

Almarai Company



Annual Report 2006



# 2006 at a glance

## SALES

Increased by 28.5% from SAR 2,146 million to SAR 2,757 million.

## NET PROFIT

Increased by 20.5% from SAR 386 million to SAR 465 million.

## CAPITAL EXPENDITURE

Approval given by the Board of Directors for capital expenditure of over SAR 4.0 billion as part of the Company's 5 year plan. SAR 878 million was spent in 2006 to satisfy burgeoning demand and in anticipation of future growth.

## PRODUCTION FACILITIES

The commissioning of our second Central Processing Plant and Al Badiah Super Farm towards the end of 2005 allowed Almarai to meet increased customer demand.

## SALES AND MARKETING

We now operate 40 Sales Depots – 26 in Saudi Arabia and 14 in other GCC countries – delivering to over 34,000 retail customers.

2006 saw the launch of 7 new products and the introduction of new packaging, the most notable of which was the roll out of PET bottles for our liquid products.

## EMPLOYEES

Almarai employs over 7,000 of whom approximately 1,500 are GCC nationals.



# contents

TO OUR ESTEEMED SHAREHOLDERS	2
AN OVERVIEW OF THE COMPANY	3
BOARD OF DIRECTORS' REPORT	5
KEY MILESTONES	10
MANAGEMENT DISCUSSION & ANALYSIS	11
CORPORATE SOCIAL RESPONSIBILITY	19
OUR PEOPLE	20
QUALITY YOU CAN TRUST	22
ALMARAI MARKETING	23
ALMARAI FARMING	24
ALMARAI OPERATIONS	26
ALMARAI SALES	28
KEY FINANCIAL HIGHLIGHTS	30
AUDITORS' REPORT & FINANCIAL STATEMENTS	31
CONTACT DETAILS	



# to our esteemed shareholders

We are delighted to report that in our first year after the IPO, Almarai continued its success story. The Net Profit increased by 20.5% to SAR 465 million, Net Sales grew by 28.5% to SAR 2,757 million and Net Asset amounted to SAR 1,894 million.

The 2006 record results reflect Almarai's very strong growth in sales revenue year on year as well as the efficient management of our production and distribution facilities.

The performance achieved is not only the result of the investments made in our distribution network, our Central Processing Plant and our farming activities, but is also the result of our continued focus on customer satisfaction as well as the commitment, passion and motivation of our management and employees. This has not only resulted in a record performance for the year, but has laid the foundation for sustainable growth.

To ensure the continuation of this growth, the Board of Directors approved an ambitious investment program of SAR 4 billion for the next 5 years. This will allow Almarai to develop and launch new products through the use of state-of-the-art production and distribution facilities and further strengthen our market leadership.

The planned acquisition of Western Bakeries will allow Almarai to widen its product range and reinforce its position as a leading food company in the GCC.

With a highly skilled and motivated work force as well as a very strong trading environment in the region we are confident in the future of Almarai and expect the coming year to be another strong year of growth and profitability.

The Board of Directors is committed to the continued success of Almarai and to meet the Shareholders' expectations and consumer needs. We are also fully committed to our slogan: "Quality You Can Trust."

Finally, we would like to thank the management and employees of Almarai for their hard work and commitment in ensuring the continuing success of the Company.

**Board of Directors**  
20 January 2007



# an overview of the company



The Almarai success story began in 1976, when HH Prince Sultan bin Mohammed bin Saud Al Kabeer recognized the potential to transform traditional dairy farming in Saudi Arabia in order to meet the needs of a burgeoning domestic market. Under his visionary guidance and patronage, numerous agricultural projects were developed towards achieving this objective, and what began with the processing of fresh milk and laban soon expanded into modern dairy farms and state-of-the-art processing plants.

In the early 90s, Almarai entered into a restructuring and reinvestment phase moving away from a decentralized to a centralized structure. The first Central Processing Plant was commissioned replacing 5 decentralized plants. Almarai also established four large dairy farms in the central area replacing ten decentralized small farms. This set up Almarai as the low cost producer in the region.

Since then the Company has continued to invest heavily in technologically advanced production facilities and equipment. A second and larger Central Processing Plant incorporating a new cheese plant was commissioned in late 2005. A new super farm has been commissioned and a second one is currently under construction. Today we are capable to serve more than 34,000 customers within the GCC on a daily basis with high quality products.

The success of Almarai is not only due to its sophisticated farms and Central Processing Plants but also to its well established distribution network within the Gulf countries which together focus on maintaining the quality of Almarai's products from cow to consumer.

In 2005, Almarai entered into a new phase, moving from being a privately owned company to a publicly listed company. The objective is to continue to deliver high quality products daily to our consumers and to satisfy our 125,000 new shareholders.





In 2006, Almarai generated a profit of SAR 465 million from a turnover of SAR 2.8 billion which exceeded all expectations.

One of the mainstays of its success is Almarai's unique ability to maintain and deliver high quality products. With this intrinsic attribute, combined with a strong understanding of consumer tastes and preferences – acquired through intensive consumer research – Almarai today continues to establish itself as a leader in dairy and dairy-related sectors in the GCC countries.

Today, Almarai is an integrated organization spanning the food supply chain from dairy farms through to retail stores. Almarai markets a range of food and beverage products under its own brand, principally through retail outlets. The product range includes fresh and long-life dairy products which are made primarily from fresh milk as well as fruit juices, cheese, butter and a range of non-dairy products.

To secure the future success of Almarai, the Board of Directors has approved a capital expenditure program of SAR 4 billion for the next 5 years in order to have the necessary resources to allow Almarai to continue to best serve its customers and consumers and to invest in the training and development of its highly committed work force.



## vision statement

To be the preferred choice in food products, promoting nutrition, health and well being in the GCC.

## mission statement

Almarai will constantly exceed consumer expectations by providing the highest quality food products and superior customer service through continuous development and investment in its human and technical resources.

# board of directors' report

## To our esteemed shareholders,

2006 has been a phenomenally successful year for Almarai, both in terms of turnover and net profit growth. We have continued to increase our profits for the last sixteen years but 2006 is an exception, a year in which the foundations laid in 2005 and before have been built upon.

The Company achieved record sales of SAR 2,757 million and a net income of SAR 465 million a significant increase of 28.5% and 20.5% respectively over the previous year's figures. These substantial results were achieved despite the Company absorbing an increase in Direct Material Costs; had these costs remained in line with the increase in sales, or had they been passed on to our customers, we would have achieved a net profit growth in line with sales.



## 2006: A Year of phenomenal growth.

Almarai witnessed the most significant growth in its history in 2006.

The ambitious expansion of the Sales Distribution Network to over 34,000 customers has seen turnover increase by 28.5%. We now operate 40 Sales Depots throughout the GCC. To service this growth the number of distribution vehicles has increased and more shop fridges have been placed in retail outlets to ensure our products are maintained in a chilled environment.



Dairy sales have grown by 20% and within this category milk has been the star performer. Following the successful launch of milk in PET packaging in late 2005, 2006 has seen its role out to other GCC countries and in further pack sizes which in turn has seen milk sales increase substantially. The Al Watania campaign and other marketing initiatives have helped to increase cheese and butter turnover by 55% and the launch of additional juice flavours and selling juice in PET packaging has seen juice turnover increase by 45%. These initiatives have ensured Almarai has further extended its position as market leader in fresh dairy, juice and many food categories.

The timely commissioning of the new cheese plant in late 2005 allowed us to meet the increased demand for our products. However in order to meet future forecast demand additional capacity has been installed and the distribution fleet has increased.



Amongst other significant developments in 2006 was the commissioning of our Al Badiyah Super Farm. In addition to this, and in anticipation of future growth, the Company commenced construction of Al Danah Super Farm which will be fully commissioned in 2007 and have a similar capacity to Al Badiyah.

