



مجموعة صافولا  
*The Savola Group*

# The Savola Group

## Annual Report - Year 2007

**This is the Annual Report  
for the fiscal year that ended December 31, 2007.  
These results were submitted and approved by The Savola Group Shareholders Assembly  
at its 24<sup>th</sup> Extraordinary Annual General Meeting (AGM) held  
on March, 25<sup>th</sup> 2007 in Jeddah, Saudi Arabia  
(Corresponding to 17/03/1429H)**

## Contents:

| Contents   |
|--|
| <b>A word from the Chairman</b>  |
| <b>Managing Director's message</b>   |
| <b>2007 Major highlights</b>   |
| <b>Performance by Sector</b>   |
| <b>Foods Sector</b>  |
| <b>Oils Division</b>   |
| <b>Afia International Company, KSA</b>                                     |
| <b>Afia International Company, Egypt</b>                                   |
| <b>Savola Behshahr Company, Iran</b>                                       |
| <b>Savola Company Morocco</b>  |
| <b>Savola Edible Oil Company, Sudan</b>                                    |
| <b>Savola Company, Algeria</b>   |
| <b>Sugar Division</b>  |
| <b>United Sugar Company, KSA</b>   |
| <b>United Sugar Company, Egypt</b>   |
| <b>Retail Sector</b>   |
| <b>Azizia Panda United</b>   |
| <b>Plastics Sector</b>   |
| <b>Savola Packaging Systems, KSA</b>                                       |
| <b>Al Sharq Plastic Company, KSA</b>                                       |
| <b>New Marina Plastics Company, Egypt</b>                                  |
| <b>Franchising Division</b>  |
| <b>Al Batool International, KSA</b>  |
| <b>Real Estate Division</b>  |
| <b>Kinan International</b>   |
| <b>Economical Cities</b>   |
| <b>Other Investments</b>   |
| <b>Al Marai</b>  |
| <b>Herfy Food Services Company</b>   |
| <b>Other Strategic Investments</b>   |
| <b>Saudization Program</b>   |
| <b>Employee's Interest and welfare</b>                                     |
| a) Employees home loans scheme   |
| b) Employees Cooperative Takaful Fund                                      |
| c) Employees Takaful Fund  |
| <b>Corporate Social Responsibilities</b>                                   |
| <b>Savola Bridges program</b>  |
| <b>Board Declaration (as required by Corporate Governance Regulations)</b> |
| <b>Board Recommendations</b>   |
| Capital Increase   |
| CMA Corporate Governance compliance  |
| Others   |
| <b>Thanks and appreciation</b>   |

## **A word from the Chairman**

Dear Esteemed Shareholders,

It gives me great pleasure to address you through The Savola Group Annual Report on the results for the year ended December 31, 2007.

Our Group achieved outstanding results in all aspects during the year, by the Grace of Almighty Allah. Your company has witnessed impressive growth in revenues and net profits as compared to 2006. Specifically, The Group realized a substantial capital gain during the first half of 2007 when disposing of its interest in the Egyptian Fertilizer Company. The Group also made valuable acquisitions and expanded its facilities in all sectors, as detailed in the attached reports.

The year also witnessed a shift in The Group's approach in conducting its operations. Your company's Board of Directors approved the transformation of the role of the company from an Operating Holding Company to that of a Strategic Investment Holding Company. A highly trained and capable management team has been successfully deployed -coupled with advanced systems, procedures and infrastructure—to support The Group in its new direction of growth and value creation.

Alhamdulillah, the Group will be able to self-finance its dynamic growth, on-going operations and value-creation activities. Your Company is in a strong financial position, with talented human resources, and deeply rooted cultural values that adhere to the highest ethical standards.

We thank Almighty Allah for the great results our Group has achieved during the year 2007. At the same time, we pray and appeal to Almighty Allah to bless our efforts to achieve success and distinction in fulfilling our objectives. These include generating the highest shareholder returns for you, adding value to our national economy, and serving the community at large.

Finally, on behalf of the Board of Directors, I would like to extend thanks to the Custodian of the two holy mosques and the government of the Kingdom of Saudi Arabia. And our thanks to you, our esteemed shareholders, for the continued confidence and support you have provided to The Group.

Best regards

**Adel Mohammed Fakeih**  
Chairman of the Board

## **A word from the Managing Director**

Dear Respected Shareholders,

I have the honor of communicating the distinguished results achieved by your Group for the year ended December 31, 2007 through this annual report.

With the Grace of Allah, the Almighty, The Group concluded the year with strong unprecedented profits of SR 1.23 billion, compared to SR 1.15 billion for 2006—an increase of 7.1%. Overall consolidated revenues for The Group rose to SR 10.4 billion in 2007, an increase of 14.4 % over SR 9.1 billion in 2006. This is the third year in a row where The Group's profitability has exceeded SR 1 billion, highlighting The Group's continued sound financial performance.

These superior results were achieved in spite of very difficult macro-economic conditions, including an unprecedented surge in raw material prices for majority of our core businesses.

Details of the Group's performance and progress in its various business sectors are set out in the following report of the Board of Directors. The report includes financial statements and accompanying notes relevant to our shareholders.

As Managing Director, I am pleased to share the new strategic direction of The Group, converting gradually into a "Strategic Investments Holding Group" of diversified activities. The Group's experienced management teams are focusing efforts on the expansion of the core sectors of Edible Oils, Sugar, Retail, Real Estate and Plastic. These sectors represent the greatest investment opportunities, and The Group possesses outstanding capabilities and exceptional management expertise in these core businesses—encouraging expansion in the Middle East, North Africa, Middle Asia and beyond.

In order to ramp up The Group's internal capacity, the Steering Committee commissioned an international strategy consulting firm to work closely with the management team. This gives The Group team access to international best practices as well as immediate access to a pool of top industry experts.

A Savola Group "growth strategy" exercise concluded in 2007 and is now in the implementation phase. Each business sector is aggressively pursuing several growth opportunities identified through this exercise.

The Group center has also started to interact with each business sector on a more strategic level, while giving operational autonomy to the divisions to execute their strategies and manage their businesses. The Group's role at the center will gradually start to focus on selective value-added functions such as strategy formulation and monitoring, portfolio

management, risk exposure, deal structuring and financing, corporate governance and executive talent management. In addition, the center headquarters team is the custodian of The Group's rich culture and values.

The Group is currently finalizing an ambitious five-year goal through 2012. It will be duly announced once approved by the Board of Directors, in accordance with our principles of transparency.

As we unfold the year 2008, I would like to take this opportunity to express my great thanks and appreciation to all our Savolans (our employees) for their continued excellent performance and exemplary dedication towards the Group. I would also like to sincerely thank our visionary Chairman, Eng. Adel Fakeih, for his on-going strategic guidance. And thanks too to our esteemed Board of Directors for their relentless support for The Group.

Finally, I would like to take this opportunity to convey my special thanks and great appreciation to our shareholders for their confidence and continuous support. Thanks and appreciations for distinguished performance are also extended to the Group Executive Management, along with the thousands of The Group subsidiaries' employees inside and outside the Kingdom of Saudi Arabia.

I look forward to reporting ever-increasing Group performance in the 2008 Annual Report and pray to Allah, the Almighty, that The Group reaches new heights of success during year 2008, Insha'Allah.

Best regards,

**Dr. Sami Mohsen Baroum**  
Group Managing Director

## **Board of Directors summary of operations**

Dear Esteemed Shareholders,

The Board of The Savola Group has the honor to present this Annual Report for the fiscal year ended December 31, 2007.

This Annual Report covers the overall performance of The Group and its subsidiaries and associates, in all business sectors and areas of activities. This report also includes the Directors Report for the year, together with the Audited Financial results with the related notes, and the Auditors' report for the fiscal year ended 2007.

The Annual Report has been prepared in line with the requirements of the Capital Market Authority's (CMA) Corporate Governance and Disclosure standards, as stipulated in article 27 of the Joint Stock Companies registration and listing rules, and follows the Directors Report guidelines established by the CMA.

We continue to maintain the highest levels of transparency by strictly following the Group's stringent internal Corporate Governance policies, which exceed the requirements of Governmental authorities' regulations and international best practice.

## **2007 Major Highlights**

### **Summary of major achievements**

With the help and blessings of Almighty Allah, The Group concluded 2007 on a high note, achieving a number of key milestones and beating many records in the process:

- Turnover for 2007 exceeded a record SR 10 billion, having more than doubled since 2003
- Net income reached an all time high of SR 1.2 billion for the year
- The share of profits from associated and jointly-controlled investments exceeded SR 243 million
- Cash flows generated from operating activities exceeded SR 800 million; notably achieved by efficient working capital management, despite spiraling raw material prices and record inflation

The above milestones and records were achieved during the year while The Group was in the process of fundamentally redefining its strategy for growth and leadership in the radically changing future.

Growth in revenue in all sectors matched or exceeded the industry, whilst delivering strong profits and cash. Investments during the year reached SR 2.8 billion. Capital expenditure reached SR 1.2 billion. The long-term income-generating assets of The

Group almost doubled over 2004, resulting in non-current assets reaching a record SR 7.9 billion.

Total dividends distributed to our esteemed shareholders during the year will be almost SR 0.6 billion, which is a compounded annual growth rate over of over 58% over the last six years, continuing its strategy of distributing free shares and cash dividends regularly.

Your Board of Directors, at its meeting held on January 16, 2008, recommended the increase of The Group's paid up capital by 33% to reach SR 5 billion. This increase will be accomplished by granting one free share for every three shares held as at that date. In addition, your Board has also recommended distributing SR 0.25 per share for all owned and granted shares.

The Savola Group balance sheet continues to remain strong and growing, with the company well positioned to take advantage of the strategic growth opportunities in and around the region. The Group has a borrowing capacity of approximately SR 6 billion currently at its disposal, in addition to SR 1.3 billion held as cash and marketable securities.

2007 was a year where raw material prices surged, driven by the turmoil in the world markets, and the growing weakness in the US Dollar. These two very adverse factors created challenging macroeconomic conditions for the majority of The Group's core business sectors. The higher commodity prices were partly offset by cost rationalization, and optimized product mix, which translated to minimized decreases in The Group's gross profit margin for the year.

### **Restructuring The Savola Group**

In April 2007, The Group restructured to align itself with its revised growth strategy. Core businesses were categorized into four business sectors:

- Foods, includes Edible Oils and Sugar,
- Retail, consists of Panda Hypermarket and Supermarket businesses
- Plastics, covers the Packaging businesses
- Real Estate development

Each sector is headed by a dedicated CEO who is accountable for performance and for leading and managing the operations of all companies in the sector. The sector CEO has autonomy in the decision-making process, covering all areas of operations, expansion and investment relating to the sector. As part of the overall growth strategy, The Group continued to identify promising opportunities across areas within and adjacent to the core business sectors.

During the restructuring process, The Group rigorously evaluated a number of its international operations and investments from an impairment point of view. One major outcome was the decision to suspend manufacturing operations in Jordan. Other projects reviewed included various local and foreign trading operations, including some of the brand franchising operations, and some real estate activities, including those of the United Properties Company.

Impairment loss adjustments arising from the above process have been charged to the Income statement for the year. These adjustments will result in real operational improvements in the coming years.

## **Group Investments and Acquisitions**

### **Core Business segments**

The Group acquired YUDUM, the leading consumer branded edible oil company in Turkey during the 4<sup>th</sup> quarter of 2007; the transaction concluded during January 2008. It also increased its stake in Egypt's New Marina Plastics Company to 95% and its stake in Savola Morocco to 100%.

The Group invested SR 861 million in the Real Estate sector to build its portfolio and land bank. These investments have appreciated by over 25% in value by the end of 2007. In order to develop a strategic alliance to build affordable housing projects, The Group acquired 5% of the real estate development company Ta'meer in Jordan. This investment paves the way for The Group's entry into the Jordanian real estate sector.

As of the end of 2007, the investment in the King Abdullah Economic City project had realized an unrecognized gain of more than SR 200 million.

