>

The operating results included in these condensed consolidated interim financial statements as a result of consolidation of Herfy are as follows:

	December 31, <u>2016</u>
Revenue	1,156,683
Cost of revenue	(815,760)
Gross profit	<u>340,923</u>
General and Administrative Expenses	(63,676)
Selling and Distribution Expenses	(47,503)
Results from operating activities	<u>229,744</u>
Finance cost	(7,914)
Profit before zakat	<u>221,830</u>
Zakat expense	(4,250)
Net profit for the year	<u><u>217,580</u></u>

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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**21. EXPLANATION OF TRANSITION TO IFRSs (continued)**

**b) Property, plant and equipment**

- i) Upon transition to IFRS, the Group separately accounts for significant components of items of property, plant and equipment that have useful lives which are materially different from that of the overall item or other component. Based on management's detailed analysis such significant components were identified in the operating plants of the Group. As at January 1, 2016, the carrying values of the identified significant components were determined in proportion to the components' fair values, without adjusting the overall carrying values.

As a result of above, the Group has recorded a reversal in depreciation amounting to SR 59.26 million for the year ended December 31, 2016.

- ii) Under the pre-convergence GAAP, any major repairs and maintenance conducted with respect to plant were expensed in the period in which related costs were incurred. Upon transition to IFRS, the Group assesses major repairs and maintenance in respect of eligibility for capitalization. Since the Group has opted for allocating the carrying values based on the fair value as at the date of transition, the impact of such previously incurred repairs and maintenance, eligible for capitalization, has not been accounted for separately.
- iii) Under the pre-convergence GAAP, the retail business of the Group had capitalized certain maintenance expenditure based on a quantitative threshold policy. Under IFRS, the Group has adopted a policy of recognizing subsequent costs like maintenance expenditure as a capital expenditure only if it is probable that the associated future economic benefits will flow to the Group. Accordingly, the Group has derecognized previously capitalized expenditures amounting to SR 23.31 million with a corresponding decrease in retained earnings and non-controlling interests by SR 21.22 million and SR 2.09 million respectively.
- iv) Under the pre-convergence GAAP, the Group had recognized certain payments pertaining to properties acquired under operating lease arrangements, as leasehold land. Pursuant to transition to IFRS, prepayment amounting to SR 14.4 million has been reclassified as prepayments at its unamortized value as at January 1, 2016.

**c) Intangible assets**

Under the pre-convergence GAAP, the Group had adopted a policy of amortizing marketing and recruitment expenses for new stores over a period not exceeding three years. Under IFRS, such cost are not eligible for capitalization on account of not meeting the capitalization criteria. At the date of transition, such cost amounted to SR 21.5 million were expensed. Further, the deferred cost representing the pre-operating / start-up cost capitalized by the Group amounting to SR 48.08 million does not meet the capitalization criteria under IFRS. Accordingly, the Group has derecognized deferred charges amounting to SR 69.59 million with a corresponding decrease in retained earnings by SR 57.68 million.

Additionally, the amortization of such deferred charges recognized under pre-convergence GAAP amounting to SR 68.2 million for the year ended December 31, 2016 has been reversed for the said year.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the year ended December 31, 2017

(Expressed in thousands of Saudi Riyal unless otherwise stated)

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**21. EXPLANATION OF TRANSITION TO IFRSs (continued)**

**d) Intangible assets recognized under past business combinations**

On transition to IFRS, the Group elected not to apply IFRSs retrospectively to any past business combination. Accordingly, Goodwill recognized under SOCPA shall continue to be recognized under IFRS subject to the change on account of sub-summation of certain intangible assets like brands within goodwill, in accordance with the IFRS 1 requirements. Accordingly, Goodwill has increased by SR 242.87 million with a corresponding decrease in carrying amounts of brands classified within intangibles.

**e) Investment in equity accounted investee**

The Group's associates have recognized retained earnings losses resulting from their respective transition to IFRS. Such adjustment has resulted in the reduction in investment in associate balance by SR 16.89 million with the corresponding decrease in the Group's retained earnings as at the date of transition.

Additionally, the share of profit of equity accounted investees for the year ended December 31, 2016 has been adjusted by SR 80.56 million.

Further, as disclosed in note "a" above, the consolidation of Herfy has resulted in the derecognition of carrying value of Group's investment in Herfy amounting to SR 391.74 million as at the date of transition (December 31, 2016: SR 428.97 million).

**f) Inventories**

Under the pre-convergence GAAP, the Group accounted for certain strategic spare parts and stand-by/servicing equipment as inventory. Upon transition to IFRS, such assets, upon meeting the relevant criteria have been classified as a separate component of property, plant and equipment. Accordingly, at the date of transition, such strategic spare parts and equipment amounting to SR 28.82 million have been reclassified from inventories into property, plant and equipment. Resultantly, the depreciation on strategic spare parts and equipment amounting to SR 2.89 million has been recorded for the year ended December 31, 2016.