As part of our growth strategy and to meet our increased demand for raw milk, we acquired the Al Safwa dairy farm during the year. In addition, we imported high genetic cows and further imports are anticipated in 2007.





Almarai continues to be the largest dairy company in the Middle East. In 2006, as part of our expansion plans, the Company also witnessed an increase in the total workforce to 7,069 employees.

In November 2006, Almarai entered into a Memorandum of Understanding to acquire 75% of Western Bakeries, a producer and distributor of a wide variety of baked food products under the brand name L'Usine throughout Saudi Arabia. This move will strengthen Almarai's position as the leading food company within the GCC.

As we look back over a successful 2006 and towards a promising future, we reiterate our commitment to continue to develop new products and seek new business opportunities with the objective of increasing stakeholder wealth and offering improved products and services to our customers and consumers. To this end, during the year the board approved SAR 1.2 billion of capital expenditure to meet market demand for 2006 and 2007. This is part of the SAR 4.0 billion capital expenditure that is anticipated up to 2010 as part of the recently released third strategic 5 year plan.

We are confident that with the favorable and productive economic environment in Saudi Arabia and the GCC and the visionary initiatives undertaken by Almarai in 2006. We will continue to excel on the path to progress and we look forward to even more successful years ahead.

We take this opportunity to thank our management team and their staff for their continued support, dedication and commitment to the development of the Company, and we look forward with renewed confidence to another promising year of meeting and exceeding our shareholders' expectations.

## Board of Directors

20 January 2007



# board of directors



**HH Prince Sultan bin Mohammed bin Saud Al Kabeer**  
**Chairman of the Board**

Holds a Bachelor Degree in Economics and Political Science from King Saud University, Saudi Arabia. He is also Chairman of the Board of Arabian Union for Cement Industries, Al Mashreq Commercial and Contracting Company, Samamah Company and Arabian Shield Insurance Company EC. He is the Managing Director of Yamama Cement Company, Board Member of ARASCO and Al Farabey Chemical Company Limited, founding member of Kingdom Schools, and a member of the Council of Trustees of King Abdulaziz of Men's Foundation for Supporting the Talents, Board of Equestrian Club and the Board of Graduates Committee for Maahad Al Asima Al Namouthaji Institute.



**Dr. Abdulraouf M. Mannaa**  
**Director**

Holds a Bachelor Degree in Mechanical Engineering from King Fahd University of Petroleum and Minerals in Saudi Arabia. In addition he holds a Master's Degree and a Ph.D. in Mechanical Engineering from California University, Berkley, USA and Washington University, Seattle, USA respectively. He joined Savola Group in 1990 and is currently its Managing Director. He is also Managing Director of Savola Egypt Sime and Chairman of Savola in Morocco, Sudan, Kazakhstan, Jordan and Iran.



**Abdulrahman bin Abdulaziz Al Muhanna**  
**Managing Director**

Joined Almarai in 1979, a graduate of King Saud University, Saudi Arabia, with a degree in Agricultural Economics. He was appointed Managing Director in 1997. He is a Board of Directors member in ARASCO, Arcapita Bank, Bahrain, and Saudi Fisheries Company. He is a member of the Agricultural Committee of Riyadh Chamber of Commerce.



**Mohammed Al Damer**  
**Director**

Holds a Bachelor Degree in Political Science from the University of the Pacific in Stockton, California, USA. He worked with the Ministry of Foreign Affairs from 1976 to 1981. He is active in businesses specializing in stocks and real estate. He is the Founder and Chairman of Mirnah Technology Limited, an Information Technology solutions company founded in 1992.

**Engr. Nasser Al Muttawa**  
**Director**

Holds a Bachelor Degree in Civil Engineering from Marquette University, California, USA. He has worked in the Government sector from 1973 to 1979 and in the private sector from 1980 to present. He has major business interests in various companies in the Middle East. He is also an active member of charitable organizations such as the Saudi Orphans Foundation, The Handicapped Children Foundation, The Patients Friends Foundation, The Taibah Charity Foundation and The Saudi Red Crescent Foundation.



**HH Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer**  
**Director**

A business administration graduate of King Saud University, Saudi Arabia, he is Chairman of Projects and Technical Contracting Corporation and a director of the Savola Group.



**Dr. Majed M. Al Gassabi**  
**Director**

Holds a Master's Degree in Civil Engineering from Berkley University, USA, a Master's Degree and a Ph.D. in Engineering Management from University of Missouri, USA. He is a Board Member of General Ports Authority, Saudi Cable Company, Al-Furouisiya at Holy Makkah Area, The Savola Group, United Sugar Company and a member of Foundation, Board of Directors Jeddah Holding Company.



**Ibrahim M. Alissa**  
**Director**

Holds a degree in Business Administration from Chapman University, California, USA. He is the Managing Director of Tourist and Cargo Services Company, a director of Saudi Turkish Holding Investment Company, Banque Saudi Fransi and the Savola Group.

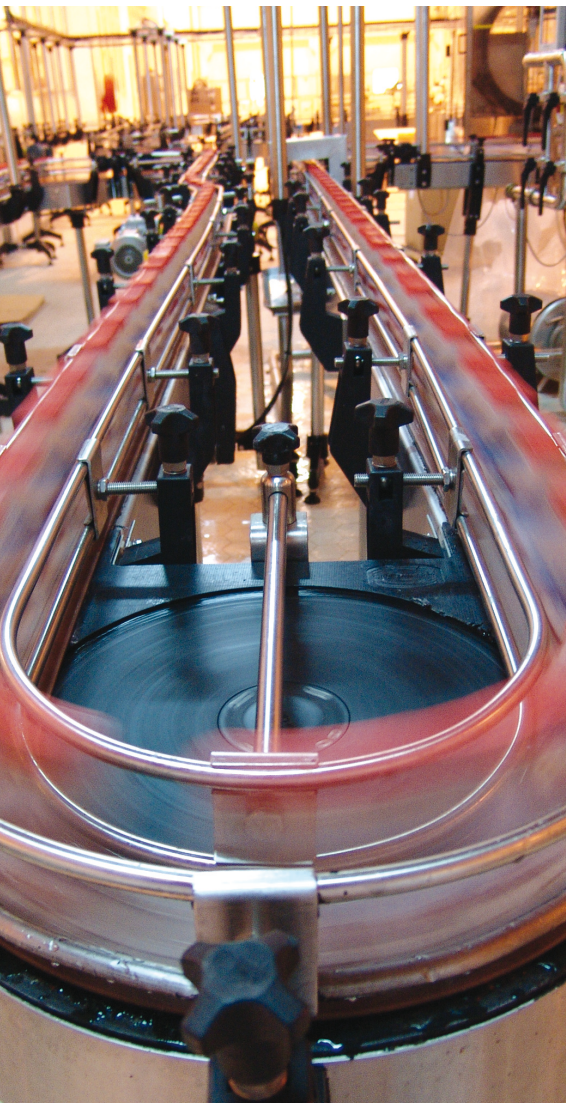




## key milestones

With a commitment to optimize our Shareholders' value in the Company, and a vision to establish and strengthen our position as a leading food company in the Middle East, we had set towering goals for our Company to achieve in 2006. Today, having ended the fiscal year, we look back with pride on our major achievements, and are confident that they will provide us with the impetus to outperform ourselves in the year ahead. Some of the milestone achievements in 2006 are listed below.