### **Non-Core Business segments**

Investments of more than SR 700 million in marketable securities were made during the year under review. The unrealized capital gain on these investments stood at SR 219 million at year-end. The Group also invested SR 531 million in non-core segments through investment funds.

### **Capital Expenditure**

During 2007, The Group made capital expenditures totaling over SR 1.2 billion in core business sectors to consolidate, strengthen and grow the respective market positions. Of this, more than SR 500 million was invested in the Retail sector for site locking and project development.

Capital expenditure in the Food sector also exceeded the SR 500 million mark, in the construction of its facilities in Egypt, Sudan and other geographical areas. The Plastics sector expended more than SR 119 million to build production capacities in the Kingdom and Egypt.

### **Disposal of Investments**

During the year, the Group disposed of its entire stake in the Egyptian Fertilizer Company (EFC), recognizing a capital gain of SR 709 million. This represented an annualized return on investment of more than 87%, reflecting The Group's skill in maneuvering its strategic investments in order to maximize returns to esteemed shareholders.

## Summarized financial statements and Indices

### Comparison of results vs. last year (in SR 000's)

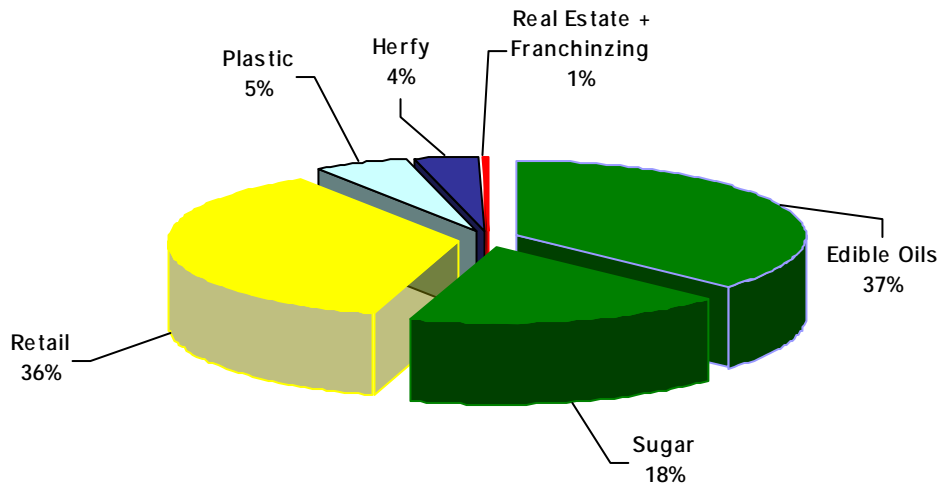
| Income statement   | 2007        | 2006        | Variance +<br>or (-) | Variance % |
|--|-------------|-------------|----------------------|------------|
| Revenues – net   | 10,409,530  | 9,096,687   | 1,312,843            | 14.4%      |
| Cost of revenue  | (8,705,859) | (7,553,330) | 1,152,529            | 15.3%      |
| Gross profit   | 1,703,671   | 1,543,357   | 160,314              | 10.4%      |
| Investment related income – net  | 1,107,735   | 841,362     | 266,373              | 31.7%      |
| Other income – net   | 82,057      | 97,824      | (15,767)             | (16.1%)    |
| Total income   | 2,893,463   | 2,482,543   | 410,920              | 16.6%      |
| General & administrative   | (456,794)   | (345,166)   | 111,628              | 32.3%      |
| Selling & marketing  | (839,516)   | (719,220)   | 120,296              | 16.7%      |
| Impairment of assets & projects<br>costs written off                                       | (110,482)   | -           | 110,482              | 100%       |
| Total expenses   | (1,406,792) | (1,064,386) | 342,406              | 32.2%      |
| Income before financial costs<br>and Zakat and foreign income<br>taxes and minority shares | 1,486,671   | 1,418,157   | 68,514               | 4.8%       |
| Financing costs  | (33,326)    | (71,454)    | (38,128)             | (53.4%)    |
| Net profit before Zakat and<br>foreign income minority shares                              | 1,453,345   | 1,346,703   | 106,642              | 7.9%       |
| Zakat and foreign income taxes   | (115,463)   | (45,677)    | 69,786               | 152.8%     |
| Net income before minority<br>interests  | 1,337,882   | 1,301,026   | 36,856               | 2.8%       |
| Minority interests   | (107,858)   | (152,438)   | (44,580)             | (29.2%)    |
| Net income   | 1,230,024   | 1,148,588   | 81,436               | 7.1%       |

**Geographical analysis of revenues/sales of the Group and its subsidiaries by product (in SR 000's)**

| <b>Edible oil</b>   | <b>Products/Brands</b>   | <b>2007</b>      | <b>2006</b>      |
|---|--|------------------|------------------|
| - KSA, Gulf & Yemen   | Afia, Arabi Olite, Almaida, Shams  | 1,207,855        | 933,827          |
| - Egypt   | Rawabi, Afia, Janah, Slite, Hilowa   | 932,733          | 726,849          |
| - Iran  | Ladan, Aftab, Bahar, Afia (Sales of 2007 represents only sales for 7 months compared with 12 months for year 2006) | 1,208,947        | 1,567,421        |
| - Kazakhstan  | Lito, Gloria, Minola   | 89,854           | 61,804           |
| - Sudan   | Alarabi, Shams, Safaa, AlTaeb, Sabah, Sudani   | 132,179          | 44,089           |
| - Morocco   | Afia, Arabi, Hala, Maysoor   | 269,953          | 219,601          |
| - Jordan  | Afia, Arabi, Shaza   | 66,462           | 98,125           |
| <b>Total of Edible Oil sales</b>                            |  | <b>3,907,983</b> | <b>3,651,716</b> |
| <b>Sugar Products Sales</b>                                 |  |                  |                  |
| - KSA , GCC and Yemen                                       | Al Osra, Ziadah, Nawaem, Safaa, Nehar  | 1,857,977        | 1,862,905        |
| - Egypt (USC)   | Al Osra, Ziadah, Nawaem (Refinery production will be launched during 2008)   | -                | -                |
| <b>Total of Sugar Products Sales</b>                        |  | <b>1,857,977</b> | <b>1,862,905</b> |
| <b>Plastic Division Sales</b>                               |  |                  |                  |
| - KSA   | The plastic division manufactures a wide variety of products as requested by clients                               | 465,631          | 389,343          |
| - Egypt   | The plastic division manufactures a wide variety of products as requested by clients                               | 91,983           | 67,492           |
| <b>Total of Plastic Sales</b>                               |  | <b>557,614</b>   | <b>456,835</b>   |
| <b>Retail Division (Panda Markets)</b>                      |  |                  |                  |
| - KSA   | Panda, Supermarket Panda, Hypermarket Panda, Supermarket Al Azizia   | 3,623,982        | 2,757,353        |
| United Arab Emirates  | Hyper Panda (begin in 2006)  | 188,543          | 69,354           |
| <b>Total of Retail Sales</b>                                |  | <b>3,812,525</b> | <b>2,826,707</b> |
| <b>Real Estate Division (Kinan &amp; United Properties)</b> |  |                  |                  |
| KSA   | Rents of malls and centers   | 12,679           | 106,434          |
| <b>Total Real Estate income</b>                             | This amount represents revenues for the first 8 months of 2007,  | <b>12,679</b>    | <b>106,434</b>   |

|  |   |                   |                  |
|--|---|-------------------|------------------|
|  | due to divestiture of 70% of Marafiq Co.                                |                   |                  |
| <b>Franchising Division Sales</b>                |   |                   |                  |
| KSA  | Mugg & Bean, Bonia, Carlo Rino, Jacqueline Riu, Tom Tailor ,Yves Rocher | 29,367            | 18,091           |
| <b>Total Franchising Sales</b>                   |   | <b>29,367</b>     | <b>18,091</b>    |
| <b>Herfy Sales</b>                               |   |                   |                  |
| KSA  | Herfy, Herfy Restaurants, Herfy Products                                | 375,025           | 323,865          |
| <b>Total Herfy Products Sales</b>                |   | <b>375,025</b>    | <b>323,865</b>   |
| <b>Total revenue</b>                             |   | <b>10,553,170</b> | <b>9,246,553</b> |
| <b>Consolidation entry – Inter company sales</b> |   | <b>(143,640)</b>  | <b>(149,866)</b> |
| <b>Total Revenues/Sales</b>                      |   | <b>10,409,530</b> | <b>9,096,687</b> |

**Summary of revenues/sales of the Group and its subsidiaries by sector (in SR 000's)**

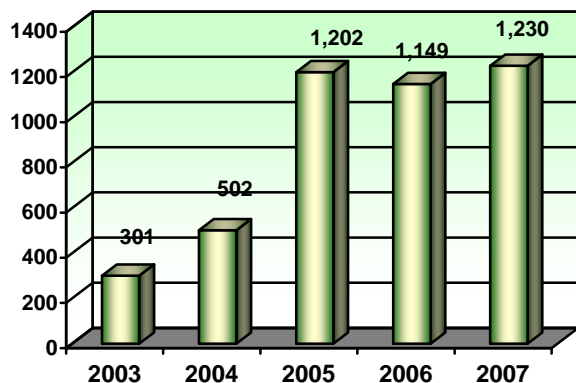


### Net Income compared to prior years (in SR 000's)

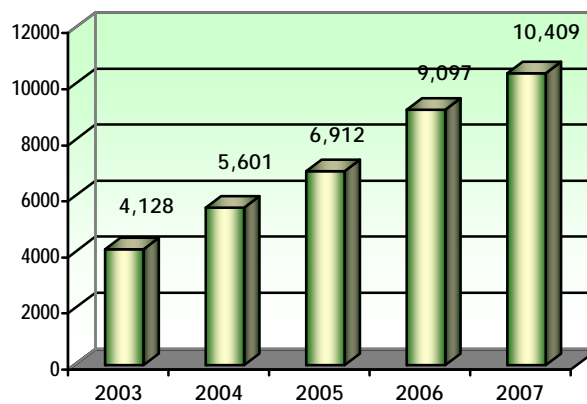
| (Saudi Riyals in thousands)   | 2007         | 2006        | 2005        | 2004        | 2003        |
|---|--------------|-------------|-------------|-------------|-------------|
| Revenue   | 10,409,530   | 9,096,687   | 6,912,030   | 5,601,979   | 4,127,801   |
| Cost of sales   | ( 8,705,859) | (7,553,330) | (5,700,362) | (4,683,822) | (3,324,614) |
| Gross profit  | 1,703,671    | 1,543,357   | 1,211,668   | 918,157     | 803,187     |
| Investment income   | 1,107,735    | 841,362     | 1,098,864   | 362,773     | 174,985     |
| Other income-net  | 82,057       | 97,824      | 57,780      | 62,558      | 19,591      |
| Total income  | 2,893,463    | 2,482,543   | 2,368,312   | 1,343,488   | 997,763     |
| General & Administrative  | (456,794)    | (345,166)   | (352,869)   | (241,724)   | (211,271)   |
| Marketing, Selling & Distribution   | (839,516)    | (719,220)   | (553,023)   | (453,865)   | (376,278)   |
| Impairment of assets  | (110,482)    | -           | -           | -           | -           |
| Total Expenses  | (1,406,792)  | (1,064,386) | (905,892)   | (695,589)   | (587,549)   |
| Income before financial Charges, Zakat & income tax and minority interest | 1,486,671    | 1,418,157   | 1,462,420   | 647,889     | 410,214     |
| Financing expense – net   | (33,326)     | (71,454)    | (91,432)    | (55,308)    | (30,379)    |
| Net profit before Zakat, income taxes and minority interests              | 1,453,345    | 1,346,703   | 1,370,988   | 592,591     | 379,835     |
| Zakat & foreign income taxes  | (115,463)    | (45,677)    | (30,780)    | (19,174)    | (7,005)     |
| Net income before minority interests                                      | 1,337,882    | 1,301,026   | 1,340,208   | 573,417     | 372,830     |
| Minority interests  | (107,858)    | (152,438)   | (138,034)   | (71,043)    | (71,749)    |
| Net income  | 1,230,024    | 1,148,588   | 1,202,174   | 502,374     | 301,081     |

