

## Directors' Report

## Main Activities and Financial Disclosures

## 1) The Group's Main Activities:

The Group has a broad portfolio of activities. In the foods sector, this is mainly the production, marketing and distribution of edible oils, vegetable ghee, sugar, pasta, baked goods, specialty fats, seafood and frozen food. The retail sector operates a chain of hypermarkets and supermarkets. Savola also has significant investments in leading Saudi non-listed and listed companies such as Almarai Co. and Herfy Food Services Co. which operate in the food and retail sectors, and real estate development companies such as Knowledge Economic City, King Abdullah Economic City (Emaar), and Kinan International for Real Estate Development Co., as well as holdings in private equity funds.

## Savola's subsidiaries, sister companies, investments, activities and country of incorporation are:

| No.   | Company name   | Country of incorporation      | Core activities                               | Country presence  | Ownership % (direct and indirect) | Capital (nominal share value) | Number of shares |
|---|--|-------------------------------|---|---|-----------------------------------|-------------------------------|------------------|
| <b>1) Direct subsidiaries of the Company:</b> |  |                               |   |   |                                   |                               |                  |
| <b>a. Operating subsidiaries:</b>             |  |                               |   |   |                                   |                               |                  |
| 1   | Savola Foods Co.   | Kingdom of Saudi Arabia (KSA) | Foods   | Holding company that manages investment in foods sector in KSA & overseas | 100%                              | SAR 2,200,000,000             | 220,000,000      |
| 2   | Panda Retail Co. (Panda)                                       | KSA                           | Retail  | KSA and Egypt   | 98.87%                            | SAR 1,480,000,000             | 148,000,000      |
| 3   | Good Food Co. (GFC)  | KSA                           | Holding Company                               | KSA and some GCC countries  | 100%                              | SAR 10,000,000                | 100,000          |
| 4   | Al Matoun International for Real Estate Investment Holding Co. | KSA                           | Real Estate                                   | KSA   | 80%                               | SAR 100,000,000               | 100,000          |
| 5   | Herfy Food Services Co.  | KSA                           | Restaurants and Manufacturing Bakery Products | KSA, Bangladesh and some GCC countries                                    | 49%                               | SAR 646,800,000               | 64,680,000       |
| <b>b. Holding and Dormant subsidiaries:</b>   |  |                               |   |   |                                   |                               |                  |
| 6   | Adeem Arabia Company   | KSA                           | Holding Company                               | KSA   | 100%                              | SAR 1,000,000                 | 10,000           |
| 7   | Al Utur Arabian for Commercial Investment                      | KSA                           | Holding Company                               | KSA   | 100%                              | SAR 1,000,000                 | 10,000           |
| 8   | Al Mojammat Al Mowahadah Real Estate Co.                       | KSA                           | Liquidated during 2019                        | KSA   | 100%                              | SAR 2,000,000                 | 200,000          |
| 9   | Madarek Investment Co.   | Jordan                        | Holding Company                               | Jordan  | 100%                              | JOD 1,000,000                 | 1,000,000        |
| 10  | United Properties Development Co.                              | KSA                           | Dormant Company                               | KSA   | 70%                               | SAR 4,000,000                 | 400              |

## 1) The Group's Main Activities: continued

## Savola's subsidiaries, sister companies, investments, activities and country of incorporation are: continued

| No.   | Company name   | Country of incorporation     | Core activities                         | Country presence                 | Ownership % (direct and indirect) | Capital (nominal share value) | Number of shares |
|---|--|------------------------------|---|----------------------------------|-----------------------------------|-------------------------------|------------------|
| <b>2) Savola Foods Company</b>  |  |                              |   |                                  |                                   |                               |                  |
| <b>a. Subsidiaries controlled through SFC:</b>  |  |                              |   |                                  |                                   |                               |                  |
| (% referred to SFC's direct and indirect ownership – SFC is 100% owned by Savola Group) |  |                              |   |                                  |                                   |                               |                  |
| 11.   | Afia International Co. (AIC)                                 | KSA                          | Manufacturing of Edible Oils            | KSA, Egypt, Iran, Turkey, Jordan | 95.19%                            | SAR 500,000,000               | 50,000,000       |
| 12.   | Savola Industrial Investment Co. (SIIC)                      | KSA                          | Holding Company                         | KSA                              | 100%                              | SAR 205,907,000               | 205,907          |
| 13.   | El-Maleka for Food Industries Co.                            | Egypt                        | Manufacturing of Pasta                  | Egypt                            | 100%                              | EGP 268,898,960               | 433,708          |
| 14.   | El Farasha for Food Industries Co.                           | Egypt                        | Manufacturing of Pasta                  | Egypt                            | 100%                              | EGP 20,000,000                | 20,000           |
| 15.   | Savola Foods Emerging Markets (SFEM)                         | British Virgin Islands (BVI) | Holding Company                         | Offshore Company                 | 95.4%                             | SAR 130,000,000               | 13,000,000       |
| 16.   | Afia International Distribution and Marketing Co.            | KSA                          | Trading and Distribution                | KSA                              | 100%                              | SAR 6,500,000                 | 6,500            |
| 17.   | Savola Foods for Sugar Co.                                   | Cayman Islands               | Dormant Company                         | Offshore Company                 | 100%                              | USD 50,000                    | 5,000            |
| 18.   | Savola Foods International Ltd. (SFCI)                       | UAE                          | Holding Company                         | UAE                              | 100%                              | AED 500,000                   | 500              |
| 19.   | International Foods Industries Co. (IFI)                     | KSA                          | Manufacturing of Specialty Fats         | KSA                              | 100%                              | SAR 107,000,000               | 10,700,000       |
| 20.   | Seafood International Two FZCO                               | UAE                          | Seafood Products Trading & Distribution | UAE                              | 60%                               | AED 100,000                   | 100              |
| 21.   | Afia Foods Arabia Co.  | KSA                          | Holding Company                         | KSA                              | 100%                              | SAR 1,000,000                 | 1,000            |
| 22.   | Al Maoun International Holding Co. (Al Maoun)                | KSA                          | Holding Company                         | KSA                              | 100%                              | SAR 1,000,000                 | 1,000            |
| 23.   | Marasina International Real Estate Investment Co. (Marasina) | KSA                          | Holding Company                         | KSA                              | 100%                              | SAR 200,000                   | 200              |

## Directors' Report

## Main Activities and Financial Disclosures continued

## 1) The Group's Main Activities: continued

Savola's subsidiaries, sister companies, investments, activities and country of incorporation are: continued