- Almarai achieved record sales of SAR 2,757 million and a net income of SAR 465 million.
- Almarai's Board of Directors has approved a capital expenditure program of SAR 4 billion as part of our 5 year strategic plan. SAR 878 million was spent in 2006 to satisfy burgeoning demand and in anticipating future growth.
- Almarai continues to be the largest dairy company in the Middle East and now employs over 7,000 employees. In order to meet the growth in demand, Almarai successfully recruited more than 2,500 personnel in 2006.
- As market leader in one of the world's most dynamic dairy markets, Almarai was ranked third in Forbes Arabia's Top 40 Arab Brands list.
- The Sales Division has again expanded significantly enlarging several of its existing depots (Jeddah, Riyadh, Dammam) and commenced construction or final planning for new facilities in Beljurasi, Qunfudah, Nariyah, Saham and Riyadh North. We now operate from 40 Sales Depots in the GCC. In addition, a central distribution facility has been established in Khamis to serve the South West Region and route numbers and outlets served have increased significantly.
- Milk achieved its highest ever volumes as a result of extending PET bottles from 1 liter, launched in 2005, to 500ml and 200ml together with low fat and flavoured milk.
- Almarai Fresh Juice performance increased dramatically compared to the previous year as a result of aggressive marketing in new product development, launch of Orange with Pulp, Mixed Berry Juice and Strawberry, an increase in advertising through television, outdoor and print and improving distribution, ranging and plannograms. The introduction of PET bottles to the 200ml Fresh Juice range improved share and sales performance significantly.
- Almarai cheese and butter sales have seen tremendous growth coinciding with the timely commissioning of the new cheese plant.
- Almarai launched a new and innovative Lower Cholesterol Jar Cheese in order to satisfy the growing needs of the consumers and to strengthen our leadership position.
- Almarai completed the construction of the Al Badiah Super Farm and in anticipation of future growth commenced construction of Al Danah, the next Super Farm of a similar size.
- As part of its growth strategy, and to meet the increased demand for fresh raw milk, Almarai acquired Al Safwa dairy farm during the year and imported cows from abroad.
- Almarai signed an agreement to acquire 75% of Western Bakeries Company Limited, a leading producer and distributor of a wide variety of baked food products under the brand name L'Usine through Saudi Arabia.

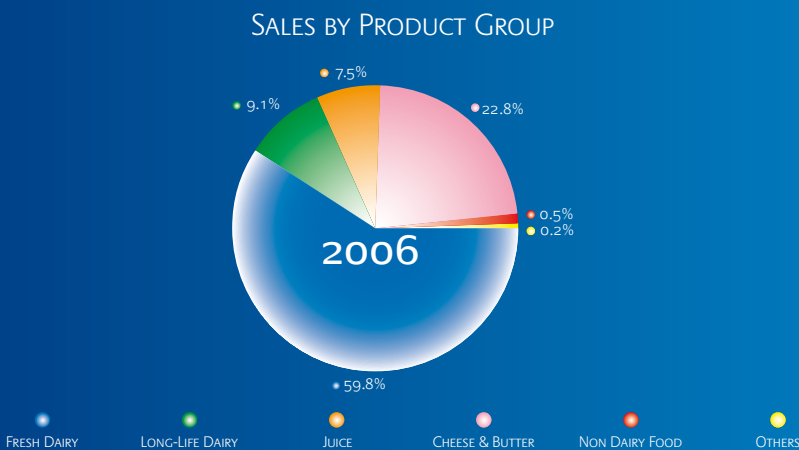


# management discussion & analysis

Our Sales and net income for 2006 amounted to SAR 2,756.9 million and SAR 465.1 million, which represents an increase of 28.5% and 20.5% respectively on the previous year.

Year 2006 is a memorable year in the history of Almarai. The growth is organic in nature mainly attributed to the strength of the Almarai brand, the quality of our products, the initiatives launched and improved marketing and distribution strategies. In addition to this the significant growth in the Cheese and Butter category is attributed to the commissioning of the new cheese plant.

A breakdown of our Sales by Product can be seen in the table below:





Sales by Product Group (SAR Million)	Year Ended 31 December	
	2006	2005
Fresh Dairy	1,648.3	1,370.9
Long-Life Dairy	251.3	209.9
Fruit Juice	206.5	142.4
Cheese & Butter	629.6	405.1
Non-Dairy Food	15.1	10.6
Other	6.1	7.2
<b>Total Sales</b>	<b>2,756.9</b>	<b>2,146.1</b>

#### FRESH DAIRY

Fresh dairy includes short-life products made with locally produced fresh raw milk. Our range includes fresh laban, milk, natural and fruit yoghurts, cream and dairy desserts.

Sales of our fresh dairy products, which is the largest product category, amounted to SAR 1,648.3 million, which represents an increase of 20.2% on the previous year.

#### LONG-LIFE DAIRY

Long-life dairy, also made from locally produced raw milk, includes UHT milk and cream, evaporated milk and sterilised cream.

Sales of long-life dairy products amounted to SAR 251.3 million, which represents an increase of 19.7% on the previous year.

#### JUICE

During 2006 our fruit juice category has shown significant growth. This growth is driven by the revitalization of the product range through new flavors, improved recipes and new packaging which has given us the competitive advantage to increase our market share across the GCC.

Sales of fruit Juice amounted to SAR 206.5 million, which represents an increase of 45.0% on the previous year.

#### CHEESE AND BUTTER

It has been a remarkable year in this category with the significant growth coinciding with the commissioning of the new cheese plant.

Sales for cheese and butter amounted to SAR 629.6 million, which represents an increase of 55.4% on the previous year.

#### NON-DAIRY FOOD

The Almarai range of non-dairy food includes tomato paste and jams.





## operating costs

Operating Costs (SAR Million)	Year Ended 31 December	
	2006	2005
Direct Material Costs	1,170.6	891.1
Other Cost of Sales	511.7	408.2
Selling & Distribution Expenses	423.2	322.3
General & Administration Expenses	116.7	92.5
<b>Total Operating Costs</b>	<b>2,222.2</b>	<b>1,714.1</b>

Operating Costs may also be viewed by the nature of the expenditure incurred:

Operating Costs (SAR Million)	Year Ended 31 December			
	2006	% of Sales	2005	% of Sales
Direct Material Costs	1,170.6	42.5%	891.1	41.5%
Employee Costs	451.7	16.4%	354.9	16.5%
Operating Overheads	274.4	10.0%	213.5	10.0%
Marketing Expenses	139.0	5.0%	114.5	5.3%
Insurance	12.7	0.5%	13.1	0.6%
Depreciation & Amortisation	173.8	6.3%	127.0	5.9%
<b>Total Operating Costs</b>	<b>2,222.2</b>	<b>80.6%</b>	<b>1,714.1</b>	<b>79.9%</b>

The increase in Operating Costs in 2006 over 2005 was principally due to an increase in overall volumes and to a rise in the level of input costs driven by increases in world commodity prices and the fluctuation of currencies.

Higher prices of world commodities increased direct material costs in 2006. This is particularly relevant to animal feeds as well as ingredients and packaging for our products. In keeping with our policy of offering value to consumers we try to avoid price increases whenever possible, to reduce their impact by alternative sourcing or by other methods. The other Operating Costs have increased in line with sales growth.





#### DEPRECIATION AND AMORTIZATION

Net livestock appreciation represents the growth in our dairy herd, which is capitalized as a fixed asset in accordance with our accounting policy for livestock which is in line with International Accounting Standards. Our accounting policy is outlined in our Financial Statements.

The Depreciation of Fixed Assets increased by SAR 46.4 million, due to the ongoing investment in our farming, production and distribution facilities. There is no Goodwill amortization in 2006. The amortization of intangible assets in the previous year relates to the Goodwill arising from the acquisition of Riyadh Dairy Company.

## payments to government agencies

During the year the following payments were made to Government Agencies:

Payments to Government Agencies (SAR Million)	Year Ended 31 December	
	2006	2005
Customs duty	46.0	22.0
Zakat	11.2	10.2
G.O.S.I.	13.9	8.0
Ministry Costs	11.5	5.5
Others	6.0	4.7
<b>Total Payments to Government Agencies</b>	<b>88.6</b>	<b>50.4</b>

## net income

Net income increased from SAR 386.1 million in 2005 to SAR 465.1 million in 2006. Net income as a percentage of sales decreased from 18.0% to 16.9%. These substantial results were achieved despite the Company absorbing an increase in Direct Material Costs; had these costs remained in line with the increase in sales, or had they been passed on to our customers, we would have achieved a net profit growth in line with sales.