## Summary of Net Income and Net sales for the past 5 years

**Savola Group Net Profits  
2003 - 2007  
( in Millions Riyals)**



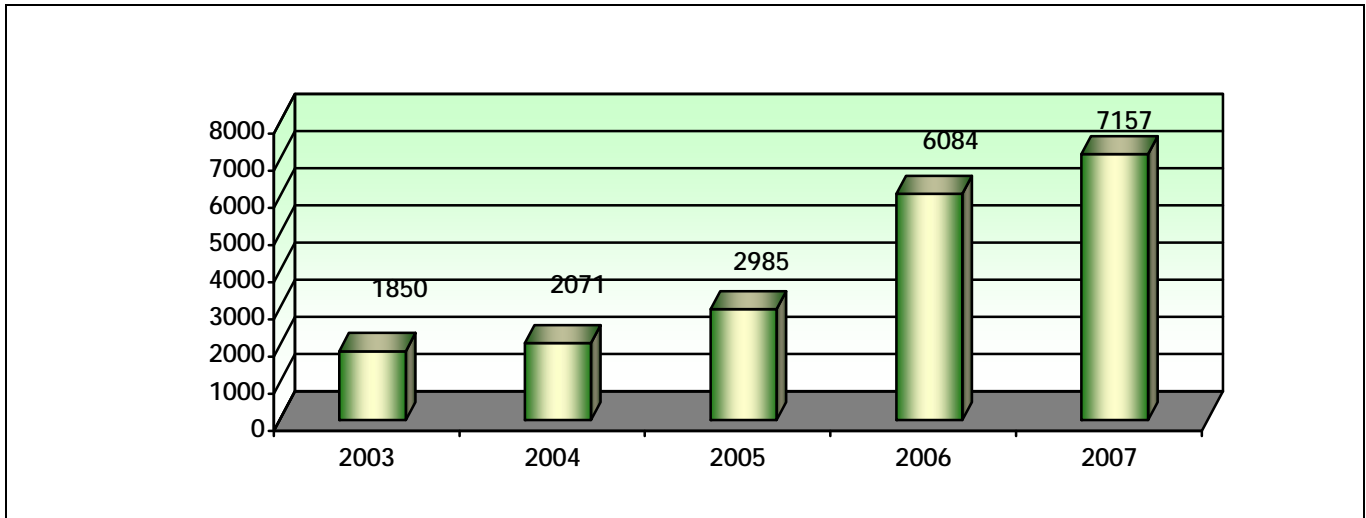
**Savola Group Revenues  
2003 - 2007  
( in Millions Riyals)**



## Comparison of The Group Consolidated Balance Sheet for the previous 5 years (in SR 000's)

| Balance Sheet (in thousands Riyals)          | 2007       | 2006       | 2005      | 2004      | 2003      |
|--|------------|------------|-----------|-----------|-----------|
| Current assets-(A)                           | 3,711,339  | 5,854,016  | 2,943,605 | 2,140,573 | 1,111,070 |
| Current liabilities-(B)                      | 3,138,566  | 3,629,595  | 3,279,015 | 2,204,097 | 1,404,753 |
| Working Capital-(C=A - B)                    | 572,773    | 2,224,421  | (335,410) | (63,524)  | (293,683) |
| Current assets                               | 3,711,339  | 5,854,016  | 2,943,605 | 2,140,573 | 1,111,070 |
| Other non-current assets                     | 4,364,864  | 2,436,585  | 1,256,054 | 866,380   | 809,681   |
| Property, plant and equipment (Fixed Assets) | 3,513,801  | 2,984,402  | 3,917,612 | 3,187,985 | 2,026,529 |
| Total assets                                 | 11,590,004 | 11,275,003 | 8,117,271 | 6,194,938 | 3,947,280 |
| Current liabilities                          | 3,138,566  | 3,629,595  | 3,279,015 | 2,204,097 | 1,404,753 |
| Long-term loans                              | 456,540    | 560,051    | 941,652   | 1,059,274 | 141,054   |
| Other liabilities                            | 222,221    | 210,275    | 250,528   | 228,314   | 181,179   |
| Total liabilities                            | 3,817,327  | 4,399,921  | 4,471,195 | 3,491,685 | 1,726,986 |
| Paid-up capital                              | 3,750,000  | 3,750,000  | 1,500,000 | 1,000,000 | 800,000   |
| Retained earnings and reserves               | 3,406,901  | 2,333,549  | 1,485,113 | 1,070,855 | 1,049,842 |
| Shareholders' equity                         | 7,156,901  | 6,083,549  | 2,985,113 | 2,070,855 | 1,849,842 |
| Minority interests                           | 615,776    | 791,533    | 660,963   | 632,398   | 370,452   |
| Total liabilities and shareholders' equity   | 11,590,004 | 11,275,003 | 8,117,271 | 6,194,938 | 3,947,280 |

## Shareholders Equity for the past 5 years (in SR 000's)



### Details of long and short term loans

The Group has always been keen to adopt Islamic Shari'ah compliant processes in all its financial transactions, especially in relation to its borrowing policies. All loans and deposits within the Kingdom are fully Shari'ah compliant. The Group is constantly exploring all avenues to obtain Shari'ah compliant products outside the Kingdom wherever possible.

The following are details of long and short-term loans outstanding as at the end of the year:

| Long-term Loans (in thousands Riyals)  | Banks / Others                                       | 2007      | 2006      |
|--|--|-----------|-----------|
| Saudi Industrial Development Fund ("SIDF")   |  |           |           |
| -United Sugar Company ("USC")  | SIDF   | 26,215    | 34,065    |
| -Herfy Foods Services  | SIDF   | 15,079    | 13,064    |
| -Savola Packaging Systems ("SPS")  | SIDF   | 7,050     | 16,850    |
| Total (A)  |  | 48,344    | 63,979    |
| Commercial banks   |  |           |           |
| -The Savola Group  | Saudi Fransi, Gulf Int.                              | 0         | 325,000   |
| -Afia International Co. ("Afia")   | Poulaire in Morocco, others<br>European banks, Samba | 86,413    | 286,455   |
| -Herfy Foods Services  | ANB, NCB , Samba                                     | 26,889    | 16,024    |
| -United Sugar Company ("USC")  | Samba, ICB in Egypt                                  | 421,750   | 0         |
| -Savola Packaging Systems ("SPS")  | Agricole Credit Bank – Egypt                         | 6,329     | 0         |
| Total (B)  |  | 541,381   | 627,479   |
| Total long-term debt (A+B)   |  | 589,725   | 691,458   |
| Less current portion:  |  |           |           |
| SIDF   |  | (24,150)  | (19,150)  |
| Commercial banks   |  | (109,035) | (112,257) |
| Long-term debt   |  | 456,540   | 560,051   |
| <i>For more details about these loans please see financial statement pages following in this report.</i> |  |           |           |

### Long-term loan repayments schedule as of December 31, 2007 (000's SR)

| Fiscal Year | United Sugar Company | Savola Packaging Systems Co. | Herfy  | Afia Int. | 2007 Total | 2006 Total |
|-------------|----------------------|------------------------------|--------|-----------|------------|------------|
| 2007        | 0                    | 0                            | 0      | 0         | 0          | 131,407    |
| 2008        | 110,363              | 5,039                        | 12,013 | 5,770     | 133,185    | 134,784    |
| 2009        | 96,578               | 5,339                        | 11,875 | 18,982    | 132,774    | 282,777    |
| 2010        | 120,727              | 3,001                        | 8,800  | 19,175    | 151,703    | 107,973    |
| 2011        | 91,089               | 0                            | 7,300  | 18,602    | 116,991    | 34,517     |
| 2012        | 29,208               | 0                            | 1,980  | 11,384    | 42,572     | 0          |
| 2013        | 0                    | 0                            | 0      | 7,020     | 7,020      | 0          |
| 2014        | 0                    | 0                            | 0      | 4,615     | 4,615      | 0          |
| 2015        | 0                    | 0                            | 0      | 865       | 865        | 0          |
| Total       | 447,965              | 13,379                       | 41,968 | 86,413    | 589,725    | 691,458    |

### Short-term loans repayable within one year (000's SR)

| Short-term Loans (000SR)          | Banks / Others  | 2007      | 2006      |
|-----------------------------------|---|-----------|-----------|
| -The Savola Group                 | Saudi Fransi Bank   | 200,675   | 17,093    |
| -Afia Int.                        | Islamic Bank, , SAAB , Samba, European , Egyptian Sudanese, & Iranian banks             | 534,922   | 825,810   |
| -Azizia Panda United              | Samba, SABB   | 0         | 223,498   |
| -Savola Packaging Systems ("SPS") | SABB, Abu Dubai Bank in Egypt , Saudi Hollandi Bank , NCB , Credit Agricole Bank Egypt, | 252,598   | 102,255   |
| -United Sugar Company ("USC")     | Islamic Development Bank , Samba, SABB  | 310,476   | 534,455   |
| Al-Batool Int. (Franchising)      | SABB  | 14,999    | 0         |
| Total                             |   | 1,313,670 | 1,703,111 |

### Summary of payments made to the Government (000's SR)

| Payment   | 2007    | 2006    |
|---|---------|---------|
| GOSI (for KSA) & Social Insurance (for outside KSA) | 39,785  | 37,695  |
| Visa and Government Fees                            | 9,347   | 9,947   |
| Zakat & Income Tax                                  | 43,924  | 30,584  |
| Custom Duties                                       | 112,597 | 117,105 |
| Other duties and government levies                  | 6,249   | 8,401   |
| Total   | 211,902 | 203,732 |

\* Please note the above payments represent the consolidated figure for the Group and its subsidiaries in Saudi Arabia and outside.

## Dividends Policy

### Distribution of Cash Dividends

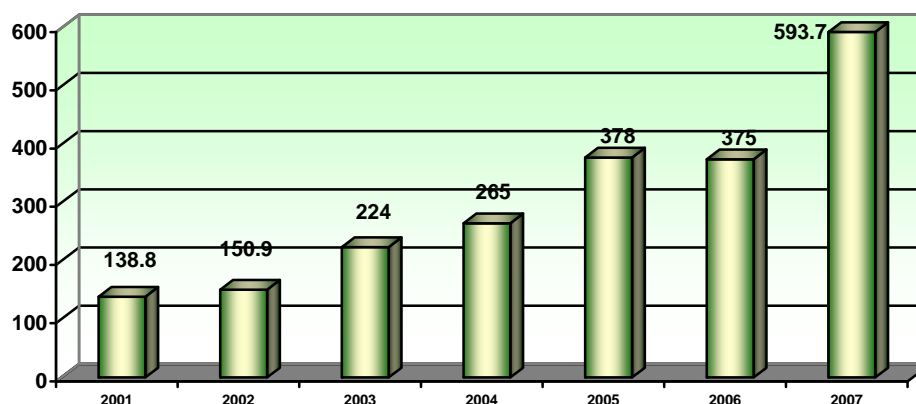
It is the Group's Policy to declare quarterly dividends when the quarterly financial statements are approved by the Board of Directors. These dividends are distributed immediately thereafter.

#### Details of cash dividends distributed in 2007

| Dividends distributed Details 2007  | No of shares | Amount in SR per share | Dividends distributed for the period (in SR) |
|---|--------------|------------------------|--|
| 1st Quarter 2007  | 375,000,000  | 0.25                   | 93,750,000                                   |
| Second Quarter 2007   | 375,000,000  | 0.25                   | 93,750,000                                   |
| Third Quarter 2007  | 375,000,000  | 0.25                   | 93,750,000                                   |
| During the 1st half (Exceptional)   | 375,000,000  | 0.50                   | 187,500,000                                  |
| Total dividends paid for the first three quarters                             |              | 1.25                   | 468,750,000                                  |
| Recommended dividends to be distributed for the 4th quarter 2007              | 500,000,000  | 0.25                   | 125,000,000                                  |
| Total cash dividends distributed and to be distributed for the full year 2007 |              |                        | 593,750,000                                  |

The Group has continuously maintained its policy of cash dividend distribution. Over the past seven years, the total dividend distributed is over SR 2.1 billion.