| No.   | Company name                                 | Country of incorporation | Core activities                              | Country presence  | Ownership % (direct and indirect) | Capital (nominal share value) | Number of shares |
|---|--|--------------------------|--|-------------------|-----------------------------------|-------------------------------|------------------|
| <b>2) Savola Foods Company: continued</b>   |  |                          |  |                   |                                   |                               |                  |
| <b>b. Subsidiaries controlled through AIC:</b><br>(% referred to AIC's direct and indirect ownership; AIC is 95.19% owned by SFC) |  |                          |  |                   |                                   |                               |                  |
| 24.   | Savola Behshahr Co. (SBeC)                   | Iran                     | Holding Company                              | Iran              | 90%                               | IRR 740,000,000,000           | 740,000,000      |
| 25.   | Malintra Holdings Ltd.                       | Luxembourg               | Dormant Company                              | Offshore Company  | 100%                              | EUR 1,250,000                 | 1,250            |
| 26.   | Savola Foods Ltd. (SFL)                      | BVI                      | Holding Company                              | Offshore Company  | 100%                              | USD 52,000                    | 52,000           |
| 27.   | Afia International Co. – Jordan              | Jordan                   | Trading and Distribution (under Liquidation) | Jordan and Levant | 97.4%                             | JOD 8,000,000                 | 8,000,000        |
| 28.   | Inveszk Inc.                                 | BVI                      | Dormant Company                              | Offshore Company  | 90%                               | USD 138,847                   | 138,847          |
| 29.   | Afia Trading International                   | BVI                      | Dormant Company                              | Offshore Company  | 100%                              | USD 500,000                   | 500,000          |
| 30.   | Savola Foods International                   | BVI                      | Dormant Company                              | Offshore Company  | 100%                              | USD 50,000                    | 50,000           |
| 31.   | KUGU Gıda Yatım ve Ticaret A.Ş (KUGU)        | Turkey                   | Holding Company                              | Turkey            | 100%                              | TRL 26,301,280                | 2,630,128        |
| 32.   | Aseel Food – Holding Co.                     | Cayman Islands           | Holding Company                              | Offshore Company  | 100%                              | USD 50,000                    | 50,000           |
| <b>Under SBeC: (% referred to SBeC's ownership; SBeC is 90% owned by AIC)</b>   |  |                          |  |                   |                                   |                               |                  |
| 33.   | Behshahr Industrial Co.                      | Iran                     | Manufacturing of Edible Oils                 | Iran              | 79.9%                             | IRR 1,023,000,000,000         | 1,023,000,000    |
| 34.   | Tolue Pakshe Aftab Co.                       | Iran                     | Trading and Distribution                     | Iran              | 100%                              | IRR 100,000,000,000           | 100,000,000      |
| 35.   | Savola Behshahr Sugar Co.                    | Iran                     | Trading and Distribution                     | Iran              | 100%                              | IRR 100,000,000               | 100,000          |
| 36.   | Notrika Golden Wheat Co.                     | Iran                     | Manufacturing of Food and Confectionery      | Iran              | 90%                               | IRR 500,000,000,000           | 500,000,000      |
| <b>Under SFL: (% referred to SFL's ownership; SFL is 100% owned by AIC)</b>   |  |                          |  |                   |                                   |                               |                  |
| 37.   | Afia International Co. Egypt                 | Egypt                    | Manufacturing of Edible Oils                 | Egypt             | 99.95%                            | EGP 154,651,500               | 30,930,300       |
| <b>Under KUGU: (% referred to KUGU's direct and indirect ownership; KUGU is 100% owned by AIC)</b>                                |  |                          |  |                   |                                   |                               |                  |
| 38.   | Savola Gıda Sanayi ve Ticaret Anonim Şirketi | Turkey                   | Manufacturing of Edible Oils                 | Turkey            | 100%                              | TRL 4,433,569                 | 443,356,900      |

## 1) The Group's Main Activities: continued

Savola's subsidiaries, sister companies, investments, activities and country of incorporation are: continued

| No.  | Company name                                      | Country of incorporation | Core activities              | Country presence | Ownership % (direct and indirect)   | Capital (nominal share value) | Number of shares |
|--|---|--------------------------|------------------------------|------------------|-------------------------------------|-------------------------------|------------------|
| <b>2) Savola Foods Company: continued</b>  |   |                          |                              |                  |                                     |                               |                  |
| <b>c. Subsidiaries controlled through SIIC: (% referred to SIIC's ownership; SIIC is 100% owned by SFC)</b>  |   |                          |                              |                  |                                     |                               |                  |
| 39.  | United Sugar Co. (USC)                            | KSA                      | Manufacturing of Sugar       | KSA              | 74.48%                              | SAR 395,000,000               | 395,000          |
| <b>Under USC: (% referred to USC's direct and indirect ownership; USC is 74.48% owned by SIIC)</b>   |   |                          |                              |                  |                                     |                               |                  |
| 40.  | Alexandria Sugar Co. – Egypt (ASCE)               | Egypt                    | Manufacturing of Sugar       | Egypt            | 68.01 % (71.66% including Savola %) | EGP 281,838,000               | 281,838          |
| 41.  | Beet Sugar Industries                             | Cayman Islands           | Dormant Company              | Offshore Company | 100%                                | USD 1,000                     | 1,000            |
| <b>d. Under ASCE: (% referred to ASCE ownership; ASCE is 73.14% owned by SFC directly and indirectly)</b>  |   |                          |                              |                  |                                     |                               |                  |
| 42.  | Alexandria United Co. for Land Reclamation (AUCR) | Egypt                    | Agro Cultivation             | Egypt            | 100%                                | USD 22,500,000                | 225,000          |
| <b>e. Subsidiaries controlled through SFEM: (% referred to SFEM's direct and indirect ownership; SFEM is 95.4% owned by SFC)</b>                           |   |                          |                              |                  |                                     |                               |                  |
| 43.  | Savola Morocco Co.                                | Morocco                  | Manufacturing of Edible Oils | Morocco          | 100%                                | MAD 46,000,000                | 460,000          |
| 44.  | Savola Edible Oils (Sudan) Co.                    | Sudan                    | Manufacturing of Edible Oils | Sudan            | 100%                                | SDG 45,800,000                | 45,800,000       |
| 45.  | Afia International Co. – Algeria                  | Algeria                  | Manufacturing of Edible Oils | Algeria          | 100%                                | DZD 3,028,071,000             | 3,028,071        |
| <b>f. Subsidiaries controlled through SFCI: (% referred to SFCI's ownership; SFCI is 100% owned by SFC)</b>  |   |                          |                              |                  |                                     |                               |                  |
| 46.  | Modern Behtaam Royan Kaveh Co.                    | Iran                     | Food and Confectionery       | Iran             | 100%                                | IRR 1,000,000                 | 1,000            |
| <b>g. Subsidiaries controlled through Al Maoun and Marasina: (% referred to Al Maoun &amp; Marasina's ownership; both companies are 100% owned by SFC)</b> |   |                          |                              |                  |                                     |                               |                  |
| 47.  | Alofog Trading DMCC                               | UAE                      | Trading and Distribution     | UAE              | 100%                                | AED 2,000                     | 50               |

## Directors' Report

## Main Activities and Financial Disclosures continued

## 1) The Group's Main Activities: continued

Savola's subsidiaries, sister companies, investments, activities and country of incorporation are: continued

| No.  | Company name   | Country of incorporation | Core activities           | Country presence | Ownership % (direct and indirect)   | Capital (nominal share value) | Number of shares |
|--|--|--------------------------|---------------------------|------------------|-------------------------------------|-------------------------------|------------------|
| <b>3) Subsidiaries controlled through Panda:</b><br>(% referred to Panda's direct and indirect ownership; Panda is 98.87% owned by Savola)                                 |  |                          |                           |                  |                                     |                               |                  |
| 48.  | Giant Stores Trading Co.                                     | KSA                      | Retail                    | KSA              | 100%                                | SAR 500,000                   | 500              |
| 49.  | Panda for Operations, Maintenance & Contracting Services Co. | KSA                      | Services and Maintenance  | KSA              | 100%                                | SAR 500,000                   | 500              |
| 50.  | Panda International for Retail Trading                       | Egypt                    | Retail                    | Egypt            | 100%                                | EGP 50,000,000                | 50,000,000       |
| 51.  | Panda Bakeries Co.   | KSA                      | Bakery                    | KSA              | 100%                                | SAR 500,000                   | 500              |
| <b>Under Giant:</b> (% referred to Giant's ownership; Giant is 100% owned by Panda)  |  |                          |                           |                  |                                     |                               |                  |
| 52.  | Lebanese Sweets and Bakeries Co.                             | KSA                      | Dormant Company           | KSA              | 95% (99% including Savola direct %) | SAR 5,000,000                 | 5,000            |
| <b>4) Al Kabeer Group Companies:</b><br><b>Subsidiaries Controlled through GFC:</b> (% referred to GFC's direct and indirect ownership; GFC is 100% owned by Savola)       |  |                          |                           |                  |                                     |                               |                  |
| 53.  | Variety Foods Factory Co.                                    | KSA                      | Frozen Food Manufacturing | KSA              | 51%                                 | SAR 5,000,000                 | 5,000            |
| 54.  | Al Helal for Import & Export Co.                             | Bahrain                  | Trading and Distribution  | Bahrain          | 51%                                 | BHD 20,000                    | 200              |
| 55.  | Al Kabeer Holding Co.  | UAE                      | Holding Company           | UAE              | 51%                                 | USD 100                       | 100              |
| 56.  | Best Foodstuff Trading Co.                                   | UAE                      | Trading and Distribution  | UAE              | 51%                                 | AED 3,000,000                 | 3,000            |
| 57.  | Sahar Enterprises Co.  | UAE                      | Trading and Distribution  | UAE              | 51%                                 | AED 181,500,000               | 181,500          |
| 58.  | Sahar Food Industries Co.                                    | UAE                      | Frozen Food Manufacturing | UAE              | 51%                                 | AED 300,000                   | 300              |
| 59.  | Al Ahsan Trading Co.   | KSA                      | Trading and Distribution  | KSA              | 51%                                 | SAR 27,000,000                | 27,000           |
| <b>a. Subsidiaries Controlled through Al Kabeer Holding Co.:</b><br>(% referred to Al Kabeer Holding direct and indirect ownership; Al Kabeer Holding is 51% owned by GFC) |  |                          |                           |                  |                                     |                               |                  |
| 60.  | Al Sabah Foodstuff Enterprises Co.                           | UAE                      | Trading and Distribution  | UAE              | 100%                                | AED 500,000                   | 500              |
| 61.  | Cascade Marine Foods Co.                                     | UAE                      | Frozen Food Manufacturing | UAE              | 100%                                | AED 750,000                   | 100              |
| 62.  | Cascade Investments Limited                                  | UAE                      | Investment Company        | UAE              | 100%                                | USD 125,000                   | 1,250            |