## cash flows

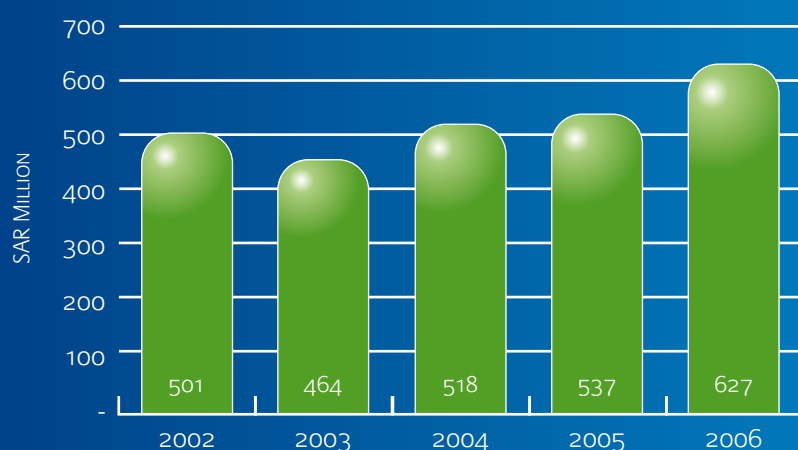
Cash Flow Statement (SAR Million)	Year Ended 31 December	
	2006	2005
From Operating Activities	627.5	536.7
Used in Investing Activities	(823.3)	(614.0)
From Financing Activities	221.2	58.0
Increase/(Decrease) in Cash	25.4	(19.3)
Cash at beginning of period	41.7	61.0
<b>Cash at end of period</b>	<b>67.1</b>	<b>41.7</b>

Our business generates very strong cash flows, which are primarily utilized in maintaining and developing the asset base, servicing debt and paying Shareholder dividend.

We continue to invest heavily in order to be able to serve future market demand. The level of investment required will continue to remain high to enable us to meet this growth in demand for our products and to continue to be the market leader in the industry.

Cash Flows from Operating Activities (SAR Million)	Year Ended 31 December	
	2006	2005
Net Income	465.1	386.1
Depreciation & Amortization	173.8	127.0
Bank Charges	55.9	35.6
Change in Employees' Termination Benefits	15.9	12.7
Net Changes in Working Capital	(83.2)	(24.7)
<b>Net Operating Cash Flows</b>	<b>627.5</b>	<b>536.7</b>

CASH FLOWS FROM OPERATING ACTIVITIES 2002 - 2006





In general terms, our working capital requirements are relatively low compared to our sales in view of the short shelf-life of many of our finished products and the significant proportion of sales undertaken on a cash basis. However, the increase in commodity prices and stock levels have resulted in an increased working capital requirement of SAR 83.2 million.

Investing Cash Flows (SAR Million)	Year Ended 31 December	
	2006	2005
Capital Expenditure	(877.5)	(666.0)
Proceeds from disposals	54.2	52.0
<b>Net Investing Cash Flows</b>	<b>(823.3)</b>	<b>(614.0)</b>

The high level of capital expenditure in 2006 reflects the ongoing investment in our farming, production and distribution facilities.

Cash Flows used in Financing Activities (SAR Million)	Year Ended 31 December	
	2006	2005
Dividends Paid	-	(250.0)
Borrowings from State Financial Institutions:		
Repayments	(26.5)	(11.8)
Receipts	108.1	127.8
Net Movement on Commercial Borrowings	195.5	227.6
Bank Charges	(55.9)	(35.6)
<b>Net Financing Cash Flows</b>	<b>221.2</b>	<b>58.0</b>





## dividends

In lieu of a dividend for 2005, our Shareholders approved the distribution of a very generous bonus issue of 1 share for every 3 shares held. This resulted in increasing our issued share capital to SAR 1.0 billion. For 2006 the Board of Directors is proposing to the General Assembly to approve the distribution of dividend of SAR 2 per share amounting to SAR 200 million.

As noted above, in the next few years our high level of investment will limit our ability to pay a high dividend to our Shareholders. We will consider alternative dividend policy options in the future, which are in the best interests of the Company and its Shareholders.

## borrowings

During 2005, we converted all of our commercial borrowings to Islamic borrowings (Murabaha). At the end of 2006 our total borrowings amounted to SAR 1,388.2 million.

We have obtained financing in respect of our major investment programs from Government financial institutions in Saudi Arabia, namely the Saudi Industrial Development Fund (SIDF) and the Saudi Arabian Agricultural Bank (SAAB). This financing is not commission-bearing and in the case of SIDF, carries an initial evaluation cost and ongoing follow-up costs. The effective cost of such borrowings from SIDF is typically lower than borrowings from commercial banks and is not subject to commission rate risk.

Bank charges increased from SAR 35.6 million to SAR 55.9 million due to the increased level and cost of borrowings.





## board meetings and directors' remuneration

During the year we held 5 board meetings, the majority of which were fully attended. The remuneration paid to the Board of Directors for the year ended 2006 amounted to SAR 2.1 million.

## related party transactions

During the year Sales to related parties amounted to SAR 80.4 million, while Purchases amounted to SAR 158.4 million.

## certification

We certify that the internal controls are working effectively, that appropriate accounting records and related documents are maintained and that there are no going concern issues.



# corporate social responsibility

Although Almarai is the undoubted market leader in its sector, we don't take our position for granted. In particular we recognize the importance of our position within society as a whole.

Ever since we were established, we have participated in social and humanitarian activities to help the communities with whom we deal. Trust and support is a two-way process and we do what we can to play our part in creating a better social environment across the entire Gulf region.

We support a number of local associations and organizations, and we encourage our people to give generously by supporting charity groups through our Rouat Al Khair program.

Many charity groups have benefited from this program over the years. For example, we are major supporters of the Ensan Association (which supports orphans) as well as the Down Syndrome Association.

We launched the first awards for scientific creativity in cooperation with the King Abdulaziz City for Science and Technology in order to encourage scientific research, which will eventually benefit society as a whole.

We also set up an award scheme in conjunction with the Arab Bureau of Education for the Gulf States to identify and encourage the brightest students across the region in all seven GCC countries. The first of these award ceremonies took place in Bahrain in October 2006 where 42 boys and girls at elementary, middle and high school were honoured for their academic achievements.

We also hold an annual Children's Drawing Contest for 6-12 year olds to encourage their imaginations and to develop their creativity. Supervised by the Ministry of Education, this year's drawing theme encouraged the children to think how their local environments might change over the next 20 years.

Of course, our charitable giving doesn't stop here. We sponsor numerous worthy causes in the areas of health awareness, sports and social activities and education programs.

Ultimately, Almarai understands that by giving something back to the local communities in which we operate we will all benefit in the longer term.

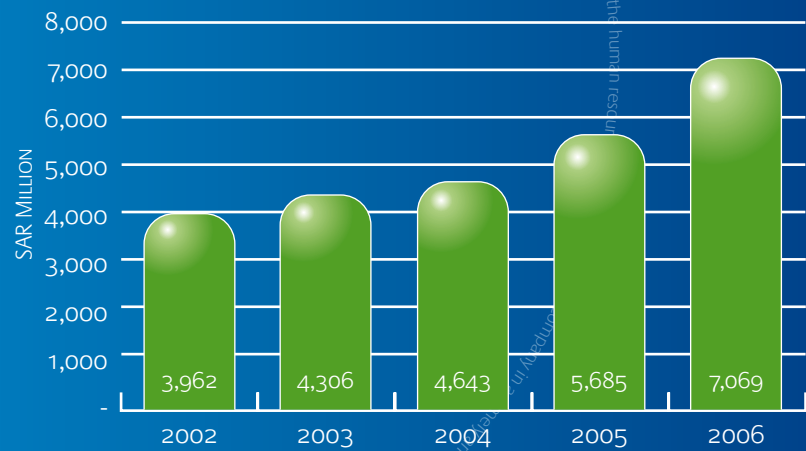


# our people

One of Almarai's primary objectives is to attract and retain competent employees possessing the required skills, experience levels and qualifications to satisfy the human resource requirements of the Company in a timely and cost effective manner.