#### Dividend distribution trend 2001 to 2007



### Distribution of Free Shares

The Group distributes free shares to its shareholders on a regular basis, in order to maximize value to its shareholders and enable investors to benefit from the reserves and retained earnings of the Group.

In light of this policy, the Board of Directors recommended a 33% increase in the paid-up capital of the Group to SR 5 billion. Based on this recommendation, shareholders registered in the company's books at the end of trading on March 25, 2008 will be granted one free share for every three owned.

## **Savola Group Sectors: Results & achievements:**

### **(a) Savola Foods Sector - Afia International Company**

Afia International Company owns branded trademarks that are ranked and recognized as among the top edible oils companies in the world. The Savola Group manages and owns 90.7% of Afia, with activities in the Kingdom, GCC and Yemen. In 2007, Afia edible oils maintained their leadership in the KSA market with an overall 62% market share.

With the help of Almighty God, the Company continued its success through 2007. Profit increased to SR 140 million, up 7.6% from SR 130 million over 2006. This increase was achieved in spite of major increases in raw material costs and competition from imported products sold at lower prices. Sales by volume reached 1.2 million MT in 2007. Volume is expected to reach about 1.4 million MT per annum in 2008.

This continued growth of net income was achieved despite very substantial price increases in crude edible oils, on average about 87% higher than 2006 prices.

Revenue for 2007 remained stable at SR 3.5 billion compared to SR 3.6 billion in 2006. This revenue was maintained despite the disposal of Afia full ownership of Savola Morocco Company and Afia Sudan, both sold to Savola Foods Emerging Markets (SFEM). This subsidiary of The Savola Group was established in 2007. Also, in August 2007, revenues from Iran operations were deconsolidated from Afia International.

A key achievement by Afia was the acquisition of the Turkish edible oil producer “Yudum Gida Sanayi Ve Ticaret A.S.” at the conclusion of 2007. This important acquisition will be consolidated with Afia in the 2008 financial results and marks a major step in the Savola Group’s expansion into the Turkish food sector.

Afia products now hold the leading market share in edible oil in the markets of GCC, Levant, Egypt and Iran. In new emerging markets such as Kazakhstan, Afia already owns a promising market share.

### **Afia International Company manages the following entities:**

#### **a-1) Afia International Company (Egypt)**

Afia International Company in Egypt is 94.5% owned by Afia International. Growth in 2007 was strong and the company now leads the Egyptian edible oils market with a 43% market share. This leadership continues to be driven by the premium brands Rawaby, Afia, Ganna and Helwa.

Company sales improved to SR 932.7 million for 2007, an increase of 28.3% over the SR 726.8 million in 2006. Net profit, however, dropped because of much higher raw material costs in 2007 declining to SR 16.6 million from SR 26.5 million in 2006.

#### **a-2) Savola Behshahr Iran (SBC)**

Savola Behshahr Company owns and operates three edible oil manufacturing plants in Iran, BIC (Margarine Manufacturing), MMC & Behshahr Arvand. It is a joint venture under Afia International management control, owned 49% by Afia International and 51% by Behshahr Industrial Development Company.

The products of Savola Behshahr Company increased their overall market share to 41%. Turnover grew strongly to SR 2.4 billion, compared to SR 1.6 billion in 2006, influenced heavily by higher raw material costs and upward retail prices.

Despite the turnover, SBC profitability declined 11% from the prior year, to SR 75.7 million for 2007 compared to SR 85.1 million in 2006. This reduction in profitability resulted from high increases in raw material costs.

Due to the change in the management structure and the strategic interests of the two partners, the SBC balance sheet items will remain consolidated in Afia until Aug 2007, and will be separated for the future.

#### **a-3) Savola Kazakhstan**

Savola Kazakhstan is 90% owned by Afia International Company. The Company has successfully built a strong brand portfolio, offering unique competitive advantages to consumers through corporate innovations.

Kazakhstan revenue climbed to SR 90 million, compared to SR 61 million in 2006. Profit improved dramatically, to SR 3.8 million in 2007, compared to a loss of SR 5.7 million in 2006.

After only three years of operations, the company is already in second place in the Kazakh market, with a 20% market share.

A major capacity increase is currently under way, to increase refined oil production capacity to 80 kMT up from its current capacity of 25 kMT.

#### **a-4) Savola Morocco**

In 2007, Savola Morocco became a 100% subsidiary of Savola Foods Emerging Markets (SFEM) when Afia International bought back all shares owned by Golden Hope, the former partner in the company.

In its third year of operation, the company focused on building strong brands through Afia and now holds an 11% market share in Moroccan edible oils. Turnover in 2007 reached SR 270 million, a 22.9% increase from SR 220 million in 2006 but driven by

higher raw material costs. These cost increases pushed all Moroccan edible oil companies to increase retail prices to compensate.

Management is making good progress in reducing its losses and for the last quarter of 2007 achieved a break-even. For 2007 as a whole, the loss was SR 21.9 million compared with SR 34.7 in 2006.

#### **a-5) Savola Edible Oil - Sudan**

Savola Sudan Company, 100% owned by Afia International, entered its second year of operation and successfully hit its target sales volume of 21.5 kMT for 2007. This compared with 9.4 kMT in the first year of operations, a growth rate of 129%.

Total sales revenue grew to SR 132.2 million in 2007, growing 200% over sales of SR 44.1 million in 2006. Management was able to reduce its loss from SR 18.6 million to SR 13.6 million for 2007 and achieved a positive operating profit for the last quarter of 2007.

The Company is now building more refining capacity, with a target production capacity of 100 kMT by early 2009. The goal is to grow total brand market share to 50% by the year 2012, with a focus on the popular Sudan brands of Sabah, Sudani and Al-Arabi.

In 2007 shares of Savola Sudan were fully transferred to Savola Foods Emerging Markets (SFEM), the recent established subsidiary 100% owned by The Savola Group.

#### **a-6 Afia Jordan Company**

Afia International Company owns 75% of Afia Jordan, a joint stock company listed on the Amman Stock Market.

Afia Jordan has been greatly affected by unstable security conditions, and no market inroads have been successful in Iraq, considered one of the major markets available to Jordanian companies. Further manufacturing cost increases forced the Afia International Board of Directors to pass a resolution to close the Jordan manufacturing operation and instead supply Savola edible oils from Jeddah at a lower product cost.

#### **a-7) Algeria—Green Field Project**

The construction of the Afia Algeria Company is well underway, owned 100% by Afia International Company. The plant is planned to be operational in August 2008.

The operating team is already on board, trained and participating in the plant erection. A sales team for the company is already in the field, building the foundations of an Algerian distribution network.

## **b) Savola Foods Sector: United Sugar Company (USC)**

United Sugar Company, operating from Jeddah Islamic Port, is 41% owned by The Savola Group. The Group manages USC and appoints five of its nine Board members.

USC operates the third biggest sugar refinery in the world, with production capacity of 1.2 million MT per annum. In 2007, sales volume reached 1.1 million MT.

USC grew its profitability and market share through 2007, despite removal of the sugar protection tariff for the second year. Net profits in 2007 rose to SR 124.1 million, compared to SR 104.6 million in 2006.

Sales significantly increased by 7% over the prior year. USC continues developing strong exports to neighboring markets and maintaining its leading position in the region. Export market sales in 2007 reached SR 355.6 million.

USC is a leader in refining and marketing sugar in the Middle East. The company has built a strong marketing base around three core retail brands—Al Osra, Ziadah, Nawaem and Nehar. That brand strength, along with new distribution channels, has given USC products an overall 70% market share in KSA.

Company growth was made possible by a management focus on reducing production costs, developing new products coupled with human resources training and development programs. During 2007, USC enhanced its communication programs reaching across the company's workforce, as well as adding advanced training programs for its administrative and technical cadres.

### **b-1) United Sugar Company of Egypt (USCE):**

USC of Egypt, founded in 2005, is constructing a sugar refinery at the Egyptian seaport of Ein Al Sukhna, south of Suez. The sugar refinery will cover an area of 138,000 square meters, with a capital investment of US\$132.8 million. By completion in 2008, capital investment is expected to grow to US\$140 million. The company is managed by the Savola Food Sector.

Annual sugar production of the new refinery is expected to be 750 kMT. The production focus is refining, producing and packing white sugar (Coarse and Fine) to European Standards (EC2). This creates an opportunity for USCE to cover the export gap in the Egyptian market and export to neighboring countries.

USCE entered a technical and strategic agreement with Tate & Lyle Company, UK, a firm known worldwide as the foremost specialist in the construction and operation of the sugar refineries. This Ein Al Sukhna refinery construction and production startup is being supervised by management teams from The Savola Group, Tate & Lyle Company and USCE's Operations team. The refinery construction was nearly complete at the end of 2007, and commercial operation is expected to start by the end of March 2008.

This major development project is being implemented in three phases. The first phase is infrastructure construction for an annual refined sugar production volume of 750 MT, offered in 1 kg packs. The second construction phase will expand refinery production capacity to 1 million MT annually. The third phase is planned to increase annual production to 1.25 million MT.

### **c) Retail Business Sector (Panda Stores)**

The Savola Group manages its retail sector through its wholly-owned subsidiary Azizia Panda United Co, a Limited Liability Company. The Group appoints the company's Board of Directors and its entire executive and administrative management staff.

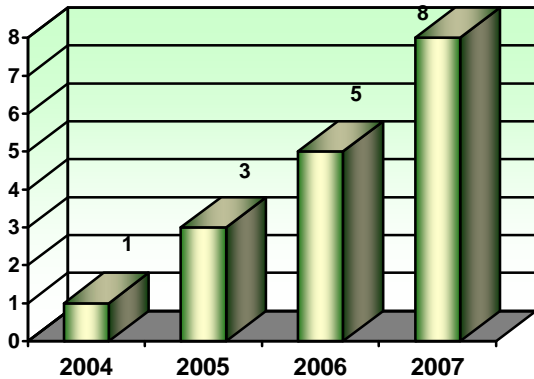
Azizia Panda United was established in Riyadh in 1980 and merged with the Savola Group in 1998, moving its headquarters to Jeddah in 2003. The Company operates grocery retail supermarkets and hypermarket stores inside and outside the Kingdom. As of 2007, there were 54 Panda Supermarkets and eight Panda Hypermarkets across the Kingdom.

With 30 years of on-going success and retail trading expertise, Azizia Panda United continued delivering strong sales growth during 2007. Company sales exceeded SR 3.8 billion for 2007, an increase of 35% over SR 2.8 billion in 2006. Company net profit reached SR 24.2 million for 2007, 12% higher than 2006.

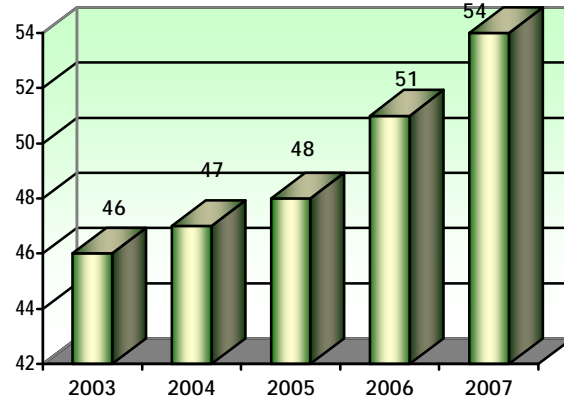
The company continued its aggressive store expansion program with new hypermarkets and supermarkets, bringing its total selling area to 176,000 square meters. The new openings included Panda's first stores in Abha, Hail, Madinah and Yanbu.

**Growth in the Number of Al-Azizia Panda United Stores (Supermarkets & Hypermarkets)  
(During the year 2003 to 2007)**

Growth in the Number of Hypermarkets  
(2004-2007)



Growth in the Number of Supermarkets  
(2003-2007)



Total customer count was 14% higher than 2006 with total customer visits running at 44 million. The KSA competitive situation remains tough and the big increases in the global costs of food products created on-going challenges. Nonetheless, the Company continued to apply its strategy of maintaining lowest prices through better management of profit margins, and executing innovative marketing programs, reducing purchase prices, leveraging logistics infrastructure, and developing advanced information technology systems.