## 1) The Group's Main Activities: continued

Savola's subsidiaries, sister companies, investments, activities and country of incorporation are: continued

| No.   | Company name  | Country of incorporation | Core activities                         | Country presence | Ownership % (direct and indirect)   | Capital (nominal share value) | Number of shares |
|---|---|--------------------------|---|------------------|-------------------------------------|-------------------------------|------------------|
| <b>Subsidiaries Controlled through Cascade Investments:</b><br>(% referred to Cascade Investments' direct and indirect ownership; Cascade Investments is 100% owned by Al Kabeer Holding) |   |                          |   |                  |                                     |                               |                  |
| 63.   | Best Foods Co.                                      | Oman                     | Food Distribution                       | Oman             | 100%                                | OMR 150,000                   | 150,000          |
| <b>5) Investees:</b> (investments in sister companies)  |   |                          |   |                  |                                     |                               |                  |
| 64.   | Almarai Co.   | KSA                      | Fresh Food Products                     | KSA              | 34.52%                              | SAR 10,000,000,000            | 1,000,000,000    |
| 65.   | Kinan International for Real Estate Development Co. | KSA                      | Real Estate Development                 | KSA              | 29.9%                               | SAR 1,694,000,000             | 169,400,000      |
| 66.   | United Sugar Co. Egypt (USCE)                       | Egypt                    | Manufacturing of Sugar                  | Egypt            | 33.82% (Savola effective ownership) | USD 156,000,000               | 15,600,000       |
| 67.   | Al Seera Co. for Real Estate Development            | KSA                      | Real Estate Development                 | KSA              | 40%                                 | SAR 20,000,000                | 200,000          |
| 68.   | Knowledge Economic City Developers Co.              | KSA                      | Real Estate                             | KSA              | 2.07%                               | SAR 830,000,000               | 83,000,000       |
| 69.   | Intaj Capital Ltd.                                  | Republic of Tunisia      | Fund Management                         | Tunisia          | 49%                                 | USD 260,000,000               | 260,000          |
| 70.   | United Edible Oils Holding Ltd.                     | Cayman Islands           | Holding Company                         | Offshore Company | 51%                                 | USD 50,000                    | 50,000,000       |
| 71.   | Seafood International One FZCO                      | UAE                      | Seafood Products Trading & Distribution | UAE              | 50%                                 | AED 100,000                   | 100              |
| <b>6) Available for sale investments:</b> Listed:   |   |                          |   |                  |                                     |                               |                  |
| 72.   | Knowledge Economic City                             | KSA                      | Real Estate Development                 | KSA              | 11.5%                               | SAR 3,393,000,000             | 339,300,000      |
| 73.   | King Abdullah Economic City                         | KSA                      | Real Estate                             | KSA              | 0.87%                               | SAR 8,500,000,000             | 850,000,000      |
| 74.   | Arab Phoenix Holdings Co.                           | Jordan                   | Real Estate Development                 | Jordan           | 5%                                  | JOD 86,840,292                | 86,840,292       |
| Unlisted:   |   |                          |   |                  |                                     |                               |                  |
| 75.   | Joussor Holding Co.                                 | KSA                      | Investment Funds (under Liquidation)    | KSA              | 14.81%                              | SAR 600,000,000               | 60,000,000       |
| 76.   | Swicorp Co.   | KSA                      | Investment Management                   | KSA              | 15%                                 | SAR 500,000,000               | 50,000,000       |

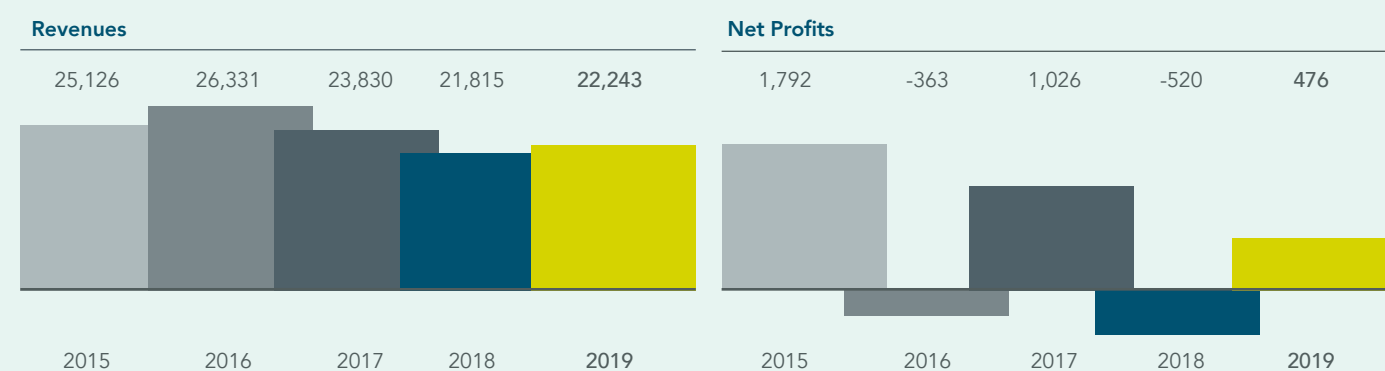
## Directors' Report

## Main Activities and Financial Disclosures continued

## 2) Consolidated Performance of the Group

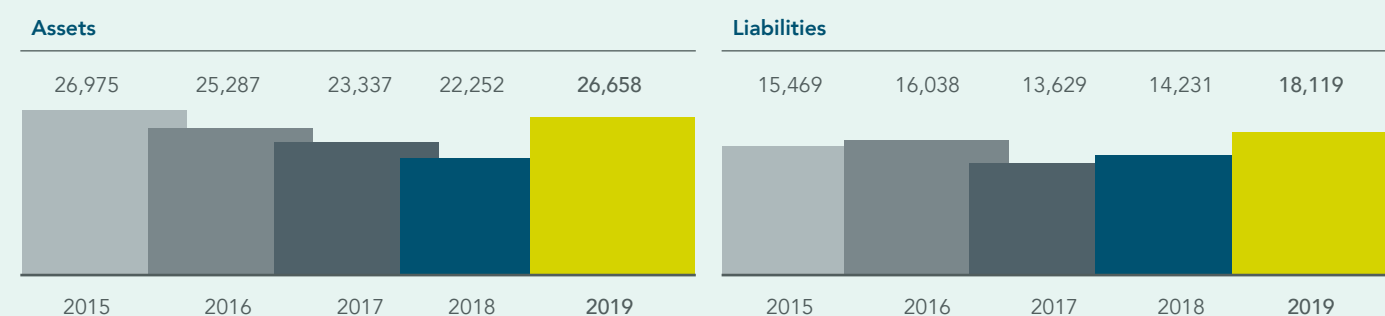
## 2-1) Summary of the Company's assets &amp; liabilities and financial results for the last five years