As a company, Almarai views its human resources among its key assets and recognizes that their contribution to corporate growth and success will always remain imperative. This is the reason why the Company makes every effort to provide its employees with high standards of employment and working conditions, and constantly offers opportunities to help develop their skills. Almarai is committed to ensuring that all employees are treated fairly and equitably and are given ample opportunities to obtain a sense of satisfaction from their work.

NUMBER OF EMPLOYEES 2002 - 2006





In 2006, Almarai achieved its target of recruiting high caliber Saudi nationals to further localize its workforce. Almarai had received the HRH Prince Naif bin Abdulaziz Award for achieving the highest Saudization targets in KSA. Around 1,500 GCC nationals are employed in the Company today, and are located in different sites and at different levels within the Company.

Almarai does not view its localization efforts as just figures and numbers, but a contribution to shaping the next generation of professional Saudi employees. To this end, Almarai has set in motion a Management Trainee Development scheme that identifies exceptional university graduates and equips them with the tools and knowledge needed to become successful managers. Over the last five years, thirty five employees have enrolled in this scheme and now a number of them hold leading positions in the Company.

Almarai is working very closely with the Saudi Human Resources Development Fund to provide young Saudi graduates with recruitment and development opportunities in the Company.

Almarai believes that investing in its employees is pivotal to its competitive advantage. That's why the Company allocates significant resources to train and develop its workforce, helping them acquire the knowledge, skills and attitude required to achieve its business objectives.

Almarai also has a leading scholarship program where employees are sent to local and international universities to study for graduate and post graduate degrees. Almarai also contributes to employees annual professional membership in fields such as human resources, finance and information technology.

Almarai places great importance on the welfare and safety of all its employees, and recognizes that this is crucial in promoting corporate growth and progress. The Company strives to continually improve employee awareness to Health and Safety issues by providing the required training on a regular basis.





# quality

# you can trust

Almarai's Quality Systems continue to be the backbone of the Company's operational strategy. Its philosophy is a documented systematic controlled manufacturing system based on principals of best manufacturing practices. In fact, Almarai was the first vertically integrated dairy business to achieve ISO 9001-2000 accreditation across all its operating divisions.

But all these achievements and accreditation have not made the Company complacent in its pursuit for quality. On the contrary, they have given Almarai the impetus to continue to invest in farms, depots, production facilities and the distribution fleet using the latest technology of the highest quality allowing Almarai to maintain the quality chain from the start of the production process through to the customer. The completion of Al Badiah and the start-up of Al Danah farms, together with the further investment in our distribution network, bears testimony to this.

Almarai has achieved the highly acclaimed international food safety standard HACCP quality certification, ISO 22000. To ensure that every division within the Company continues to maintain high standards of quality, both external and internal audits are conducted across Almarai farms, production facilities and sales depots at least twice a year.

In addition Almarai has embarked on a sophisticated consumer product testing program to ensure that its current and future products continue to score better than its competitors and that changes in competitive products are identified and analyzed for assessment. It is this consumer focus that will ensure that Almarai will continue to be the consumers' first choice in the product categories we are represented in.

Almarai Information Technology established a Project Management Framework to manage Information Technology Projects, which is based on best practices recommended by the Project Management Institute in the UK.

Our Information Technology processes and procedures are accredited with BS7799. This standard specifies the requirement for establishing, implementing and documenting Information Security Management Systems.



inadditionalmarai

# Almarai marketing

The Company aims to maintain a consistent brand image as a food and beverage Company that understands consumers' needs and competes on the basis of delivering superior quality and value for money to the consumer.

The Marketing Division comprises dedicated category teams focused on all elements of the marketing mix, including product development, strategic brand management, innovation, market research and public relations.

Almarai's marketing effort is broadly divided into four product categories: Dairy Liquids, Juice, Pots and Foods. Dairy Liquid is made up of fresh, long life and flavoured laban, milk, and super milk. All fresh dairy based products are available in full cream, low fat and skimmed variants. Juice comprises fresh and long life juice. Pots include yoghurt, ready-to-eat desserts, fruit yoghurts, labneh and ghiste. Finally, Foods cover processed and natural cheese, butter, butter ghee, evaporated milk, sterilised cream and tomato paste.

Today, Almarai is one of the best loved and trusted brands in the GCC. This trust, built over many years, provides a competitive advantage to Almarai and gives credibility and a point of differentiation to all consumer offerings. Almarai recognizes the overriding importance of maintaining consumer trust in the brand, and, therefore, relentlessly dedicates its resources towards equity and brand building programs that are grounded in market research and are generated from genuine consumer insights.

An exclusive online survey conducted for Forbes Arabia across the Arab World ranked Almarai as the third most popular Arab brand taking into account how well customers recognized and trusted each Arab brand, and how well companies adapted their brand to a changing market environment to serve their customers.

As market leader, Almarai, with its ongoing investment into extensive consumer research, is well placed to drive category development and innovation in the GCC markets of the future, thus creating platforms for growth and ensuring sustained profitability in the years to come.

an exclusive online survey conducted for Forbes Arabia across the Arab World ranked Almarai as the third most popular Arab brand taking into account how well customers recognized and trusted each Arab brand, and how well companies adapted their brand to a changing market environment to serve their customers.

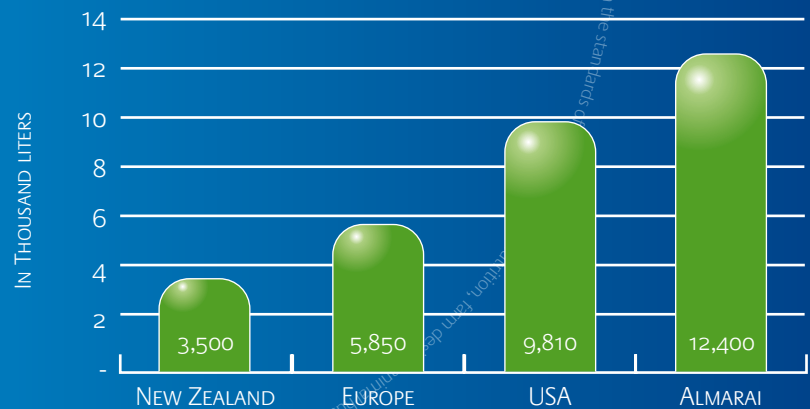


# Almarai farming

Almarai's Farming Division plays a very important role in the Company's operations and is a significant contributor to Almarai's success. Responsible for fresh raw milk production, this division undertakes the key task of providing fresh raw milk of the highest quality and composition on a timely basis at the lowest possible cost to meet demand. Our Farming Division lays the foundations to enable Almarai to deliver the freshest products to its consumers.

One of the inherent strengths of Almarai is its ability to produce high quality fresh raw milk, an achievement made possible through highly developed farming skills. The Company's continuous improvement efforts in the standards of health, breeding, nutrition, farm design, animal husbandry and crop management have resulted in a wealth of in-house built technology and know-how.

AVERAGE YIELD PER COW (LITERS)



Sources: Ultritech, Arizona & New Mexico Dairy News Letter, Almarai



Almarai places great importance on the quality and composition of its fresh raw milk: a number of factors help to ensure this; these include sophisticated facilities, rigorous cleaning regimes, and regularly maintained equipment amongst others. Almarai's farmers are also constantly brought up to speed with the latest technological developments in breeding healthier livestock that produce superior milk yields and milk quality. Sparing no efforts to ensure the highest standards of quality, Almarai has built some of the world's most modern milking facilities where well-bred, healthy Almarai herds are milked. Each Almarai cow currently yields an average of 12,400 liters of fresh raw milk annually. All fresh raw milk produced is transferred to the Almarai fresh processing plant by specially-equipped insulated road tankers.