**g) Sales to distributors**

Under the pre-convergence GAAP, the Group was recognizing revenue for the inventory sold to its distributors considering the related risk and rewards to be transferred on dispatch basis. Under IFRS, the conditions to recognize such revenue were not being met. Accordingly, on the date of transition, inventory in transit has increased by SR 69.42 million with a corresponding decrease of SR 105.11 million in trade receivables. The adjustment has also resulted in the decrease in retained earnings by SR 33.98 million. During the year ended December 31, 2016, such sales were recognized and the resultant impact was included in the condensed consolidated statement of comprehensive income for the said year.

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For the year ended December 31, 2017

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**21. EXPLANATION OF TRANSITION TO IFRSs (continued)**

**h) Operating lease arrangements**

Under the pre-convergence GAAP, the Group adopted a policy of recognizing the lease expense at amounts and in the period in which these fall due. Under IFRS, the Company has recognized the lease expense other than contingent rent expense on a straight-line basis over the lease term. Accordingly, on the date of transition, the prepaid lease expenses included in the prepayments and other receivables has decreased by SR 48.48 million and lease rentals liabilities have increased by SR 186.42 million with a corresponding decrease in retained earnings by SR 213.81 million.

Further, the Group's lease expenses have increased by SR 60.75 million during the year ended December 31, 2016.

**i) Employee benefits**

Under the pre-convergence GAAP, the Group accounted for obligations under employees' end of service benefits with reference to the mode of computation stipulated under the corresponding labour law. Upon transition to IFRS, the Group accounts for such end of service benefits as defined benefit obligations. Accordingly, the Group has appointed an independent actuary for the computation of the IFRS transitional defined benefit liability as at January 1, 2016 and onwards. As at the date of transition, employees' end of service benefit liability has increased by SR 77.63 million with the corresponding decrease in retained earnings by SR 68.53 million.

Moreover, the Group's employees' end of service benefit charge has decreased by SR 7.8 million during the year ended December 31, 2016.

Further, under the pre-convergence GAAP, the Group recorded its liability under Employee benefits based on regulatory requirements. In order to determine the liability under IFRS Standards, the Group performed detailed actuarial valuation of its Employee Benefits. Consequently, actuarial loss amounting to SR 25.06 million has been recognized in Other Comprehensive Income with a corresponding increase in the liability for the year ended December 31, 2016. The Group's share of the said actuarial loss amounts to SR 21.67 million which has been recognised in the retained earnings as at year ended December 31, 2016.

**j) Deferred tax**

Under the pre-convergence GAAP, the Group did not recognize deferred tax on undistributed profits of subsidiaries. Under IFRS, deferred tax liability is required to be recognized on such undistributed profits. Accordingly, on the date of transition, additional deferred tax liability amounting to SR 13.5 million has been recognized with the corresponding decrease in retained earnings by SR 13.5 million.

In addition to above, upon transition to IFRS, the Group has separately classified deferred tax asset amounting to SR 69.76 million which was included in the Prepayments and other receivables prior to the date of transition.

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**21. EXPLANATION OF TRANSITION TO IFRSs (continued)**

**k) Provision against asset restoration**

Under the pre-convergence GAAP, the Group had adopted a policy of recognizing asset restoration expense in relation to assets taken on operating lease as and when incurred. Upon transition to IFRS, the Group has adopted a policy of recognizing the contractual obligation of asset restoration liability on the date leasehold improvements are made. Accordingly, on the date of transition, the Group has recognized the asset restoration liability of SR 97.08 million with the resulting increase in cost of leasehold improvement by SR 84.68 million and related accumulated depreciation by SR 26.45 million. The adjustment has reduced the retained earnings and non-controlling interest by SR 35.39 million and SR 3.46 million respectively.

The Group's depreciation charge on restoration cost has increased by SR 14.56 million during the year ended December 31, 2016. Further, the decommissioning charges have increased by SR 3.69 million during the year ended December 31, 2016.

**l) Deferred income**

Under the pre-convergence GAAP, the Group adopted a policy of recognizing a deferred gain or loss for any gain or loss arising from a sale and leaseback transaction in the nature of operating lease. Further, such deferred gain was amortized over the lease term. Under IFRS, the Group has adopted a policy of recognizing any gain or loss on the date of sale for leaseback transaction for sale at a fair value price for leases in the nature of operating lease. Accordingly, on the date of transition, the Group has de-recognized the deferred gain amounting to SR 175.31 million with a corresponding increase in retained earnings and non-controlling interest by SR 142.55 million and SR 32.76 million respectively.

Further, deferred gain amortized during the year ended December 31, 2016 amounting to 34.49 million has been reversed.

**m) Foreign currency translation reserve**

In accordance with IFRS 1, the Group has elected to deem all the foreign currency translation differences that arose prior to the date of transition in respect of all foreign operations as nil as at date of transition. Resultantly, as at the date of transition, the Group's retained earnings has reduced by SR 1,019 million with the corresponding decrease in the foreign currency translation reserve.

**22. DATE OF AUTHORISATION FOR ISSUE**

These financial statements were authorized for issue by the Company's Board of Directors on Jumada Al-Awwal 25, 1439H, corresponding to February 11, 2018.