One of the most important 2007 achievements was the Riyadh opening of the largest central distribution center in the Middle East with a built area exceeding 72,000 square meters. It will support the Company’s ambitious expansion plans for the years ahead, supplying our chain of Panda Supermarkets and Hypermarkets throughout the Kingdom on a daily basis.

Azizia Panda United continued to affirm its distinguished presence locally and regionally. The Company was awarded the “Best Retailer of 2006” prize in the Middle East, in appreciation of its pioneering role in the field of retail sales. Successes included opening the first Panda Hypermarket outside the Kingdom. This new Hypermarket in Dubai Festival City was selected as “the best Hypermarket in the Middle East” by *Middle East Retail Magazine* in November 2007.

Panda continued its strategic plan to provide best value for money for its consumers. The number of Panda “private label” products increased to 450 in 2007, an increase of 220% over 2006. These offer high quality and lower prices for consumers, in addition to

delivering better profit margins for Panda. The Company will continue increasing its private label range and sales revenue through 2008.

The present business leadership team has proved its capability in managing and successfully delivering a raft of fast track growth projects in the past years. Nine new Supermarkets and six Hypermarkets are planned for 2008, a total of 15 new store openings. As well, a number of existing stores will be renovated.

These ambitious plans require hiring thousands of new employees during the coming year. Panda has succeeded in establishing needed systems and processes to recruit, train, and develop the required manpower to meet its expansion plans. It has succeeded also in raising the Saudization percentage to 40%, with more than 3,300 Saudi employees currently working in the Company. This large number of employees makes Panda the largest KSA retail company in terms of both percentage and total number of Saudi employees.

#### **d) Savola Plastic Division: Savola Packaging Systems Company (SPS)**

The Savola Group owns 100% of Savola Packaging Systems Company (SPS), a leading player in the Saudi Arabia plastic sector. The Savola Group appoints the full SPS Board of Directors.

SPS is a major producer of packaging products, and grew its overall KSA market share to 5% in 2007. The Company owns 99% of Al Sharq Plastic–Riyadh, and in 2007, also increased its shareholding in New Marina Plastic–Egypt to 95% ownership. The five factories of SPS and its subsidiaries are sited in Jeddah (two), in Riyadh (two), and one in Egypt.

2007 was another strong growth year for the business with sales revenue up by 23% from 2006 and net profit up by 10% (to SR 51 million).

These results were achieved in the face of dramatic increases in raw material costs—up by 19% from 2006, a special challenge for this industry because raw materials account for almost 70% of total product cost. The success of SPS is largely due to its continued strategic focus on developing new markets and new cost effective solutions.

#### **d-1) Savola Packaging Systems Company (SPS)—Stand alone**

SPS sales were 26% higher than 2006 partly due to its sales expansion to nine countries—Canada, Germany, Kenya, Eritrea, Ethiopia, Lebanon, Maldives Islands, Thailand and Australia. SPS presently sells to 22 Arab, European, Asian and African countries.

Overall sales grew 26% over the prior year, with 2007 sales reaching SR 302.5 million, compared to SR 239.8 million in 2006. Also, operating profits rose 8.3% to SR 26.1 million for 2007, compared to SR 24.1 million the previous year.

By sector, there were big sales increases in Dairy packaging (up 32%) and Water packaging (up 30%).

**SPS also manages the following subsidiaries:**

**d-2) Al-Sharq Plastics Company (ASP)**

Performance turned around for Al-Sharq Plastics in 2007, with the Company reporting a 12% growth in sales over the prior year.

Al-Sharq Plastics is 99% owned by SPS. Although the Company has struggled since acquisition to maintain momentum in profitability, 2007 net profits grew 45% over 2006—SR 10.6 million compared to SR 7.3 million for 2006.

A focused approach by the Al-Sharq sales team achieved a remarkable 40% growth in Blow Molded products and 20% growth in Film and Injection Molded products.

**d-3) New Marina Plastic Company (NMP)**

New Marina Plastic Company, located in Alexandria, Egypt and 95% owned by SPS, achieved a 36% increase in sales compared with 2006.

The company enjoys a market-leading position in PET (60% sales growth over 2006) and package closures (50% growth).

Profitability increased by 25% compared to 2005, the year before acquisition. This was the result of both restructuring and the advanced management systems and techniques introduced by The Savola Group during 2006.

Raw material prices continued to be a challenge, with dramatic price rises throughout 2007. Rapidly increasing material costs and long-term sales contracts left the Company unable to fully pass along the cost increases to buyers.

**e) Savola Franchising Division:**

This division is managed and operated by Al Batool International Company, which is 100% owned by The Savola Group. The Group appoints the Company's executive management and its Board of Directors.

During 2007, the Company launched several international brands that are winning customer acceptance among competing brands in the Saudi market. The brands were extended into new cities such as Al Madinah Al Munawwarah and Al Khobar, in addition to their existing presence in the major cities of Riyadh, Jeddah, Makkah and Taif.

These launches gave the Franchising division a better understanding of Saudi market and consumer desires. That experience now allows a more confident re-evaluation of showrooms and decisions to close those that don't meet the forecast acceptance in the Saudi market.

The Franchising division launched nine new showrooms for its [franchise] brands in 2007 with total of 28 showrooms. Franchising sales grew strongly to SR 29 million in 2007, a 62% increase over 2006.

However, as a result of closing unsuccessful brands, the Division incurred a loss of SR 14 million for fiscal year 2007. This compares with an SR 8.1 million loss for 2006.

The Division plans to open 30 new showrooms for the four brands that proved most successful in KSA commercial centers. The goal is to reach a target of 58 showrooms by the end of 2008, generating total sales of SR 55 million.

#### **f) Real Estate Development Division**

##### **f-1) Kinan International Real Estate Development Company (KINAN)**

Kinan, with its headquarters in Jeddah, is 30% owned by The Savola Group and has paid-up capital of SR 1.7 billion. Until 2007, the name of Kinan was Modern Marafiq Real Estate Development Company. The Savola Group has the right to nominate three of the Company's nine Board Directors and Savola has the right to nominate the CEO of Kinan, which has to be approved by Kinan Board Directors.

In 2007, a number of key projects were started. These included a mega project located at intersection of Al Andalus Street with King Abdullah Street in Jeddah. Another mega project is located at the Central Junction in Dammam City. Total investment in these two projects is expected to reach approximately SR 4 billion. Kinan also started work on Dahiat Al Basateen which is a residential project in Yanbu.

Kinan delivered operating revenues of more than SR 168.7 million in 2007, up substantially from SR 137.4 million in 2006. Net profit achieved was SR 41.1 million versus SR 32 million in 2006.

The company's investments in operating shopping malls include the following commercial centers:

- Roshan Mall & Al Jamea Plaza - in Jeddah
- Rimal Centre, Azizia Mall and Altakhassusi Plaza—all in Riyadh

- Sharaie Mall - in Makkah Al-Mukarramah
- Aliat Al Madina – in Al-Madinah Al-Munawarrah.
- Dana Mall - in Yanbu
- Al Hada Plaza in Al Khobar
- Al Awwal Plaza in Dammam.
- Huwaylat Center – in Jubail

## **f-2 The Economic Cities**

The Savola Group was one of the first companies to lead the development consortium of the Knowledge Economic City, located in Al-Madinah Al-Munawarrah. This is the third of six economic cities launched by King Abdullah Bin Abdul Aziz in KSA. The Group holds 40% of the equity in the initial developing company.

The project will be a national hub for knowledge-based industries, as well as becoming a real estate landmark. The project cost is projected to reach SR 25 billion, with capacity for 150,000 residents. It is expected to create 25,000 new job opportunities.

In January 2008, the legal steps for developing the Knowledge Economic City were completed in accordance with the agreement signed with the King Abdullah Bin Abdul Aziz Foundation for Development Housing Dedicated to His Parents. This agreement was the first step in converting the company into a joint stock company and making a public offering before year-end 2008.

The Savola Group is also a founder of the Emaar Economic City Company, focused on the development of King Abdullah Economic City, Rabigh, with an investment value of SR 350 million. As of year-end 2007, The Group's investment in Emaar had an unrealized capital gain of more than SR 200 million.

## **Investments Division (Non-Managed Business):**

### **g-1) Al-Marai Company**

The Savola Group owns 25% of the share capital of Al-Marai, listed on the Saudi Stock Exchange and one of the leading food companies in the Middle East. Its trademark "Al-Marai" enjoys an excellent reputation for high quality products and has become one of the most familiar trademarks in the Arab world.

Al-Marai produces fresh dairy, fruit juices, cheese and butter, as well as bakery products. The Company has grown to be one of the largest dairy and food companies in the Middle

East with the world's largest herd of 51,000 dairy cows. It controls over 40% of the fresh dairy products in the Saudi and Gulf markets with 240 distinct Al-Marai brands and is the largest Saudi food exporter. The Company owns market-leading trademarks in fresh dairy products of milk, yoghurt, cheese, labneh and ghishte (fresh cream).

As part of its expansion programme, Al-Marai acquired Western Bakeries in 2007, producers and distributors of a wide variety of baked food products under the brand name Lusine. This further builds Al-Marai's ever-expanding product range and creates new opportunities.

As a result of these strategic efforts, sales revenue grew dramatically in 2007, 36.7% higher than 2006. Revenue reached a record high of SR 3.8 billion in 2007, compared with the prior year's SR 2.8 billion. Net profits also grew by 43.6%, reaching SR 667.3 million over SR 464.7 million in 2006.

This considerable growth reflects the success of the five-year strategic plan approved by the Company's Board of Directors. The continued growth is expected to demand capital investments of SR 4 billion between 2006 and 2011.

Behind these remarkable achievements, A-Marai now operates a sophisticated sales distribution operation. Ninety sales depots are located throughout the GCC, distributing through 1,700 vehicles and a total workforce of 9,500 employees.

To boost shareholder value and diversify income, Al-Marai ventured into telecommunications with an acquisition of a 5% shareholding in the telecommunication consortium led by Zain Kuwait, formerly Mobile Telecommunication Company in Kuwait, or MTC. This firm operates the third mobile network in the Kingdom of Saudi Arabia. This 5% shareholding will be reduced to 2.5% after the planned IPO, expected to take place by mid-February 2008.

#### **g-2) Herfy Food Services Company:**

Herfy Food Services Company, 70% owned by The Savola Group, continued its successful expansion plan to cover all regions of Saudi Arabia. During 2007, the Company opened 17 new restaurants in Riyadh, Jeddah, Al-Khobar, Abha , Khamis Mushait, Qassim and Tabuk. This brings the total throughout the Kingdom to 120 restaurants. As a result, Herfy is the clear market leader in the Saudi Arabia fast food market.

In 2007, Herfy sales reached SR 375 million, a 16% increase over 2006 sales of SR 324 million. Net profits grew by 30% to reach SR 61.6 million in 2007, up from SR 47.5 million in 2006.

As of February 2007, Herfy's meat factory began to sell its product to third-party retail customers. The factory was opened in 2005 to supply its own expanding network of restaurants with a range of chicken burger products, with an initial investment of SR 40 million.

Herfy is presently coordinating with the relevant KSA authorities to float Company shares for public subscription.

## **Savola Group: The Saudization program**

### **The Saudization program**

The Savola Group continued advancing its Saudization program across all its Sectors and Divisions. The number of Saudi employees rose to nearly 4,000 or 42% of the total, while among the executive management team of The Group the percentage reached 95%.

Under present plans, The Group's various subsidiaries will be employing more than 6,000 Saudis by the end of the 2010. This will raise the number of Saudi employees in The Group as a whole to more than 11,000.

One outstanding achievement was the increase in the proportion of Saudis in the Al Sharq Plastic Company—from 5% to 21% within a short period after The Group acquired the Company in 2005.