Almarai continues in its pursuit for high standards of excellence; bearing testimony to this is the construction of Al Badiah Super Farm. In anticipation of future growth, the Company has also acquired a new farm site named Al Danah. The new farm will have a production capacity similar to Al Badiah. Construction of this new farm started in November 2005 and milk production started in July 2006.

In order to cope with the growing demand for fresh dairy products, Almarai imported high genetic heifers in early 2006. A further purchase of additional high genetic heifers is underway.

As part of its vertical integration, a new Flaked Maize Plant has been extended to supply the Almarai herd. A new state of the art laboratory which will help maintain the excellent health status of the Almarai herd and quality of raw milk, will be commissioned early 2007.





# Almarai operations

Almarai's commitment to offer consumers dairy, beverage and food products of superior quality and value begins with the production of fresh raw milk and continues into the Operations Division. The ability to control the main raw material is vital to manufacturing world class dairy products.

The Operations Division at Almarai is responsible for the collection of fresh raw milk from our farms in high quality milk collection tankers, manufacturing the complete range of Almarai products and delivering the finished products to our 40 depots throughout Saudi Arabia and the other GCC countries.

There are two operations manufacturing facilities located on one site approximately 130 kilometers from Riyadh. The first of the two state-of-the-art fully automated facilities was opened in 1996. The second facility commissioned in 2005 has now completed its optimization program and is now functioning at better than projected performance levels in utilization, quality and cost parameters.

In addition, filling capacities have been increased to meet the additional demand.

Almarai manufactures a complete range of chilled dairy products such as milk, laban, zabadi and desserts in many different packaging formats. In addition Almarai also manufactures Ultra High Temperature (UHT) dairy products such as milk and flavoured milk. The milk for these dairy products comes mainly from Almarai farms.



Almarai also produces a range of processed cheese products. The Company sources quality raw materials from world markets to manufacture processed cheese; these are mixed with other quality food ingredients, before they are processed and packed into specific product formats.

Both fresh and long life fruit juice are manufactured by Almarai sourcing world class fruit ingredients from around the world.

During 2006, Almarai manufactured record volumes of all key products and maintained its performance in quality, new product development and health and safety.

2006 was another year of high capital investment within Operations focusing on increasing the processing, filling and distribution capabilities required to maintain and further capitalise on the opportunities available.

Our long-haul fleet transports raw milk from dairy farms to the Central Processing Plants and transports finished product from the production facilities to designated sales depots. This fleet undertakes approximately 35,000 trips annually and covers 60 million kilometers, comprises more than 350 trailers all owned and maintained by Almarai.

Almarai Operations will continue to develop and action the necessary plans to deliver its key business objectives of quality, service, low cost, human resource development and project management.



# Almarai sales

The Sales Division of Almarai in 2006 again enjoyed unprecedented growth in volume and margins. This has been achieved as a result of the heavy investments made in 2005 and 2006 in the Sales Division in terms of additional vehicles to increase our coverage of the GCC Market to additional retail outlets and several significant depot upgrades including Riyadh South, Jeddah and Dammam. Further expansion will occur through new sales depots such as Beljurasi, Qunfudah, Nariyah, Saham and Riyadh North. We now operate from 40 Sales Depots in the GCC. This rate of expansion could of course only be achieved by the coordinated capacity increases across all divisions of the company.

Ongoing investment in Human Resources in terms of additional manpower (with a growing proportion of GCC nationals) has been a major part of our success. Recruiting, developing and retaining a skilled and motivated team has been our greatest challenge and is crucial to both our current and future success.

In order to cope with this fast growth for the second year running the very large Central Region was divided into two, creating a fifth region headquartered in Dammam. This decision has demonstrated the benefits of focused management in our business with both the East and Central regions showing excellent gains in all respects.

ongoing investment in human resources in terms of additional manpower (with a growing proportion of GCC nationals) has been a major part of our success. Recruiting,





The ongoing investment in upgrading and adding new depot facilities gave us the capacity to handle the peak demands of Ramadan far better than before providing better conditions for both our products and people. This program will continue to ensure facilities are not a constraint on our future growth plans. A new concept of a central distribution hub has been established in Khamis allowing numerous small depots in the South West to be better served in an economical manner.

The strategy of extending our coverage of outlets throughout in the GCC has continued with particularly dramatic improvements in the Central Region of KSA and Kuwait. Simply adding more shops is not enough and this program was coupled with service level improvements, space management and the careful placement of additional shop fridges.

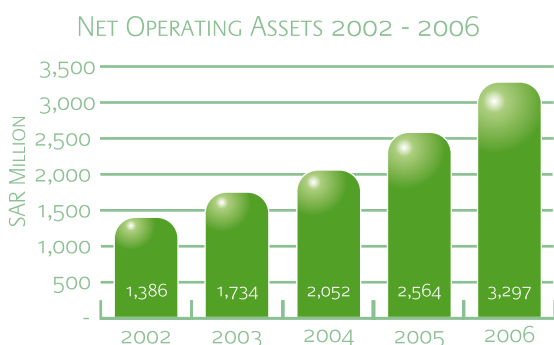
Technology continues to be a major element in our plans with improved communications and high quality timely information allowing the business to identify and capitalize on opportunities. Not only are we able to gain volumes and margins through this but also better operational efficiencies have reduced wastage across the business and helped Almarai better manage the escalating costs experienced in input costs generally and operational costs in particular, especially in the UAE and Qatar.

All in all 2006 has been an exceptional year where hard work, appropriate investment, strong interdivisional cooperation and planning has yielded extremely pleasing results. More importantly we have a strong base to have an even more successful 2007.





# key financial highlights



## Year Ended 31 December (SAR Million)

2006 2005 2004 2003 2002

### Operational Performance

Total Sales	2,757	2,146	1,885	1,754	1,601
Cost of Sales	(1,682)	(1,299)	(1,127)	(1,019)	(914)
Gross Profit	1,075	847	758	735	687
Selling and Distribution Expenses	(423)	(322)	(276)	(258)	(235)
General and Administration Expenses	(117)	(93)	(86)	(80)	(81)
Financing Cost and Bank Charges	(56)	(36)	(17)	(19)	(9)
Income Before Zakat	479	396	379	378	362
Zakat	(14)	(10)	(9)	(10)	(10)
Net Income	465	386	370	368	352

### Balance Sheet

Net Operating Working Capital	251	168	143	148	102
Fixed Assets	3,046	2,396	1,909	1,586	1,284
Net Operating Assets	3,297	2,564	2,052	1,734	1,386
Net Debt	1,321	1,069	706	458	189
Employee Termination Benefits	82	66	53	54	63
Shareholders' Equity	1,894	1,429	1,293	1,222	1,134
Total Assets	3,768	2,976	2,400	2,007	1,641

### Cash Flow

Cash Flow from Operating Activities	627	537	518	464	501
Cash Flow used in Investing Activities	823	614	450	433	216
Dividend paid	-	250	300	280	257

### Key Indicators

Return on sales	16.9%	18.0%	19.6%	21.0%	22.0%
Return on equity	28.0%	28.4%	29.4%	31.3%	32.5%
Return on Net Operating Assets	18.2%	18.7%	20.9%	25.4%	27.7%
Net debt to equity ratio	69.8%	74.8%	54.7%	37.4%	16.7%
Current ratio	140.4%	118.6%	159.1%	167.6%	125.8%
Revenue growth rate	28.5%	13.8%	7.5%	9.6%	12.6%
Dividends payout ratio <sup>1</sup>	43.0%	-	67.5%	81.5%	79.5%
Earnings per Share (SAR) <sup>2</sup>	4.65	3.86	3.70	3.68	3.52
Dividend Proposed	200	-	-	-	-