## a) Comparison of the Company's financial results (SAR millions)



| Item (SAR '000)   | 2019         | 2018         | 2017         | 2016         | 2015         |
|-------------------|--------------|--------------|--------------|--------------|--------------|
| Revenues          | 22,243,363   | 21,814,563   | 23,830,475   | 26,330,802   | 25,125,596   |
| Cost of Revenues  | (17,739,059) | (17,916,606) | (19,436,360) | (21,677,838) | (20,100,206) |
| Gross Profit      | 4,504,304    | 3,897,957    | 4,394,115    | 4,652,964    | 5,025,390    |
| Net Profit (loss) | 475,630      | (520,380)    | 1,025,618    | (363,287)    | 1,791,747    |

## b) Comparison of the Company's assets and liabilities (SAR millions)



| Item (SAR '000)          | 2019              | 2018              | 2017              | 2016              | 2015              |
|--------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Current assets           | 5,969,924         | 5,906,124         | 6,678,054         | 8,449,057         | 9,331,719         |
| Non-current assets       | 20,687,787        | 16,346,327        | 16,659,276        | 16,838,339        | 17,643,635        |
| <b>Total assets</b>      | <b>26,657,711</b> | <b>22,252,451</b> | <b>23,337,330</b> | <b>25,287,396</b> | <b>26,975,354</b> |
| Current liabilities      | 8,863,915         | 8,426,642         | 8,642,368         | 10,406,259        | 9,967,229         |
| Non-current liabilities  | 9,254,726         | 5,803,868         | 4,986,982         | 5,631,303         | 5,502,059         |
| <b>Total liabilities</b> | <b>18,118,641</b> | <b>14,230,510</b> | <b>13,629,350</b> | <b>16,037,562</b> | <b>15,469,288</b> |

\* All 2016 related figures were reclassified according to IFRS

## 2) Consolidated Performance of the Group continued

## 2-2) Geographical analysis of the Company's and its subsidiaries' revenues

Below is the Group's consolidated revenue for 2019 compared to the previous year, business-wise (edible oils and vegetable ghee, sugar and sweeteners, pasta, seafood, retail sector, fast food, specialty fats and frozen food), including geographical analysis based on availability of brands and products in countries:

| Business line/country                               | Brands  | 2019<br>(SAR '000) | 2018<br>(SAR '000) |
|---|---|--------------------|--------------------|
| <b>Edible oil and vegetable ghee</b>                |   |                    |                    |
| KSA, GCC and Yemen                                  | Afia, Al-Arabi, Olite, Shams, Sun Glow, Dalal, Nakeel | 1,808,170          | 1,917,003          |
| Egypt, Levant                                       | Rawabi, Afia, Ganna, Slite, Helwa                     | 948,169            | 950,009            |
| Central Asia  | Ladan, Aftab, Bahar, Afia                             | 1,150,718          | 1,808,636          |
| Sudan   | Al Tayeb, Sabah, Shams                                | 250,436            | 211,900            |
| Morocco   | Afia, Hala  | 350,196            | 358,538            |
| Turkey  | Yudum, Sirma, Afia                                    | 725,460            | 724,860            |
| Algeria   | Afia, Oleor   | 678,241            | 598,460            |
| <b>Total edible oil and vegetable ghee revenues</b> |   | <b>5,911,390</b>   | <b>6,569,406</b>   |
| <b>Sugar and sweeteners</b>                         |   |                    |                    |
| KSA, GCC, and Yemen                                 | Al Osra, Ziadah, Safaa, Nehar, Halla, Sweeva          | 2,199,348          | 2,096,484          |
| Egypt   | Al Osra   | 346,548            | 412,101            |
| <b>Total sugar and sweeteners revenues</b>          |   | <b>2,545,896</b>   | <b>2,508,585</b>   |
| Total pasta products – Egypt                        | El Maleka, Macaronto, Italiano                        | 510,492            | 471,440            |
| Total seafood products – Egypt & GCC                | John West   | 39,397             | 60,301             |
| Total baked food products – Central Asia            | Pech Pech   | 38,382             | 37,458             |
| Total specialty fats and margarine – KSA & Turkey   | Culina, Margarina, Vala, Sava                         | 163,656            | 88,281             |
| <b>Total foods revenues</b>                         |   | <b>9,209,213</b>   | <b>9,735,471</b>   |
| <b>Retail - Panda</b>                               |   |                    |                    |
| KSA   | Hyper Panda, Panda Supermarket                        | 11,394,578         | 11,016,334         |
| Egypt   | Panda Supermarket                                     | 102,127            | 97,907             |
| <b>Total retail revenues - Panda</b>                |   | <b>11,496,705</b>  | <b>11,114,241</b>  |
| <b>Fast food</b>                                    |   |                    |                    |
| Fast food and restaurants                           | Herfy   | 1,288,310          | 1,227,270          |
| <b>Total Fast food and restaurants</b>              |   | <b>1,288,310</b>   | <b>1,227,270</b>   |
| <b>Frozen food products</b>                         |   |                    |                    |
| KSA and GCC   | Al-Kabeer, Tayebat Al Emarat, Tabarruk                | 620,055            | 94,107             |
| <b>Total frozen food products</b>                   |   | <b>620,055</b>     | <b>94,107</b>      |
| <b>Others</b>                                       |   |                    |                    |
| Real estate – KSA                                   |   | 43,599             | 47,035             |
| <b>Total other activities revenues</b>              |   | <b>43,599</b>      | <b>47,035</b>      |
| <b>Gross revenues</b>                               |   | <b>22,657,882</b>  | <b>22,218,124</b>  |
| Consolidated intercompany elimination               |   | (414,519)          | (403,561)          |
| <b>Total revenues</b>                               |   | <b>22,243,363</b>  | <b>21,814,563</b>  |

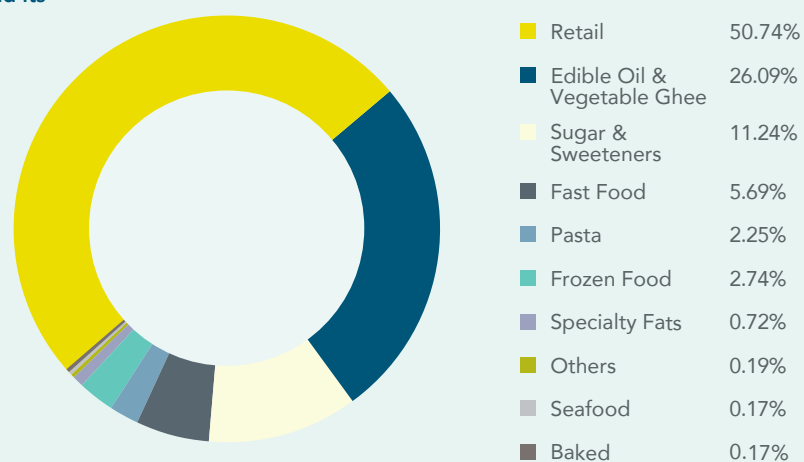
## Directors' Report

## Main Activities and Financial Disclosures continued

2) Consolidated Performance of the Group continued  
2-2) Geographical analysis of the Company's and its subsidiary revenues continued

## Revenues

## Breakdown of sector and main Group activity contributions to 2019 consolidated revenues



## Statement of any material differences in the operational results compared to the preceding year's results

| Income statement             | 2019<br>(SAR '000) | 2018<br>(SAR '000) | Variance (+) or (-)<br>(SAR '000) | Variance % |
|------------------------------|--------------------|--------------------|-----------------------------------|------------|
| Revenues                     | 22,243,363         | 21,814,563         | 428,800                           | 2.0%       |
| Cost of revenues             | (17,739,059)       | (17,916,606)       | 177,547                           | -1.0%      |
| Gross profit                 | 4,504,304          | 3,897,957          | 606,347                           | 15.6%      |
| Operational revenues – Other | 639,357            | 574,742            | 64,615                            | 11.2%      |
| Operational expenses – Other | (3,834,704)        | (4,195,379)        | 360,675                           | -8.6%      |
| Operational profit (loss)    | 1,308,957          | 277,320            | 1,031,637                         | 372.0%     |

Declarations: The Company did not announce any financial expectations during 2019

## The reasons for the change in net profit for 2019 compared to last year:

Net profit improved to SAR 475.6 million for 2019 due to substantially enhanced performance as compared to the net loss of SAR 520.4 million for previous year. The profit achieved is mainly attributed to higher gross profits due to higher sales and margins; lower operating expenses mainly due to the significant decrease in the impairment losses; higher share of profits from associates; an exceptional expense was recorded in the comparable period relating to an associate's subsidiary; and zakat and tax provision reversal relating to prior years' assessments for the subsidiaries. The net profit for the year was achieved despite of increase in the net finance cost resulting mainly from the adoption of new leasing standard (IFRS 16) applied during 2019, being partially compensated by the reduced foreign currency exchange losses.