By the end of 2007, the total Savola Group workforce, both inside and outside the Kingdom, climbed to approximately 12,500. Of these, 9,500 worked inside the Kingdom and 3,000 were employed outside.

The Group's rapid growth is driving the recruitment of more Saudi youth. A large number of Saudis have recently been recruited as management trainees both in the business units and at Group headquarters. This follows agreements signed with the government (the Human Resources Development Fund and other authorities). Savola was one of the first companies to sign up with the scheme.

Panda won the 2007 Best Employer Award from the Riyadh Chamber of Commerce & Industry, as well as earlier winning the "HRH Prince Naif Bin AbdulAziz award" for Saudization in the Retail sector.

Panda's care for the youth is reflected in its extensive training programs. During the most recent two years, Panda trained 5,644 Saudi youth and provided them with 280,000 training hours.

### **Programs Established by The Group for its employees' interest and welfare:**

#### **a) Employees Home Loan Scheme:**

This program provides interest-free loans to help employees purchase or build a house for themselves and their families. It was designed to retain high-caliber Saudis and non-Saudis in executive positions. Stringent criteria in exceptional performance need to be

satisfied, then this program rewards exceptionally performing employees in the Management team. Loan values range from SR 500,000 minimum to SR 2.5 million maximum per employee, with a ceiling limit of SR 30 million for the scheme at any point of time.

More than 50 Saudi employees have benefited from this program since it was initiated in 1992. Under the Home Loan Policy, loans are deducted from the employees' salary in monthly installments. Outstanding loan amounts reached about SR 13.5 million at year-end. The program policy is approved by the Board of Directors and supervised by a committee formed by the Group's Managing Director.

#### **b) Employees Cooperative Takaful Program**

The Savola Group signed a contract with Bank Al Jazirah whereby the bank pays compensation equivalent to two years salary to any employee in case of death for any reason and varying amounts of compensation for total disability, permanent or partial disability. The minimum amount is SR 50,000.

The cost of the scheme to the Group was SR 1.16 million in 2007 compared with SR 1.04 million in 2006. The program is compliant with Islamic Shari'ah and approved by the Islamic Shari'ah Advisory council in the Bank.

#### **c) Employees Takaful Fund:**

As part of its commitment to the principal of Caring Justice (*Birr*) and to promote cooperation and solidarity among employees, Savola established a "Takaful Fund."

This Fund assists junior staff—non-managers—to help deal with any financial emergencies them or their families encounter. This program is financed through voluntary, nominal contributions that are made monthly by the different grades of The Group's staff in Saudi Arabia. Savola contributes an additional 35% to these total contributions.

The total fund (staff's payments plus Savola's contribution) amounted to SR 385,000 in 2007, growing from SR 352,800 in 2006. The Fund is administered by a committee and governed by a set of stringent criteria and policies.

## **Corporate Social Responsibility - “Savola Bridges”**

To contribute to the development of the wider community, The Savola Group implemented a range of social responsibility programs during the year.

One initiative, “Savola Bridges,” involved the Group sponsoring and participating in a number of projects for citizens with special needs (such as training and recruitment and research studies, service learning, and micro financing) as well as a training and employment scheme for orphans and to support poor but productive families.

Another initiative to help our citizens with special needs is a joint project with the Jeddah Chamber of Commerce & Industry (JCCI). This established a Help desk at the JCCI to help Special Needs people become self-supporting including helping them find employment. The broad aim is to contribute to the well being of society, by helping these vulnerable members of society to achieve their potential.

Since it started, the scheme has trained and found employment for 89 individuals with Special Needs in a wide range of Saudi companies

In addition to this, the Group supported a program to train new graduates in educational and health programs in cooperation with the Female Section of the King Abdulaziz University, Jeddah.

Al-Azizia Panda United recruited several Special Needs staff in 2007 and also collected customer donations of SR 1.4 million for the Disabled Children Association through its successful “Leave the Change for Them” campaign. During the year, The Savola Group received a citation of praise from His Excellency, the Minister of Labor in recognition of The Group’s Corporate Social Responsibility (CSR) programs.

The Savola Group also won the Saudi Public Company Award in the CSR category, organized by the International Institute for Research (IIR), Dubai. The Award recognizes the Group’s CSR caring activities towards the community.

## Savola Group: Board Declaration

### Board declaration as required by Corporate Governance Regulations:

The Savola Group is committed to the principles of transparency, disclosure, and the importance of information to its investors.

The Group places high importance on compliance with rules, regulations, standards and internal policies as adopted for Corporate Governance.

| Sr. | Member name  | Scheduled meetings (6) | Exceptional meetings (2) | Total of Meetings attended during 2007 |
|-----|--|------------------------|--------------------------|--|
| 1   | Eng. Adel M. Fakeih                                  | 6                      | 1                        | 7                                      |
| 2   | Dr. Sami M. Baroum*                                  | 4                      | 2                        | 6                                      |
| 3   | Mr. Ibrahim M. Al Issa                               | 6                      | 2                        | 8                                      |
| 4   | Mr. Abdulaziz K. Al Ghufaily                         | 6                      | 2                        | 8                                      |
| 5   | Dr. Abdullah M. Telmesani                            | 5                      | 2                        | 7                                      |
| 6   | Mr. Ammar A. Al Khudairy                             | 3                      | -                        | 3                                      |
| 7   | Dr. Ghassan A. Al Sulaiman                           | 5                      | 2                        | 7                                      |
| 8   | Mr. Mohammad A. Al Fadl                              | 6                      | 2                        | 8                                      |
| 9   | Mr. Mousa O. Al Omran                                | 6                      | 2                        | 8                                      |
| 10  | Mr. Yousef M. Alireza                                | 5                      | 2                        | 7                                      |
|     | <b>New Members (Second half 2007):</b>               | 1                      | -                        | 1                                      |
| 11  | Mr. Talal I. Al Maiman **                            | 1                      | -                        | 1                                      |
|     | <b>Members for previous term (First half, 2007):</b> | 2                      | -                        | 2                                      |
| 1   | Prince Naif Bin Sultan Al Kabir                      | 1                      | 1                        | 2                                      |
| 2   | Dr. Abdulraouf M. Mannaa                             |                        |                          |  |
| 3   | Dr. Majed A. Al Kasaibi                              |                        |                          |  |

## **a) Group Management Structure**

### **a-1) The Board of Directors:-**

A new Board of Directors was elected in fiscal year 2007. The new Board began its tenure effective July 1, 2007. In strict compliance with the Corporate Governance code noted in CMA Article 11, members for the Board were elected instead adopted for past Boards terms.

The main role of the Board is to establish overall corporate strategies, plans, policies and financial objectives. The Board approves financial provisions and budgets, and oversees and monitors the performance and progress of The Group companies and investments.

The Board protects the interest of the shareholders and other relevant parties by ensuring compliance with all applicable rules and regulations. The Group follows all requirements stipulated by its corporate Articles of Association and internal policies.

Nine Board meetings were held in 2007, of which six were scheduled Board meetings and two un-scheduled or exceptional meetings. The following table outlines the positions of the Board meetings and directors in 2007:

\* Dr. Sami Mohsen Baroum was appointed Managing Director effective April 1, 2007, and he attended all Board meetings held since his appointment.

\*\* Mr. Talal Ibrahim Al-Maiman was newly-elected to the Board, beginning to serve July 1, 2007. He attended one meeting out of three meetings held during the second half of 2007.

**a-2) Board memberships in joint stock companies**

| Sr. | Member Name                                    | Type of Membership in Savola  | Joint Stock Companies  |
|-----|--|---|--|
| 1   | Eng. Adel M. Fakeih<br>(Chairman of The Board) | Dependant, (Represents General Investments fund)  | None   |
| 2   | Mr. Ibrahim M. Al Issa                         | Dependant,<br>(Relative of controlling partner who owns more than 5% of The Group share capital)    | Taibah Co. (Listed), Saudi Fransi Bank (Listed), Al-Marai (Listed) Yanbu Cement Co. (Listed) , Jeddah Development & Urban Regeneration Co (a Joint Government Company – not listed ) |
| 3   | Dr. Sami M. Baroum<br>(Managing Director )     | Executive   | Al-Marai (Listed), Afia Int. (Closed )   |
|     | Mr. Abdulaziz K. Al Ghufaily                   | Dependant<br>(represents GOSI)  | Industrialization & Energy Services Co (Taqa) (Closed), Herfy Food Co. ( Closed )  |
| 4   | Dr. Abdullah M. Telmesani                      | Independent   | Afia Int. (closed), Jeddah Development & Urban Regeneration (Joint Stock Co. not Listed )  |
| 5   | Mr. Ammar A. Al Khudairy                       | Independent   | Al Deera Al-Arabi Co (listed), Kingdom Holding Co. (closed)  |
| 6   | Dr. Ghassan A. Al Sulaiman                     | Independent   | Arabian Cement (Listed), Afia Int. (Closed)  |
| 7   | Mr. Mohammad A. Al Fadl                        | Independent   | Jeddah Holding Co (closed)   |
| 8   | Mr. Mousa O. Al Omran                          | Independent   | Saudi Fransi Bank (Listed), Afia Int. (Closed), Al-Marai (listed) Arabian Cement (Listed),   |
| 9   | Mr. Yousef M. Alireza                          | Independent   | Afia Int. (Closed)   |
| 10  | Mr. Talal I. Al Maiman                         | Dependant<br>(represents Kingdom Holding Co, which owns more than 5% of Savola Group share capital) | International Industrialization Co (listed), Herfy Food Co. (Closed), Kingdom Holding Co.(listed)  |

### **a -3) Board of Directors Committees:**

The Board of Directors of The Savola Group appoints the members of four committees. These sub-committees assume principal and important roles assisting the Board. They undertake its statutory duties, ensure optimum performance and effective decision-making processes, and identify how to best utilize their extensive Board expertise. These four sub-committees undertake very essential roles in planning, making strategic decisions, ensuring policies that are appropriate and enhancing transparency and disclosure and which add to The Group's social responsibility towards the community.

The Board sub-committees which continued their functions through fiscal year 2007 were as follows:

#### **a-3-1) Audit & Risk Committee (annual audit plans and results)**

The Audit & Risk Committee was established by the Board of Directors, consisting of non-executive and independent directors, along with expert members in financial and accounting affairs.

The Committee met during 2007 to develop plans for internal control and risk management, including monitoring the works of the external auditor.

The Audit & Risk Committee reviews The Group's accounts and external auditor's report on a quarterly basis. A final yearly review covers financial statements, clarification notes, and ensures that accounting policies conform to the standards issued by the Saudi Organization for Certified Public Accountants (SOCPA). The Committee reviewed the internal audit performance for the year 2007, then discussed and approved the 2008 plan of internal control and risk management.

This Committee provides the Board of Directors with on-going periodical reports on efficiency and effectiveness of internal control systems, including material observations by the internal auditor.

An Audit & Risk Board Committee was formed for the Afia International Company after it was converted to a closed joint stock company, to ensure compliance with all applicable statutory rules and regulations. Afia International Company established an internal audit department to oversee internal auditing for Afia and its subsidiaries, both inside and outside Saudi Arabia. This Committee is developing internal and external auditing plans. The internal Auditing Chief Officer of Afia International reports directly to the Audit & Risk Committee.

For external auditor, The Group appointed KPMG—Al Fawzan & Al-Sadhan to review and audit The Group accounts for fiscal year 2007. The Group also appointed Ernest &

Young (E&Y) to undertake the functions of the internal audit. Both these firms are international storehouses of expertise in the field of auditing. They review internal auditing and risk management for the company and its subsidiaries. Their guidance ensures compliance with international auditing standards.

To strengthen the risk capabilities available to The Group, the Board of Directors approved the establishment of a risk unit, to be monitored by the Audit & Risk Committee, reporting results to the Board on a regular basis.

**A-3-2) Compensation & Nominations Committee:**

This Committee reviews the qualifications and suitability requirements for Board membership. As well, they formulate, review and approve compensation and benefits plans and policies for Board Members, Managing Directors and senior executives.

Another role is to define strengths and weaknesses in the composition of the Board of Directors through periodical evaluations of its membership.