1. Calculated on previous year's net income and for 2006 based on the dividend proposed.

2. Earnings per Share is calculated on the total number of issued shares at 31 December 2006 (i.e. 100 million shares)

earningspershare

is calculated on the total number of issued shares at December 31, 2006 (i.e. 100 million shares)

## AUDITORS' REPORT

To the Shareholders of  
Almarai Company  
A Saudi Joint Stock Company  
Riyadh - Saudi Arabia

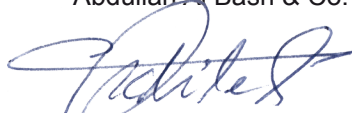
We have audited the accompanying consolidated balance sheet of Almarai Company – a Saudi Joint Stock Company as of 31 December 2006 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year ended 31 December 2006 together with notes 1 - 23. These consolidated financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit and information which we obtained and deemed necessary in the circumstances.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements as a whole:

- Present fairly, in all material respects, the financial position of Almarai Company – a Saudi Joint Stock Company as of 31 December 2006 and the results of its operations and cash flows for the year ended 31 December 2006, in the light of presentation and disclosure of information contained in the consolidated financial statements and in conformity with generally accepted accounting principles relevant to the Company's underlying circumstances,
- Comply with the requirements of companies' regulations in the Kingdom of Saudi Arabia and the company's articles of association concerning the presentation and disclosure of the consolidated financial statements.

Aldar Audit Bureau  
Abdullah Al Basri & Co.



Mahmoud M. Adileh  
Certified Accountant  
License No. 61



Riyadh, 1 Muharram 1428 A.H.  
Corresponding to 20 January 2007 A.D.



# consolidated balance sheet

	Notes	2006 SAR '000	2005 SAR '000
<b>CURRENT ASSETS</b>			
Cash and Bank Balances	4	67,077	41,675
Receivables and Prepayments	5	223,405	217,502
Inventories	6	431,283	320,981
<b>Total Current Assets</b>		<b>721,765</b>	<b>580,158</b>
<b>CURRENT LIABILITIES</b>			
Payables and Accruals	7	403,378	370,391
Short Term Loans	8	110,781	118,927
<b>Total Current Liabilities</b>		<b>514,159</b>	<b>489,318</b>
<b>NET CURRENT ASSETS</b>		<b>207,606</b>	<b>90,840</b>
<b>NON CURRENT ASSETS</b>			
Fixed Assets	9	3,045,810	2,396,258
<b>Total Non Current Assets</b>		<b>3,045,810</b>	<b>2,396,258</b>
<b>NON CURRENT LIABILITIES</b>			
Long Term Loans	8	1,277,425	992,138
Employees' Termination Benefits		82,102	66,201
<b>Total Non Current Liabilities</b>		<b>1,359,527</b>	<b>1,058,339</b>
<b>NET ASSETS</b>		<b>1,893,889</b>	<b>1,428,759</b>
<b>SHAREHOLDER'S EQUITY</b>			
Share Capital	10	1,000,000	1,000,000
Statutory Reserve	11	258,983	212,470
Retained Earnings		634,906	216,289
<b>TOTAL SHAREHOLDER'S EQUITY</b>		<b>1,893,889</b>	<b>1,428,759</b>

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THIS STATEMENT

# consolidated statement of income

	Notes	2006 SAR '000	2005 SAR '000
Sales	12	2,756,935	2,146,113
Cost of Sales	13	(1,682,262)	(1,299,338)
<b>Gross Profit</b>		<b>1,074,673</b>	<b>846,775</b>
Selling & Distribution Expenses	14	(423,181)	(322,349)
General & Administration Expenses	15	(116,760)	(92,523)
<b>Net Income before Bank Charges &amp; Zakat</b>		<b>534,732</b>	<b>431,903</b>
Bank Charges		(55,915)	(35,564)
<b>Net Income before Zakat</b>		<b>478,817</b>	<b>396,339</b>
Zakat	16	(13,687)	(10,237)
<b>NET INCOME</b>		<b>465,130</b>	<b>386,102</b>
<b>Earnings per Share (SAR)*</b>	<b>10</b>	<b>4.65</b>	<b>3.86</b>

\* Earnings per Share is calculated on the total number of issued shares at 31 December 2006 (i.e. 100 million shares).

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THIS STATEMENT





# consolidated statement of cash flows

	Notes	2006 SAR '000	2005 SAR '000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net Income		465,130	386,102
Depreciation & Amortization	<b>17</b>	173,762	126,985
Bank Charges		55,915	35,564
Change in Employees' Termination Benefits		15,901	12,781
<b>Operating Cash Flows Before Changes in Working Capital</b>		<b>710,708</b>	<b>561,432</b>
Changes in:			
Receivables & Prepayments		(5,903)	(30,908)
Inventories		(110,302)	(77,742)
Payables & Accruals		32,987	83,920
<b>Cash Flows used by Changes in Working Capital</b>		<b>(83,218)</b>	<b>(24,730)</b>
<b>Cash Flows from Operating Activities</b>		<b>627,490</b>	<b>536,702</b>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>			
Additions to Fixed Assets and Intangibles		(877,517)	(666,033)
Proceeds from the Sale of Fixed Assets		54,203	51,975
<b>Cash Flows used in Investing Activities</b>		<b>(823,314)</b>	<b>(614,058)</b>
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>			
Increase in Loans		277,141	343,641
Dividends Paid during the Period		-	(250,000)
Bank Charges		(55,915)	(35,564)
<b>Cash Flows from Financing Activities</b>		<b>221,226</b>	<b>58,077</b>
<b>Increase/(Decrease) in Cash and Bank Balances</b>		<b>25,402</b>	<b>(19,279)</b>
<b>Cash and Bank Balances at 1 January</b>		<b>41,675</b>	<b>60,954</b>
<b>CASH AND BANK BALANCES AT 31 DECEMBER</b>		<b>67,077</b>	<b>41,675</b>

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THIS STATEMENT

# consolidated statement of changes in shareholders' equity

	Notes	2006 SAR '000	2005 SAR '000
<b>SHARE CAPITAL</b>			
Balance at 1 January		1,000,000	750,000
Transfer from Retained Earnings		-	250,000
<b>Balance at 31 December</b>		<b>1,000,000</b>	<b>1,000,000</b>
<b>STATUTORY RESERVE</b>			
Balance at 1 January		212,470	173,860
Transfer from Retained Earnings	<b>11</b>	46,513	38,610
<b>Balance at 31 December</b>		<b>258,983</b>	<b>212,470</b>
<b>RETAINED EARNINGS</b>			
Balance at a 1 January		216,289	368,797
Net Income		465,130	386,102
Transfer to Share Capital		-	(250,000)
Transfer to Statutory Reserve		(46,513)	(38,610)
Dividends Paid		-	(250,000)
<b>Balance at 31 December</b>		<b>634,906</b>	<b>216,289</b>

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THIS STATEMENT





# notes to the consolidated financial statements

## 1. THE COMPANY AND ITS BUSINESS DESCRIPTION

Almarai Company (the "Company") is a Saudi Joint Stock Company, which was converted on 2 Rajab 1426 A.H. (8 August 2005). The Company initially commenced trading on 19 Dhu'l Hijjah 1411 A.H. (1 July 1991) and still operates under Commercial Registration No. 1010084223.

The Company is a major integrated consumer food company in the Middle East with leadership positions in Saudi Arabia and the neighboring Gulf Cooperative Council (GCC) countries. All raw milk production and related processing along with food manufacturing activities are undertaken in Saudi Arabia and UAE. Final consumer products are distributed from the manufacturing facilities in Saudi Arabia and UAE to local distribution centers by the Company's long haul distribution fleet.