## 2-4) Details of long and short-term loans and payment status

Savola has a long-standing policy to adopt Shariah-compliant financial transactions wherever possible. Accordingly, all Group loans and deposits within Saudi Arabia are Shariah-compliant, as well as some arranged by overseas subsidiaries.

In January 2013, the Group completed its initial offering by issuing Sukuk with a total value of SAR 1.5 billion with a tenor of 7 years. The Sukuk matured in January, 2020 and accordingly has been classified as short-term loans and borrowings as at December 2019. In July, 2019, the Group completed the offering of its new Sukuk, under the new program, with a total value of SAR 1 billion with a tenor of 7 years. The Sukuk will mature in July, 2026. The issuance included SAR 507 million of the previous Sukuk, which was redeemed and exchanged. Accordingly, the nominal value of the previous Sukuk decreases from SAR 1.5 billion to SAR 993 million. Certain loans arranged by overseas subsidiaries are subject to structure and policies adopted in those countries, which may differ from those in Saudi Arabia.

Finance charges for Group loans (short-term and long-term borrowings) from various commercial banks and financial institutions during 2019 (at prevailing market rates) reached SAR 429 million compared to SAR 398.8 million in the previous year. With regards to loan guarantees granted by the Group to its subsidiaries (see table below), the Group usually signs promissory notes as a guarantee to its own loans and a corporate guarantee for some of its subsidiaries' loans, according to the requirements of the lending banks or financial institutions.

## Main Activities and Financial Disclosures continued

## 2) Consolidated Performance of the Group continued

## 2-4) Details of long and short-term loans and payment status continued

Details of long-term and short-term loans of the Group and its subsidiaries obtained in the normal course of business are as follows:

## a) Long-term loans of the Group and its subsidiaries, and their payment status as of 31/12/2019 (SAR '000):

| No.                                      | Borrowing company             | Lender                         | Loan period  | Date issued | Original amount | Amount paid in 2019 | Balance Dec-2019 | Balance Dec-2018 |        |
|--|-------------------------------|--------------------------------|--------------|-------------|-----------------|---------------------|------------------|------------------|--------|
| 1  | Savola Group                  | National Commercial Bank       | 5 years      | Oct-16      | 500,000         | 125,000             | 218,750          | 343,750          |        |
|  |                               | Gulf International Bank        | 2.08 years   | Dec-18      | 480,000         | –                   | 480,000          | 480,000          |        |
|  |                               | Samba Financial Group          | 7 years      | Dec-18      | 294,000         | 42,000              | 252,000          | 294,000          |        |
|  |                               | Bank Al Jazira                 | 7 years      | Nov-18      | 300,000         | –                   | 300,000          | 300,000          |        |
|  |                               | Bank Al Jazira                 | 2 years      | Dec-18      | 300,000         | 300,000             | –                | 300,000          |        |
|  |                               | Bank Al Jazira                 | 7 years      | Dec-19      | 350,000         | –                   | 350,000          | –                |        |
|  |                               | Saudi British Bank             | 5 years      | Sep-18      | 750,000         | 150,000             | 600,000          | 750,000          |        |
|  |                               | Saudi British Bank             | 7 years      | Feb-19      | 800,000         | 41,000              | 759,000          | –                |        |
|  |                               | Sukuk                          | 7 years      | Jan-13      | 1,500,000       | 507,000             | 993,000          | 1,500,000        |        |
|  |                               | Sukuk                          | 7 years      | Jul-19      | 1,000,000       | –                   | 1,000,000        | –                |        |
| <b>Savola Group</b>                      |                               |                                |              |             |                 |                     | <b>4,952,750</b> | <b>3,967,750</b> |        |
| 2  | Panda                         | Banque Saudi Fransi            | 5 years      | Mar-14      | 500,000         | 166,667             | –                | 166,667          |        |
|  |                               | National Commercial Bank       | 4 years      | Jul-15      | 300,000         | 100,000             | –                | 100,000          |        |
|  |                               | Saudi British Bank             | 5 years      | Dec-15      | 300,000         | 75,000              | 75,000           | 150,000          |        |
|  |                               | Saudi British Bank             | 6 years      | Dec-16      | 400,000         | 160,000             | 160,000          | 320,000          |        |
|  |                               | Al Rajhi Bank                  | 4 years      | Mar-16      | 250,000         | 83,333              | –                | 83,333           |        |
| <b>Panda Retail Co.</b>                  |                               |                                |              |             |                 |                     | <b>235,000</b>   | <b>820,000</b>   |        |
| 3  | Afia – KSA                    | Saudi British Bank             | 5 years      | Dec-14      | 350,000         | 84,375              | –                | 84,375           |        |
|  |                               | Afia – Egypt                   | Emirates NBD | 5 years     | Jan-16          | 13,656              | 17,668           | –                | 17,668 |
|  |                               | Emirates NBD*                  | 5 years      | Jan-16      | 11,386          | –                   | 9,470            | 8,774            |        |
|  |                               | National Bank of Kuwait*       | 5 years      | Jan-19      | 16,000          | –                   | 15,993           | –                |        |
| <b>Afia International Co.</b>            |                               |                                |              |             |                 |                     | <b>25,463</b>    | <b>110,817</b>   |        |
| 4  | Savola Edible Oils (Sudan)    | Bank of Khartoum               | 3 years      | May-16      | 4,268           | 296                 | –                | 296              |        |
|  |                               |                                | 3 years      | May-16      | 4,371           | 293                 | –                | 293              |        |
| <b>Savola Foods Emerging Markets Co.</b> |                               |                                |              |             |                 |                     | <b>–</b>         | <b>589</b>       |        |
| 5  | El Maleka for Food Industries | National Bank of Kuwait        | 3.5 years    | Sep-14      | 17,744          | 4,019               | –                | 4,019            |        |
|  |                               |                                | 5.3 years    | Dec-18      | 28,173          | 2,884               | 24,587           | 27,471           |        |
| <b>Pasta</b>                             |                               |                                |              |             |                 |                     | <b>24,587</b>    | <b>31,490</b>    |        |
| 6  | ASC Egypt                     | Commercial International Bank* | 13 years     | Mar-10      | 529,937         | 7,621               | 137,280          | 130,368          |        |
|  |                               |                                | 5 years      | Jan-19      | 18,969          | –                   | 20,782           | –                |        |
| 7  | AUCR                          | National Bank of Kuwait*       | 4 years      | Jan-18      | 27,473          | 6,714               | 14,986           | 23,488           |        |
| <b>Savola Industrial Investment Co.</b>  |                               |                                |              |             |                 |                     | <b>–</b>         | <b>173,048</b>   |        |
| 8  | IFI                           | Saudi British Bank             | 4.75 years   | Nov-15      | 170,000         | 42,500              | 31,875           | 74,375           |        |