The Committee includes four independent members, and held three meeting during 2007.

**a-3-3) Investment Committee:**

The Investment Committee was formed with eight members to develop criteria, standards and plans for The Group's investment activities. This Committee reviews, evaluates and approves investment opportunities within the powers given by the Board and provides regular updates to the Board.

The Investment Committee helps The Group develop sound investment plans and to explore and then seize the most attractive. This committee reviews opportunities before being presented to the Board, makes recommendations to the Board accordingly, and then monitors progress.

#### **a-3-4) Corporate & Social Responsibilities Committee “Savola Pledges” and “Savola Bridges”**

“Savola Pledges” demonstrates The Group’s commitment to its values, goals and pledges toward shareholders, employees and all related parties.

The Corporate Governance & CSR Committee is selected from Board members, with the task of supervising the execution of the Savola “Pledges initiative” and “Savola Bridges” as part of The Group’s Corporate Social Responsibility and Corporate Governance.

The Group is committed to full compliance with the best principles of corporate governance and the applicable rules of Saudi Arabia and best international practice including both internal by-laws and rules of the Capital Market Authority (CMA).

Since 2004, The Group has enacted policies on disclosures, transparency, conflict of interests and confidentiality of internal information. All Board directors and corporate senior executives sign our code of conduct. After new KSA corporate governance regulations were issued November 2006 by the CMA, The Group reviewed its code of conduct to ensure nothing would contradict any provisions of the new regulations.

**a-3-5) Board Members committees classifications and their records of attendance.**

| <b>Audit &amp; Risk Committee (All members are non-executives, 3 meeting were held)</b> |                 |                          | <b>Compensation &amp; Nomination Committee (3 meetings were held)</b> |                 |                          |
|---|-----------------|--------------------------|---|-----------------|--------------------------|
| <b>Name</b>   | <b>Position</b> | <b>Meetings attended</b> | <b>Name</b>   | <b>Position</b> | <b>Meetings attended</b> |
| -Mr. Ibrahim M. Al Issa   | Chairman        | 3                        | -Mr. Yousef M. Alireza  | Chairman        | 2                        |
| - Mr. Saleh A. Alesayi  | Member          | 1                        | -Dr. Ghassan A. Al Sulaiman   | Member          | 2                        |
| -Mr. Abdulaziz K. Al Ghufaily   | Member          | 3                        | -Mr. Mohammad A. Al Fadl  | Member          | New Member               |
| -Mr. Mohammad A. Al Fadl  | Member          | 3                        | -Mr. Mousa O. Al Omran  | Member          | 2                        |
| -Mr. Ammar Al Khudairy  | Member          | 2                        | -Dr. Ayman A. Hashem  | Coordinator     | 2                        |
| -Majed Diauddin Kareem  | Coordinator     | New Member               | -Mr. Mahmoud M. Abdul Ghaffar   | Secretary       | 2                        |
| -Mr. Mahmoud M. Abdul Ghaffar   | Secretary       | 3                        |   |                 |                          |

| <b>Investments Committee (3 meetings were held)</b> |                 |                         | <b>Corporate &amp; social Responsibility Committee<br/>(Corporate &amp; Social Responsibility Committee were merged into one committee on July 1, 2007 )</b>                     |                 |                         |
|---|-----------------|-------------------------|--|-----------------|-------------------------|
| <b>Name</b>   | <b>Position</b> | <b>Meeting attended</b> | <b>Name</b>  | <b>Position</b> | <b>Meeting attended</b> |
| -Eng. Adel M. Fakeih                                | Chairman        | 3                       | -Eng. Adel M. Fakeih   | Chairman        | 1                       |
| -Dr. Sami M. Baroum                                 | Member          | New Member              | -Dr. Ghassan A. Al Sulaiman  | Member          | 1                       |
| -Ibrahim M. Al Issa                                 | Member          | New Member              | Dr. Abdullah M. Telmesani  | Member          | 1                       |
| -Mr. Ammar Al Khudairy                              | Member          | 2                       | -Mr. Mohammad A. Al Fadl   | Member          | 1                       |
| -Dr. Ghassan A. Al Sulaiman                         | Member          | 2                       | -Mr. Talal I. Al Maiman  | Member          | New Member              |
| -Mr. Mousa O. Al Omran                              | Member          | 3                       | -Mr. Mahmoud M. Abdul Ghaffar  | Coordinator     | 1                       |
| -Mr. Mohammad A. Al Fadl                            | Member          | 3                       | Two meetings were held before merging the two committees (Corporate Governance & Corporate Social Responsibility). Together five meeting were held during the first half of 2007 |                 |                         |
| -Mr. Yousef M. Alireza                              | Member          | 3                       |  |                 |                         |
| -Dr. Muhammad A. Ikhwan                             | Coordinator     | 3                       |  |                 |                         |
| -Mr. Mahmoud M. Abdul Ghaffar                       | Secretary       | 3                       |  |                 |                         |

### **a-3-6) Board Directors and Senior Executive Remuneration:**

#### **a) Board of Directors Remuneration**

The annual remuneration allocated for Board Directors in 2007 reached SR 2.3 million, compared to 2.4 million paid in 2006. In addition, attendance fees, travel and accommodation expenses were paid to Board members during 2007, detailed as follows:

| <b>Explanation</b>  | <b>2007</b>    | <b>2006</b>    |
|---|----------------|----------------|
| -Annual remuneration for the Board members  | SR 2.3 million | SR 2.4 million |
| - Meetings attendance fees for the board (SR 3,000 per meeting) plus remuneration for the Secretary of the board (SR 1,000) per meeting, including travel expenses and accommodation cost | SR 455,500     | SR 467,100     |

#### **b) Chairman of the Board of Directors remuneration:**

Note that the Chairman did not receive any remuneration for his 2007 board position. However, the annual remuneration and meetings attendance fees for his membership totaling SR 233,000 has been paid as a certified cheque in the name and account of the General Investment Fund which His Excellency Eng. Adel Fakeih represents through his membership of the Group Board. His Excellency also donated to the Group's Corporate social responsibilities program the SR 2.5 million allocated to him by the Board as a bonus for his efforts in concluding successfully the Group's disposal off its stake in the Egyptian Fertilizer Company (the disposal realized a capital gain to the Group of SR 709 million).

#### **c) Managing Director's remuneration:**

The former Savola Group Managing Director had total 2007 remuneration of SR 3,401,650 for the first quarter of 2007. He also received end-of-service benefits of SR 9,712,800.

The total remuneration of the present Managing Director reached SR 6,179,164 for his performance in the second, third and fourth quarters of 2007.

The remuneration paid to the previous and present managing directors covers their monthly salary, transportation allowance, housing allowance, medical insurance, annual performance remuneration, annual Board membership remuneration, attendance allowance for Board and committee meetings, in addition to Board meeting attendance fees for the subsidiaries inside and outside KSA when they represented The Group.

**d) Senior Executive Remuneration:**

The total amount paid to senior executives of The Group included SR 15.5 million for the acting Chief Financial Officer in 2007, compared to SR 14.3 million in 2006. This amount included their monthly salaries, housing and transportation allowances, medical insurance and performance bonuses for the year 2007.

The list of senior executives is noted below.

**a-4) Executive Board Team:**

The Executive Board of The Savola Group is comprised of nine members. They include each sector CEO, along with division presidents, plus senior vice-presidents in headquarters and The Group's Chief Financial Officer. The Executive Board members are appointed by The Group's Managing Director, who also acts as chairman for the Executive Board.

The mandate and role of the Executive Board is to implement the strategies, plans and policies approved by The Group's Board of Directors and Subsidiaries Board. The Executive Board also monitors the performance of Group sectors and ensures their commitment and adherence to plans and policies, and compliance with risk management.

The Executive Board develops and implements the different operational and advanced management systems that monitor, evaluate and implement plans and ensure that the company's business activities comply with the applicable rules, regulations and ethics. The Executive Board held 12 meetings during 2007. The Executive Board (EXB) members are detailed below:

| Sr. # | Name                         | Position                    |   |
|-------|------------------------------|-----------------------------|---|
| 1     | Dr. Sami Mohsen Baroum       | Chairman of Executive Board | Managing Director                                   |
| 2     | Dr Mohammad Amin Kashgari    | EXB Member                  | CEO –Retail Sector (Retail, Real Estate & Plastics) |
| 3     | Eng. Zouhair Eloudghiri      | EXB Member                  | CEO - Foods Sector                                  |
| 4     | Dr. Mohammad Hassan Ajlan    | EXB Member                  | President - Group Business Development              |
| 5     | Dr. Mohammad Amin Jefri      | EXB Member                  | President- Franchising Division                     |
| 6     | Dr. Muhammad Hassan Ikhwan   | EXB Member                  | SVP- Merger & Acquisition                           |
| 7     | Dr. Ayman Arab Hashim        | EXB Member                  | SVP- Strategic Management Center                    |
| 8     | Mr. Majed Diauddin Kareem    | EXB Member                  | Consultant – Group Finance                          |
| 9     | Mr. Mahmoud M. Abdul Ghaffar | EXB Member & Coordinator    | SVP, Corporate Affairs & Board Secretary            |

**a-5) List and number of shares of the top six shareholders in The Savola Group, and ownership changes during the year 2007.**

| Sr. | Name                                      | Shares # at the beginning of 2007 | Ownership % at the beginning of the year 2007 | Shares # at the end of 2007 | Variance   | Ownership % by year-end 2007 |
|-----|---|-----------------------------------|---|-----------------------------|------------|------------------------------|
| 1.  | Mohammed I. Al Issa                       | 50,000,000                        | 13.33%  | 50,000,000                  | 0          | 13.33%                       |
| 2.  | Kingdom Holding Co.                       | 0                                 | 0%  | 38,111,916                  | 38,111,916 | 10.16%                       |
| 3.  | Abdullah M. A. Al Rabiah                  | 32,812,500                        | 8.75%   | 32,812,500                  | 0          | 8.75%                        |
| 4.  | General Organization for Social Insurance | 18,024,885                        | 4.81%   | 18,024,885                  | 0          | 4.81%                        |
| 5.  | Abdulkader Al Muhaideeb & Sons Company    | 16,471,363                        | 4.39%   | 16,459,791                  | 11,572     | 4.39%                        |
| 6.  | General Investments Funds                 | 12,827,404                        | 3.42%   | 12,827,404                  | 0          | 3.42%                        |

**a-6) Details of the shares owned by Board members and first-degree relatives:**

| <b>Sr.</b> | <b>Name</b>   | <b># of Shares at the beginning of 2007</b> | <b># of Shares at the end of 2007</b> | <b>Variance %</b> | <b>Relatives ownership changes during the year</b>   |
|------------|---|---|---------------------------------------|-------------------|--|
| 1.         | Eng. Adel M. Fakeih   | 3,125                                       | 3,125                                 | 0                 | None   |
| 2.         | Mr. Ibrahim M. Al Issa  | 322,280                                     | 322,280                               | 0                 | None   |
| 3.         | Dr. Sami M. Baroum  | 2,000                                       | 2,000                                 | 0                 | His sons own 684 shares. No change during the year.  |
| 4.         | Mr. Talal I. Al Maiman (a new member elected on July 1, 2007) | 0   | 9,628                                 | 0                 | None   |
| 5.         | Mr. Abdulaziz K. Al Ghufaily                                  | 0   | 0                                     | 0                 | None   |
| 6.         | Dr. Abdullah M. Telmesani                                     | 3,750                                       | 3,750                                 | 0                 | None   |
| 7.         | Mr. Ammar A. Al Khudairy                                      | 2,093                                       | 2,093                                 | 0                 | None   |
| 8.         | Dr. Ghassan A. Al Sulaiman                                    | 17,196                                      | 17,196                                | 0                 | None   |
| 9.         | Mr. Mohammad A. Al Fadl                                       | 4,728                                       | 4,728                                 | 0                 | His wife owns 108 shares; no change during the year. |
| 10.        | Mr. Mousa O. Al Omran   | 4,728                                       | 4,728                                 | 0                 | None   |
| 11.        | Mr. Yousef M. Alireza   | 2,385                                       | 2,385                                 | 0                 | None   |

\* Note: There were no first degree relative holdings other than the above.

