Financial Statements

Independent Auditor's Report

To the Shareholders of Savola Group Company

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

Impairment testing of non-financial assets

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

Key audit matter	How the matter was addressed in our audit
As at December 31, 2019, the carrying value of intangible assets and goodwill amounted to SR 832 million (2018: SR 906 million). Further, as at December 31, 2019, the carrying value of property, plant and equipment and right-of-use (RoU) assets amounted to SR 6,512 million (2018: SR 6,755 million) and SR 4,320 million (2018: Nil) respectively. Impairment loss (net) recognised on the non-financial assets during the year amounted to SR 73 million (2018: SR 200 million). Intangible assets with indefinite useful life and Goodwill are subject to a mandatory annual impairment test and the intangible assets with definite useful life, property, plant and equipment and RoU assets are subject to impairment testing where there are internal or external indicators of impairment. The Group reviews the carrying amounts of these non-financial assets to determine whether their carrying values exceed the recoverable amounts, which is the higher of value in use or the fair value less costs to sell. For the purpose of the Group's impairment assessment, management has used the value in use model, to determine the recoverable amount, under which the future cash flows relating to each Cash Generating Unit (CGU) were discounted and compared to their respective carrying amounts. A value in use model requires input of several key assumptions, including estimates of future sales volumes, prices, operating costs, terminal value, growth rates and discount rates. There is uncertainty in estimating the recoverable amount of non-financial assets which principally arises from the inputs used in both forecasting and discounting future cash flows. A combination of the significance of the asset balances and the inherent uncertainty in the assumptions supporting the valuations of non-financial assets, means that an assessment of their carrying value is one of the key judgmental areas. We considered valuation of non-financial assets including intangible assets and goodwill as a key audit matter due to the significant judgment and key assumptions involved in the impairment assessment process.	We performed the following audit procedures in relation to non-financial assets impairment: • Assessed the appropriateness of the Group's accounting policies for measurement of non-financial assets in line with the requirements of International Financial Reporting Standards (IFRS); • Assessed the design and implementation, and tested the operating effectiveness of the Group's controls around impairment assessment; • Engaged our internal valuations specialist to assess the key assumptions used in the value in use calculation. Further, we assessed the reasonableness of key management assumptions in respect of estimated future cash flows, growth and discount rates; • Compared forecasts to historical experience and applied our understanding of the future prospects of the business from internal and external sources; • Performed a sensitivity analysis, which included assessing the effect of reasonably possible reductions in growth rates and forecast cash flows to evaluate the impact on the currently estimated headroom for the respective CGUs; • Checked the accuracy and completeness of the information produced by management, which was used as the basis of the impairment assessment; • Checked mathematical accuracy of the models used by the management; and • Considered the adequacy of the Group's related disclosures in terms of applicable accounting standards.

Valuation Of Equity-Accounted Investees

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

Key audit matter	How the matter was addressed in our audit
As at December 31, 2019, the carrying value of equity-accounted investees amounted to SR 8,625 million (2018: SR 8,301 million). Equity accounted investments are accounted for using the equity method in accordance with IAS 28 – Investments in Associates and Joint Ventures. This has been identified as a key audit matter due to the significance of the amounts involved, the complexities attached to the determination of carrying values at reporting dates, trade and capital transactions with investees and judgment involved in the determination of possible impairment loss.	We performed the following audit procedures in relation to valuation of equity-accounted investees: • Assessed the appropriateness of the Group's accounting policies for measurement of equity accounted investments in line with the requirements of International Financial Reporting Standards (IFRS); • Assessed the design and implementation, and tested the operating effectiveness of the Group's controls around recognition and subsequent measurement of Equity accounted investees including the impairment assessment process; • Verified components of equity accounted investments from underlying details and supporting documentation; • Evaluated the process by which the Group's cash flow forecasts for the equity-accounted investees (where there are indicators of impairment) were developed; • Engaged our internal valuations specialist to assess the key assumptions used in the value in use calculation. Further, we assessed the reasonableness of key management assumptions in respect of estimated future cash flows, growth and discount rates and performed a sensitivity analysis on these key assumptions; • Checked the mathematical accuracy of the impairment models; • Tested the accuracy and completeness of the information produced by management, which was used for the basis of the impairment assessment; and • Considered the adequacy of the Group's equity-accounted investees' disclosures in terms of applicable accounting standards.

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Valuation of Inventories

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

Key audit matter

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

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

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

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

How the matter was addressed in our audit

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

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

Revenue recognition

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

Key audit matter

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

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

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

How the matter was addressed in our audit

We performed the following procedures in relation to revenue recognition:

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

IFRS 16 ''Leases"

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

Key audit matter

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

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

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

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

How the matter was addressed in our audit

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

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

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Other Information

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

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

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the applicable requirements of the Regulations for Companies and Company's By-laws and for such internal controls as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit of Savola Group Company ("the Company") and its subsidiaries ("the Group").

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

For KPMG Al Fozan & Partners
Certified Public Accountants

Ebrahim Oboud Baeshen
License No: 382

Jeddah, Rajab 27, 1441H
Corresponding to March 22, 2020