## Directors' Report

## 2) Consolidated Performance of the Group continued

## 2-4) Details of long and short-term loans and payment status continued

| No.                                       | Borrowing company | Lender                            | Loan period | Date issued | Original amount | Amount paid in 2019 | Balance Dec-2019 | Balance Dec-2018 |
|---|-------------------|-----------------------------------|-------------|-------------|-----------------|---------------------|------------------|------------------|
| <b>International Foods Industries Co.</b> |                   |                                   |             |             |                 |                     | <b>31,875</b>    | 74,375           |
| 9   | Herfy             | Al Rajhi Bank                     | 4-6 years   | 2014-2017   | 499,996         | 87,937              | 93,690           | 181,627          |
|   |                   | Saudi Industrial Development Fund | 6 years     | 2013-2016   | 42,903          | 10,281              | 17,630           | 27,911           |
|   |                   | Saudi British Bank                | 3 years     | Jan-18      | 15,600          | 1,998               | 13,704           | 15,702           |
|   |                   | Saudi British Bank**              | 3 years     | Oct-19      | 70,000          | -                   | 70,280           | -                |
|   |                   | Riyad Bank                        | 3 years     | Apr-18      | 20,000          | 20,111              | -                | 20,111           |
| <b>Herfy Food Services Company</b>        |                   |                                   |             |             |                 |                     | <b>195,304</b>   | 245,351          |
| <b>Total long-term loans</b>              |                   |                                   |             |             |                 |                     | <b>5,638,027</b> | 5,404,228        |

\* Dec 2019 loan value changed due to currency effect

\*\* December 2019 balance includes accrued interest.

## b) Short-term loans of the Group and its subsidiaries, and their payment status as of 31/12/2019 (SAR '000):

| No.                     | Borrowing company      | Lender                                       | Loan period | Date issued | Balance Dec-2019 | Balance Dec-2018 |
|-------------------------|------------------------|--|-------------|-------------|------------------|------------------|
| 1                       | Savola Group           |  |             |             |                  |                  |
| <b>Savola Group</b>     |                        |  |             |             | -                | 200,000          |
| 2                       | Panda                  |  |             |             |                  |                  |
| <b>Panda Retail Co.</b> |                        |  |             |             | -                | 145,000          |
| 3                       | Afia International Co. | Saudi British Bank                           | 1 month     | Dec-19      | 45,000           |                  |
|                         |                        | Saudi British Bank                           | 1 month     | Dec-19      | 100,000          |                  |
|                         |                        | Saudi British Bank                           | 1 month     | Dec-19      | 150,000          |                  |
|                         |                        | National Commercial Bank                     | 1 month     | Dec-19      | 200,000          |                  |
|                         |                        | Samba Financial Group                        | 1 month     | Dec-19      | 150,000          |                  |
|                         |                        | Samba Financial Group                        | 1 month     | Dec-19      | 140,000          |                  |
| 4                       | Afia Intl. Co. – Egypt | Hongkong and Shanghai Banking Corp.          | 1 year      | Dec-19      | 40,410           |                  |
|                         |                        | Emirates NBD                                 | 1 year      | Dec-19      | 40,180           |                  |
|                         |                        | National Bank of Kuwait                      | 1 year      | Dec-19      | 37,149           |                  |
|                         |                        | Egyptian Saudi Finance Bank (El Baraka Bank) | 1 year      | Dec-19      | 20,308           |                  |
|                         |                        | National Bank of Egypt                       | 1 year      | Dec-19      | 60               |                  |
|                         |                        | First Abu Dhabi Bank                         | 1 year      | Dec-19      | 17,036           |                  |
|                         |                        | Ahli United Bank                             | 1 year      | Dec-19      | 15,152           |                  |
|                         |                        | Attijari Wafa Bank Egypt                     | 1 year      | Dec-19      | 12,161           |                  |

## 2) Consolidated Performance of the Group continued

## 2-4) Details of long and short-term loans and payment status continued

## b) Short-term loans of the Group and its subsidiaries, and their payment status as of December 31, 2019 (SAR '000): continued

| No.                           | Borrowing company                | Lender                              | Loan period | Date issued | Balance Dec-2019 | Balance Dec-2018 |
|-------------------------------|----------------------------------|-------------------------------------|-------------|-------------|------------------|------------------|
| 5                             | Behshahr Industrial Co.          | EN Bank                             | 1 year      | Jan-19      | 887              |                  |
|                               |                                  | Karafarin Bank                      | 3 months    | Dec-19      | 21,936           |                  |
|                               |                                  | EN Bank                             | 3 months    | Sep-19      | 15,552           |                  |
|                               |                                  | EN Bank                             | 3 months    | Sep-19      | 15,552           |                  |
|                               |                                  | Khavarmianeh Bank                   | 3 months    | Sep-19      | 4,283            |                  |
|                               |                                  | Khavarmianeh Bank                   | 3 months    | Sep-19      | 4,279            |                  |
|                               |                                  | Bank Pasargad                       | 3 months    | Oct-19      | 4,314            |                  |
| 6                             | Savola Gida Sanayi ve Ticaret AS | Hongkong and Shanghai Banking Corp. | 2 months    | Nov-19      | 35,365           |                  |
|                               |                                  | Hongkong and Shanghai Banking Corp. | 38 days     | Nov-19      | 6,068            |                  |
|                               |                                  | Hongkong and Shanghai Banking Corp. | 1 month     | Dec-19      | 7,897            |                  |
|                               |                                  | Hongkong and Shanghai Banking Corp. | 1 month     | Dec-19      | 8,321            |                  |
|                               |                                  | Garanti Investment Credit           | 1 month     | Dec-19      | 43,812           |                  |
|                               |                                  | Ziraat Bank                         | 6 months    | Nov-19      | 31,565           |                  |
|                               |                                  | Vakif Bank                          | 1 year      | Dec-19      | 1,064            |                  |
|                               |                                  | Yapi ve kredi Bankasi               | 1 year      | Dec-19      | 25,252           |                  |
|                               |                                  | ISBank                              | 1 year      | Dec-19      | 12,624           |                  |
| <b>Afia International Co.</b> |                                  |                                     |             |             | <b>1,206,227</b> | <b>1,350,398</b> |
| 7                             | Afia Intl. Co. – Algeria         | Fransabank el Djazair               | 6 months    | Jul-19      | 55,710           |                  |
|                               |                                  | Arab Bank Plc                       | 6 months    | May-19      | 66,375           |                  |
|                               |                                  | Hongkong and Shanghai Banking Corp. | 6 months    | Jul-19      | 58,928           |                  |
|                               |                                  | Societe Generale Algerie            | 3 months    | Sep-19      | 30,557           |                  |
|                               |                                  | Credit du Maroc                     | 1 year      | Dec-19      | 10,845           |                  |
|                               |                                  | Credit du Maroc                     | 1 year      | Dec-19      | 10,885           |                  |
| 8                             | Savola Morocco Co.               | Attijari Wafa Bank                  | 1 year      | Feb-19      | 28,199           |                  |
|                               |                                  | Attijari Wafa Bank                  | 1 year      | Feb-19      | 7,059            |                  |
| 9                             | Savola Edible Oils (Sudan) Ltd.  | Arab Sudanese Bank                  | 3 months    | Dec-19      | 994              |                  |
|                               |                                  | Arab Sudanese Bank                  | 3 months    | Apr-19      | 115              |                  |
|                               |                                  | Arab Sudanese Bank                  | 3 months    | Jun-19      | 284              |                  |
|                               |                                  | Arab Sudanese Bank                  | 3 months    | Oct-19      | 809              |                  |
|                               |                                  | Arab Sudanese Bank                  | 3 months    | Nov-19      | 710              |                  |
|                               |                                  | Bank of Khartoum                    | 1 year      | Jul-19      | 725              |                  |
|                               |                                  | Bank of Khartoum                    | 1 year      | Jul-19      | 243              |                  |
|                               |                                  | Bank of Khartoum                    | 1 year      | Jul-19      | 387              |                  |