**a-7) Details of the shares owned by senior executives and first-degree relatives:**

| Sr | Name                                  | # of Shares in the beginning of 2007 | # of Shares in the end of 2007 | Variance at during the year | # of shares of first-degree relatives   |
|----|---------------------------------------|--------------------------------------|--------------------------------|-----------------------------|---|
| 1. | Dr Mohammad Amin Kashgari             | 5,000                                | 22,500                         | 17,500                      | None  |
| 2. | Eng. Zouhair Eloudghiri               | 30,625                               | 0                              | -30,625                     | None  |
| 3. | Dr. Mohammad Hassan Abdulrazzak Ajlan | 20,031                               | 0                              | -20,031                     | None  |
| 4. | Dr. Mohammad Amin Jefri               | 20                                   | 20                             | 0                           | None  |
| 5. | Dr. Muhammad Hassan Ikhwan            | 250                                  | 250                            | 0                           | One of his sons owned 2,437 shares at the end of the first half of 2007, increased to 3,273 shares at the end of 2007 |
| 6. | Dr. Ayman Arab Hashim                 | 20                                   | 4,020                          | 4,000                       | His wife owns 2.5 million shares; no change during the year   |
| 7. | Mr. Majed Diauddin Kareem             | 0                                    | 100,000                        | 100,000                     | None  |
| 8. | Mr. Mahmoud M. Abdul Ghaffar          | 18,593                               | 18,593                         | 0                           | His wife owns 3,791 shares; no change during the year   |

\* Note: There were no first-degree relative holdings other than the above.

#### **a-8) Mechanisms for resolving complaints and grievances**

The Board of Directors has a policy for settlement of any complaints or disputes that might arise in the course of business between the company and its stakeholders—shareholders, customers, suppliers...etc.

A Grievance Committee will be formed in 2008 to resolve any grievances or appeals submitted by stakeholders. This committee will submit its decisions to the Corporate Governance & CSR Committee for review and ratification.

There is a separate committee to resolve any employees' complaints. That committee is drawn from the HR Steering Committee, it established over many years for this purpose.

#### **a) Communication with shareholders, investors and other stakeholders:**

1. Publication of the quarterly financial statements and final accounts in Tadawul (Saudi Stock Market Exchange) and local newspapers within the time framework stipulated by regulations.
2. Adherence to Tadawul announcements' criteria wording, including disclosure of material information and meeting deadlines.
3. Provide shareholders with quarterly Savola newsletters that report the performance of The Group and its subsidiaries. Keep shareholders always updated with the latest developments of the company.
4. Update Savola website ([www.Savola.com](http://www.Savola.com)) and maintain it with regular necessary information on The Group's activity, news and financial results.
5. Prepare the Board of Directors' report according to the disclosure requirements and standards stipulated by CMA regulations.
6. Communicate with The Group's management and employees inside and outside Saudi Arabia through the Managing Director's quarterly performance report. This report is in addition to Savola Quarterly magazine *Awraq Savola* that reports The Group's performance, development and includes social news of the staff.

#### **b) Board declaration as required by the CMA Corporate Governance Code:**

This report of The Savola Group conforms with the disclosure requirements on corporate governance code issued by the CMA. The following listed subjects were not

applicable to The Group for 2007 and the Board will begin to disclose them if they become applicable:

- 1- Savola Group does not presently provide any employee stock option plans. However there is a tendency within The Group to adopt such plans, and the Board will disclose these if and when they begin.
- 2- The Group does not have debt instruments transferable to shares.
- 3- Describe any arrangement or agreement under which a Director or Senior Executive of the Group waived any emolument or compensation.
- 4- No contracts of The Group are in place in which any Board members, the Managing Director, the CFO or any one of the first-degree relatives have a substantial interest.
- 5- There are no punishments, penalties or preventive restrictions imposed on the company by the CMA or any other supervisory or regulatory or judiciary body.
- 6- Savola does not have preferred shares or shares with special priority in voting, whether to shareholders, directors or employees. All shares of Savola Group are ordinary ones of equal nominal value and give equal voting rights and other rights as per regulations.
- 7- The Board of Directors confirms that The Group's books and records have followed accountancy standards issued by SOCPA. There are no substantial notes from the external auditors in the financial statements of The Group for the year 2007. The Board is committed to provide the CMA with any additional information as may be required in case of auditors expression of any reservations on the annual financial statements.
- 8- Internal Savola Group control systems and procedures are properly developed and effectively executed.
- 9- There are no doubts about The Group's capability to continue its business activities.
- 10- The Group is subject to Zakat according to the Regulation of Zakat & Income Bureau. The Group records its Zakat provision and debits it to the income statement. Any amendments during the final assessment of Zakat will also be recorded at the time the assessment is made.
- 11- The Group does not receive any notification from its shareholders in respect to any change to their equity positions during the fiscal year, except the notices of the Board of Directors and seniors executives, as indicated in provision number 30 in the CMA's listing rules. The Group discloses the ownership percentage of its top six

shareholders along with the net changes to their shareholding during the year. This information tracking is based on the regular reports received by The Group from Tadawul Shares Center.

12- The Group did not apply accumulative voting methods in the last Board election for the term beginning July 1, 2007. The Group is still studying this new concept prior to implementation because it requires special electronic and database applications. The Board has now recommended applying this voting method and submitted this change to the company's articles of association and will seek approval at the annual shareholder General Assembly, scheduled March 25, 2008.

**c) Recommendations at the extraordinary shareholders Assembly General meeting on March 25, 2008 at Jeddah Westin Hotel.**

**First: Capital Increase**

The Board recommends a 33% increase in The Group's paid up capital from SR 3.75 billion to SR 5 billion by granting one free share for every three owned shares. The increase in share capital is recognized by transferring SR 1.25 billion—SR 150 million from share premium and SR 1.1 billion from the retained profit.

The number of Group's shares will increase from 375 million to 500 million shares. If certain shareholders increase in share capital results in fractions of shares, then The Group will dispose of these fractions of shares through Tadawul at favorable price terms on behalf of the beneficiary shareholder.

The Articles of Association shall be amended to reflect the increase of paid-up share capital.

**Second: Compliance with CMA Corporate Governance**

To comply with the Corporate Governance Regulation issued by the CMA on November 2006, the Board of Directors recommends that the General Assembly Meeting approve the following:

- a) Approval to amend the below-mentioned provisions in the company Articles of Association:

| No. | The current text as appear in the Group Article of Association  | The requirement as appeared in the Corporate Governance issued by CMA   | The proposed text to comply with Corporate Governance Regulation issued by the CMA   |
|-----|---|---|--|
| a-1 | Article (16) “The company shall be managed by a board of directors consists of 11 members, elected by General Assembly for three years.”  | Article (6-b) In voting in the General Assembly for nomination to the board members, the accumulative voting method shall be applied.   | Article (16) “The company shall be managed by a board of directors comprised of 11 members, elected by General Assembly <b><u>through accumulative voting method</u></b> for a period of three years.”   |
| a-2 | Article (18) Board membership ends at expiration of the term fixed. If one of the member positions becomes vacant during his tenure of office, the Board shall appoint an interim member, provided that the appointment shall be submitted to the earliest General Assembly meeting to approve. The new member shall complete the tenure of office of his ancestor. If the number of Board members falls to less than four, the General Assembly meeting shall be called as soon as possible to elect the necessary number. | Article (12-f) the Article of Association of the Company shall specify the manner in which membership of the Board of directors terminates. At all times the General Assembly may dismiss all or any members of the Board of Directors even though the articles of Association provide otherwise. | The following Paragraph shall be added to the end of the current article (18)<br><br>“At all times the General Assembly may dismiss any or all of the members of the Board of Directors.”  |
| a-3 | Article (26): Every Shareholder owning at least 50 shares has a right to attend the General Assembly meeting. Shareholders have the right to authorize other shareholders (not a member of the Board of Directors) to attend the General Assembly meeting on his behalf.  | Article (3): A shareholder shall be entitled to all rights attached to the share, in particular, the right to a share of distributable profits...   | Article (3): Every Shareholder—regardless of quantity—has a right to attend the General Assembly Meeting, and he has the right to authorize another shareholder (not a member of the Board of Directors) to attend the General Assembly meeting on his behalf. |

## **b) Approval of standards and procedures determining the membership of the Board of Directors**

The Group's procedures are in compliance with the provisions of article 10, sub-article I, of the Corporate Governance issued by CMA and pursuant to the Regulation of the Ministry of Commerce & Industry and other related authorities. The most important of these are:

1. Nominees for Board membership must not have been convicted of a crime prejudicial to honor and honesty.
2. Nominees should not be a Board member in more than five joint stock companies at one time.
3. Nominees should disclose all companies and corporate holdings where they participate in management or ownership. This is particularly necessary for any companies or corporations that carry on similar or competing activities.
4. Nominees should have sufficient time for effective participation and contributions to Board work and duties.
5. Nominees should be shareholders in The Group, owning not less than 1,000 shares.
6. Nominees should submit applications for nomination to the Board of Directors, along with CV, qualifications, experience and a detailed report of the number and date of Board meetings in any joint stock companies where they are members or still occupy its membership. This meets the requirements of the Ministry of Commerce in this respect.

## **c) Approval of rules for the appointment of members of the Compensation & Nomination Committee**

Members of the Compensation & Nomination Committee have a term of office and follow procedures and methods for committee work according to Article 15 of the Corporate Governance Code issued by the CMA. The Group's Corporate Governance Code also sets out rules for Committee appointments. The major standards include:

- Members should be non-executive
- Term of office for committee members should not be less than three years
- The Board has the right to remove or dismiss committee members at any time.

#### **d) Approval of rules for the appointment of members to the Audit & Risk Committee**

The Audit & Risk Committee have a term of office and follow all procedures and methods for committee work according to Article 14 of the Company Corporate Governance issued by the CMA, and the rules stipulated in The Group's Corporate Governance Code.

The major standards include:

- Members should be non-executive.
- The number of committee members should not be less than three.
- Members should include specialists in financial and accounting matters.
- The Board has the right to remove or dismiss Audit & Risk Committee members at any time.

#### **Third: Ordinary agenda**

- 1) Approval of the Board of Directors' Report for the year ended December 31, 2007
- 2) Approval of the Final Accounts and the Auditors' Report for the year ended December 31, 2007.
- 3) Ratification of total dividends distributed to our esteemed shareholders for the first three quarters of 2007 at the rate of SR 0.25 per share for each quarter.

Dividends paid in 2007 totaled SR 0.75 per share for the first three quarters, in addition to the exceptional dividends of SR 0.50 paid during the second quarter of 2007, raising the total dividends paid to SR 1.25 per share.

The Board also recommends approval of 0.25 as dividends for the fourth quarter of 2007, to be distributed to shareholders on record at year-end.

Absolve the Board of Directors from any liability pertaining to the management of the company for year 2007.

- 4) Appointment of external auditors, selected from the list of auditors' offices recommended by The Group's Audit & Risk Committee. The external auditors review The Group's accounts for 2008.

## **Thanks and appreciations**

The Board would like to take this opportunity to extend its thanks and appreciation to the Custodian of the Two Holy Mosques and to His Royal Highness Crown Prince for their special endeavours in furthering the welfare and the stability of the country.

The Board also extends its appreciation and thanks to the Government of the Custodian of the Two Holy Mosques for its continuous support and encouragement of the industrial and private sectors.

The Board also would like to thank all Saudi citizens for the trust and loyalty they have placed in The Group and its products.

The Board of Directors further would like to thank The Group's esteemed shareholders for their kind support and trust.

Many thanks for another successful year go to the management and employees of The Group and its subsidiaries.

Your Board is proud that The Group is facing the future with great confidence and steadfastness. The Group is committed—with the help of Almighty Allah—to achieve its ultimate goals, mainly to serve our stakeholders' interests, the national economy and the local community.

We pray to Almighty Allah for continuous success and best regards to all of you.

**The Savola Group Board of Director**