## Directors' Report

## Main Activities and Financial Disclosures continued

## 2) Consolidated Performance of the Group continued

## 2-4) Details of long and short-term loans and payment status continued

| Borrowing company                            | Lender                              | Loan period | Date issued | Balance Dec-2019 | Balance Dec-2018 |
|--|-------------------------------------|-------------|-------------|------------------|------------------|
| 9. Savola Edible Oils (Sudan) Ltd. continued | Bank of Khartoum                    | 1 year      | Jul-19      | 731              |                  |
|  | Bank of Khartoum                    | 1 year      | Sep-19      | 3,884            |                  |
|  | Bank of Khartoum                    | 1 year      | Oct-19      | 4,597            |                  |
|  | Bank of Khartoum                    | 1 year      | Nov-19      | 6,471            |                  |
|  | Bank of Khartoum                    | 1 year      | Dec-19      | 5,109            |                  |
|  | National Bank of Egypt              | 6 months    | Dec-19      | 2,710            |                  |
|  | Industrial Development Bank         | 9 months    | Jun-19      | 677              |                  |
| <b>Savola Foods Emerging Markets Co.</b>     |                                     |             |             | <b>297,004</b>   | <b>172,548</b>   |
| 10. El Maleka For food Industries Co.        | Emirates NBD                        | 1 year      | Nov-19      | 3,740            |                  |
|  | National Bank of Kuwait             | 1 year      | Dec-19      | 27,768           |                  |
|  | EBE Bank                            | 1 year      | Nov-19      | 6,758            |                  |
|  | National Bank of Kuwait             | 1 year      | Nov-19      | 6,147            |                  |
| 11. El Farasha for food Industries Co.       | National Bank of Kuwait             | 1 year      | Nov-19      | 4,973            |                  |
| <b>Pasta</b>                                 |                                     |             |             | <b>49,386</b>    | <b>47,146</b>    |
| 12. United Sugar Co.                         | Samba Financial Group               | 1 month     | Dec-19      | 120,000          |                  |
|  | Samba Financial Group               | 1 month     | Dec-19      | 35,000           |                  |
|  | Saudi British Bank                  | 1 month     | Dec-19      | 70,000           |                  |
| 13. Alexandria Sugar Co.                     | Commercial International Bank       | 1 year      | Nov-19      | 39,869           |                  |
|  | Hongkong and Shanghai Banking Corp. | 1 year      | Oct-19      | 23,255           |                  |
| 14. Alexandria UCLR                          | National Bank of Kuwait             | 1 year      | Dec-19      | 6,078            |                  |
|  | National Bank of Kuwait             | 1 year      | Dec-19      | 11,849           |                  |
| <b>Savola Industrial Investment Co.</b>      |                                     |             |             | <b>306,051</b>   | <b>540,147</b>   |
| 15. Seafood International Two FZCO           | Hongkong and Shanghai Banking Corp. | 1 year      | Apr-19      | 5,625            |                  |
| <b>Seafood International Two FZCO</b>        |                                     |             |             | <b>5,625</b>     | <b>22,000</b>    |
| 16. Sahar Enterprises LLC.                   | Dubai Islamic Bank                  | 3-4 months  | Dec-19      | 3,831            |                  |
|  | National Bank of Fujairah           | 3-4 months  | Dec-19      | 8,230            |                  |
|  | Habib Bank Limited                  | 3-4 months  | Dec-19      | 6,605            |                  |
|  | Habib Bank AG Zurich                | 3-4 months  | Dec-19      | 3,668            |                  |
|  | First Abu Dhabi Bank                | 3-4 months  | Dec-19      | 6,489            |                  |
|  | Standard Chartered Bank             | 3-4 months  | Dec-19      | 5,444            |                  |
|  | Hongkong and Shanghai Banking Corp. | 3-4 months  | Dec-19      | 7,908            |                  |
| <b>Good Food Co.</b>                         |                                     |             |             | <b>42,175</b>    | <b>96,444</b>    |
| <b>Total short-term borrowing</b>            |                                     |             |             | <b>1,906,468</b> | <b>2,551,683</b> |

## 2) Consolidated Performance of the Group continued

## 2-5) Summary of payments made and due to the government (in SAR '000)

| No. | Item (payments)                                       | Paid    | Due until the end of the financial period but not paid | Description                            | Reasons/ Justifications  |
|-----|---|---------|--|--|--|
| 1.  | Customs duties  | 164,365 | 10,219   | –                                      | According to the requirements of the laws and applicable regulations |
| 2.  | Zakat   | 84,224  | 21,039   | –                                      |  |
| 3.  | Income tax and withholding tax                        | 97,633  | 64,030   | Income and withholding tax             |  |
| 4.  | GOSI (for KSA) and social insurance (for outside KSA) | 133,704 | 5,352  | Employees' GOSI and social insurance   |  |
| 5.  | Visas and passport office fees                        | 66,750  | 15,060   | Iqama renewal, exit and re-entry visas |  |
| 6.  | Labor office fees                                     | 105,284 | 335  | Work permits                           |  |
| 7.  | Other duties and government levies                    | 23,493  | 433  | License fees, and other fees           |  |

## 3) Potential risks to Savola Group Operations:

## 3-1) Overview

## a) Risk Management

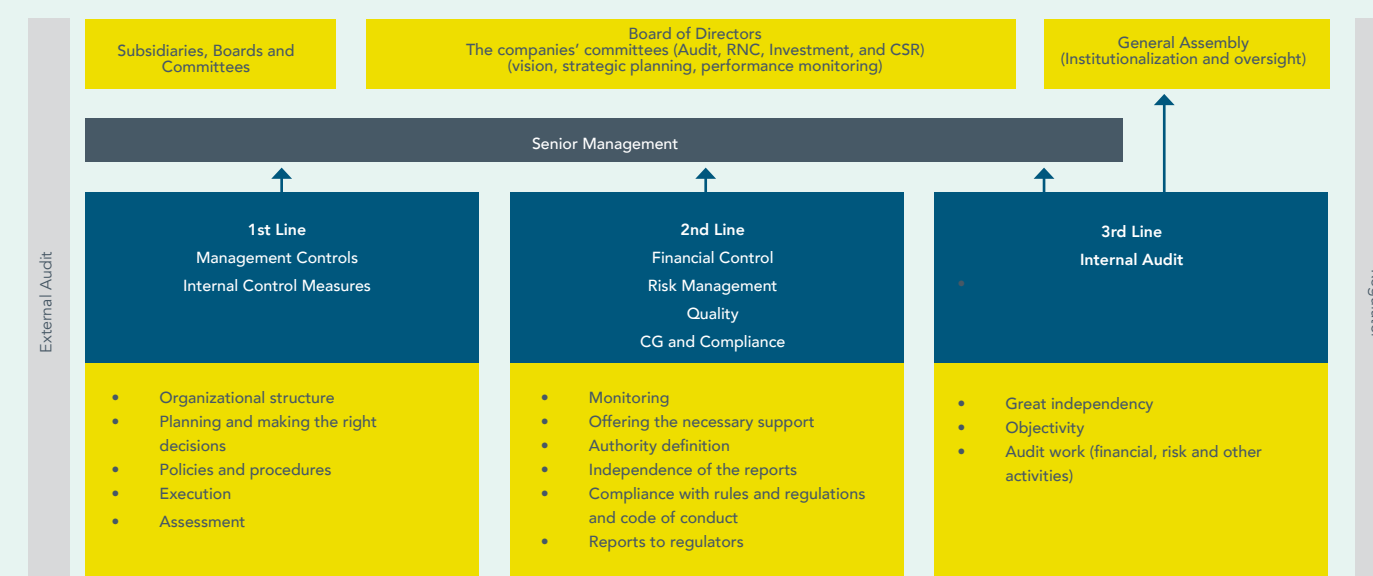
Strengthening our risk management culture and capabilities

Savola seeks to protect its stakeholders, reputation and the value of its assets, and is committed to continually developing its risk management culture by way of its risk governance framework and continual team development.

Savola operates a "Three Lines of Defense" model to ensure accountability across the Group for governance, monitoring, reporting and management of risks, and the control environment.

Each of the Three Lines of Defense plays a distinct role within Savola's wider governance framework. The Board and senior management are the primary stakeholders served by the Three Lines of Defense model, and they are the parties best positioned to help in ensuring that the Three Lines of Defense are reflected in Savola's risk management and internal control processes.

## 3 Lines of Defense



## Directors' Report

### Main Activities and Financial Disclosures continued

#### 3) Potential risks to Savola Group Operations continued

##### 3-1) Overview continued

Savola has developed – in line with the market best practices – an integrated Enterprise Risk Management (ERM) framework to support the success of the business and achievement of its strategic goals through a collaborative risk management environment that proactively identifies, monitors and mitigates risks.

The ERM program is designed to ensure that the outcomes of risk-taking activities are consistent with Savola's strategies and risk appetite. It is designed to deliver quality, relevant and actionable information in order to:

- Optimize the cost of managing business risks
- Enable informed and conscious risk management choices on an enterprise-wide basis
- Improve overall business performance

In line with the continuous efforts to strengthen risk management culture and capabilities, Savola has:

- Established a dedicated risk management function at the group and its main subsidiaries
- Developed a risk management framework & governance policy, approved by the Board of Directors
- Launched WAEI risk guide program as part of promoting its risk management culture
- Conducted multiple risk awareness sessions across the Group and its subsidiaries
- Identified risk champions across the Group to enhance risk management accountability.
- Identified the key risk indicators and consequently in the process of developing the risk appetite statement
- Conducted a risk assessment for three key functions at the group and its main subsidiaries
- Evaluated and approved the risk assessment project for four of its key operating units: USCA, AICA, IFI and ADC.
- Proactively identified emerging external risks and communicated them with the relative functions for assessment

Moreover, a Governance, Risk and Compliance system is being implemented across Savola Group to effectively enhance the participation of the Board and the executive management team in the risk management process to ensure a unified vision of the risks faced by the Group. The system is now at the testing phase with a targeted go live date in Q2 2020.

#### Enterprise Risk Management framework

Enterprise Risk Management is a process that is applied strategically across the Group and is designed to identify potential risks and manage these risks within the Group's risk appetite in order to enhance the outcome of the Group's business objectives.

Savola's ERM framework incorporates leading risk management standards and practices. The framework has been developed in line with current leading ERM practices and ISO 31000. In developing the ERM framework, the focus was to design a process that addresses Savola's business needs while remaining simple and pragmatic.

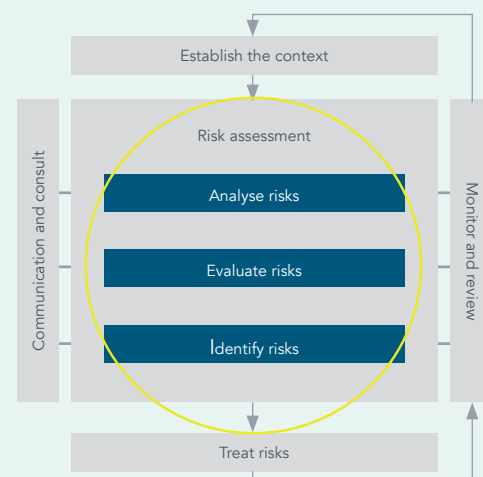
Savola ERM framework outlines the series of activities that Savola will use in identifying, assessing and managing its risks.

#### b) Savola's ERM framework

Risk is being managed through a common set of processes at Savola, which enable the flow of risk information to the person with the authority and responsibility for making decisions pertaining to the activity associated with the risk. By establishing a common language and set of tools, Savola's risk management process can be replicated at any level within the Group.

An effective ERM process requires consistent assessment, mitigation, monitoring and reporting of risks across the full breadth of the enterprise. The entire process will be aligned with annual budgeting and strategic planning processes. Each function will be required to present the results of the risk management exercise on a regular basis as part of their commitment to the management of Savola's risks.

The risk management function comprises a dedicated team leading the risk management activities across the Group, as well as assigned risk champions who implement risk management activities within respective business units/functions.



#### 3) Potential risks to Savola Group Operations continued

##### 3-1) Overview continued

#### Promoting Risk Management Culture – WAEI

In its continuing efforts to promote a risk management culture, enhance corporate excellence and bolster internal controls, Savola has launched WAEI, which is a:

- Modern method to share the knowledge of already identified and known business-related risks
- Initiative to reflect, explore and identify those risks that Savola may not fully be aware of or understand today
- Program that brings together people and expertise from across the Group to assess potential risks that Savola may face in the future
- Opportunity to review how Savola is currently managing risks and to reflect on the best and most cost-efficient ways of managing risks on a sustainable basis
- Framework that guides Savola on how to raise, share, inform and report risks to appropriate levels

The Group, like any other economic entity, may be affected by risks through the nature of its commercial activities in basic food commodities, retail and other investments. These risks may be summarized in the possibility of the Group operations being exposed to geopolitical risks that result from its operations outside the Kingdom, as well as fluctuations in raw material prices, currencies, speculation and unfair price competition in the local and international markets where it operates. There are also economic and political risks in the countries where it operates and risks pertaining to new markets in the region, in line with the Group's geographic expansion strategy.

Further risks include: fluctuation in foreign currency, exchange rates against the Saudi Riyal or other currencies of the countries that the Group operates in and inflation in the economies of countries where the Group operates; risks related to entering into new investments; and risks that might be associated with the current economic conditions and political situation in countries where the Group operates or exports its products.

The Group faces other risks from its various investment shareholdings in different companies and funds, locally and internationally. The Group and its subsidiaries manage these risks through its Board of Directors, Audit Committee, executive management and various departments and task forces within the Group. The Group is focused on continuously developing and improving a sound risk management system across the Group. The company has established a dedicated Risk Management department at holding level and its major subsidiary i.e. SFC and Panda.

### 3-2) Financial instruments and risk management

#### a) 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.

#### b) 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 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.



## Directors' Report

## Main Activities and Financial Disclosures continued

**3) Potential risks to Savola Group Operations** continued  
**3-2) Financial instruments and risk management** continued

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.

**c) 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.

**c-1) 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.

**c-2) Currency risk:**

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

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

**c-3) Price risk**

The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Group is exposed to equity securities price risk since the Group holds investment in certain listed equities which are classified on the statement of financial position as FVOCI investments. The management of the Group monitors the proportion of equity securities in its investment portfolio based on market indices. Such investments are managed on an individual basis and all buy and sell decisions are approved by the Investment Committee. In addition, United Sugar Company uses derivative financial instruments (Commodity future contracts) to hedge its price risk of raw material in the Sugar business.

**d) Credit risk**

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

**e) 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.

**3) Potential risks to Savola Group Operations** continued  
**3-2) Financial instruments and risk management** continued

**f) 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. For further details, the same item can be reviewed in the clarification notes accompanying the Company's financial statements for 2019.

**Internal Control, and Risk Team:**

As part of the organizational structure, following is a summary of the internal control, Audit, and Risk team CVs, whereas a summary of the Board and Committee members and the Executive team CVs – as per the structure – were detailed in different sections of this Report as well as Ex- Board members for the period ended on 30/06/2019:


**Mr. Aly Assem Barakat**  
 Group Chief Audit Officer

**Previous positions:**

Senior Manager at Abu Dhabi Accountability Authority  
 Manager at KPMG  
 Manager at Ernst & Young

**Qualifications:**

Bachelor's degree in Commerce, University of Helwan (major Accounting), Egypt  
 Licensed Certified Public Accountant - USA and Chartered Global Management Accountant - Association of International and Professional Accountants

**Experience:**

Extensive experience over 25 years in internal and external audit, governance, risk management, compliance and financial affairs

**Mr. Yasser Hassan Dahlawi**  
 Executive Director, Risk Management

**Previous positions:**

Head of Regulatory Compliance, Enterprise Risk Management at The National Commercial Bank (NCB)  
 Senior Advisor at KPMG Saudi Arabia

**Qualifications:**

Master of Science, Engineering & Technology Management, Portland State University, USA

Bachelor of Science, Industrial Engineering, King Fahad University of Petroleum & Minerals (KFUPM), Saudi Arabia

**Experience:**

Wide experience in Risk Management, mainly:  
 - Enterprise Risk Management  
 - Risk Reporting  
 - Basel II/III  
 - Capital planning & allocation  
 - Risk policy & procedure