The distribution centers in the GCC countries (except for Bahrain and Oman) are managed by the Company and operate within Distributor Agency Agreements as follows:

Kuwait	- Al Kharafi Brothers Dairy Products Company Limited
Qatar	- Khalid for Foodstuff and Trading Company
United Arab Emirates	- Bustan Al Khaleej Establishment

The Company operates in Bahrain and in Oman through subsidiaries, Almarai Company Bahrain W.L.L. and Arabian Planets for Trade and Marketing L.L.C. respectively.

The Company's Head Office is located at the following address:

Exit 7, North Circle Road  
Al Izdihar District  
P.O. Box 8524  
Riyadh 11492  
Kingdom of Saudi Arabia

In February 2006, the Company acquired the trade and assets of Al Safwa Dairy Farm.

On 5 Dhu'l Qa'ada 1427 (26 November 2006) the Company entered into a Memorandum of Understanding with Western Bakeries Company Limited and International Baking Services to acquire 75% of its share capital. Western Bakeries is a producer and distributor for a wide variety of baked food products in the Kingdom of Saudi Arabia.

In December 2006 the Company has signed a consortium agreement with Mobile Telecommunications Company in Kuwait to compete for the bid, announced by Saudi Arabia Telecommunication Commission, to obtain the third license for providing public mobile services in the Kingdom of Saudi Arabia.

## 2. BASIS OF ACCOUNTING, PREPARATION, CONSOLIDATION & PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

- (a) These consolidated financial statements have been prepared on the accrual basis under the historical cost convention and in compliance with the accounting standards issued by the Saudi Organization for Certified Public Accountants (SOCPA).
- (b) The statutory records are maintained in Arabic.
- (c) The first fiscal year of the Company commenced on 2 Rajab 1426 A.H. (8 August 2005) and ended on 10 Dhu Hijjah 1427 (31 December 2006). A set of consolidated financial statements covering this period have been prepared separately for statutory purposes only.
- (d) When necessary, prior year comparatives have been regrouped on a basis consistent with current year classification.
- (e) The consolidated financial statements reflect all business operations undertaken on behalf of the Company and its subsidiaries and the assets and liabilities beneficially held by the Company.
- (f) The figures in these consolidated financial statements are rounded to the nearest thousand.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### A. USE OF ESTIMATES

The preparation of financial statements, in conformity with generally accepted accounting principles, requires the use of estimates and assumptions. Such estimates and assumptions may affect the balances reported for certain assets and liabilities as well as the disclosure of certain contingent assets and liabilities as at the Balance Sheet date. Any estimates or assumptions affecting assets and liabilities may also affect the reported revenues and expenses for the same reporting year. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

### B. REVENUE RECOGNITION

Products are sold principally on a sale or return basis. Revenue is recognized on delivery of products to customers by the Company or its Distributors, at which time risk and title passes, subject to the physical return of unsold products. Adjustment is made in respect of known actual returns.

### C. CASH AND BANK BALANCES

Time deposits purchased with original maturities of less than three months are included in Cash at Bank.

### D. ACCOUNTS RECEIVABLE

Accounts receivable are carried at the original invoiced amount less any provision made for doubtful debts. Provision is made for all debts for which the collection is considered doubtful.





#### E. INVENTORY VALUATION

Inventory is stated at the lower of cost and net realizable value. In general, cost is determined on a weighted average basis and includes transport and handling costs. In the case of manufactured products, cost includes all direct expenditure based on the normal level of activity. Net realizable value comprises estimated price less further production costs to completion and appropriate selling and distribution costs. Provision is made, where necessary, for obsolete, slow moving and defective stocks.

#### F. GOODWILL

Goodwill represents the difference between the cost of businesses acquired and the aggregate of the fair values of their identifiable net assets at the date of acquisition. Goodwill arising on acquisitions is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

#### G. FIXED ASSETS

Fixed assets are stated at cost less accumulated depreciation. There is no open market for dairy livestock in the GCC against which to measure fair value. Accordingly, dairy livestock are treated as fixed assets and included in the accounts at their cost of purchase or at the cost of rearing to the point of first calving, less accumulated depreciation. The cost of dairy young stock is determined by the cost of rearing to their respective age.

Cows in the dairy herd are depreciated to their estimated residual value, at rates between 10% - 25%, based on their expected continuing useful life. Other fixed assets are depreciated on a straight line basis at the following annual rates:

Buildings	3% - 10%
Plant, Machinery & Equipment	5% - 33%
Motor Vehicles	15% - 25%
Land is not depreciated	

The carrying values of fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. Impairment losses are expensed in the consolidated Statement of Income.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately in the consolidated Statement of Income.

#### **H. CONVERSION OF FOREIGN CURRENCY TRANSACTIONS**

During the financial year foreign currency transactions are converted and booked in Saudi Riyals at standard exchange rates which are periodically set to reflect average market rates or forward rates if the transactions were so covered. At the Balance Sheet date, assets and liabilities denominated in foreign currencies are converted into Saudi Riyals at the exchange rates ruling on such date or at the forward purchase rates if so covered. Any resulting exchange variances are charged or credited to the consolidated Statement of Income as appropriate. Gains and losses on derivative financial instruments used to hedge foreign currency exposures are recognized in the consolidated Statement of Income when the underlying transaction occurs.

#### **I. EMPLOYEES' TERMINATION BENEFITS**

Employees' termination benefits are payable as a lump sum to all employees employed under the terms and conditions of the Saudi Labor and Workman Law on termination of their employment contracts. The liability is calculated as the current value of the vested benefits to which the employee is entitled, should the employee leave at the Balance Sheet date. Termination payments are based on the employees' final salaries and allowances and their cumulative years of service, in compliance with the conditions stated in the laws of the Kingdom of Saudi Arabia.

#### **J. SELLING, DISTRIBUTION, GENERAL & ADMINISTRATION EXPENSES**

Selling, Distribution, General & Administration Expenses include direct and indirect costs not specifically part of Cost of Sales as required under generally accepted accounting principles. Allocations between Cost of Sales and Selling, Distribution, General & Administration Expenses, when required, are made on a consistent basis. The Company charges payments in respect of long term agreements with customers and Distributors to Selling and Distribution expenses.

#### **K. MANAGEMENT FEES**

The Company credits fees charged in respect of the management of Arable Farms to General & Administration Expenses.

#### **L. ZAKAT**

Zakat is provided for in the consolidated Balance Sheet on the basis of an estimated Zakat assessment carried out in accordance with Saudi Department of Zakat and Income Tax (DZIT) regulations. Adjustments arising from final Zakat assessments are recorded in the year in which such assessments are made.

#### **M. OPERATING LEASES**

Rentals in respect of operating leases are charged to the consolidated Statement of Income over the terms of the leases.





	<b>2006</b>	<b>2005</b>
	SAR '000	SAR '000
<b>4. CASH AND BANK BALANCES</b>		
Cash at Bank	35,381	27,800
Cash in Hand	31,696	13,875
<b>Total</b>	<b>67,077</b>	<b>41,675</b>
<b>5. RECEIVABLES AND PREPAYMENTS</b>		
Net Accounts Receivable	149,977	133,598
Prepayments	73,428	83,904
<b>Total</b>	<b>223,405</b>	<b>217,502</b>
<b>6. INVENTORIES</b>		
Raw Materials	344,357	231,265
Work-in-Progress	6,311	7,975
Finished Goods	80,615	81,741
<b>Total</b>	<b>431,283</b>	<b>320,981</b>
<b>7. PAYABLES AND ACCRUALS</b>		
Accounts Payable	234,108	195,293
Accrued Expenses	156,569	164,861
Zakat	12,701	10,237
<b>Total</b>	<b>403,378</b>	<b>370,391</b>

	<b>2006</b>	<b>2005</b>
	SAR '000	SAR '000
<b>8. LOANS</b>		
(i) Saudi Industrial Development Fund	411,030	325,878
(ii) Saudi Arabian Agricultural Bank	19,099	22,572
(iii) Islamic Banking Facilities (Murabaha)	958,077	762,615
<b>Total</b>	<b>1,388,206</b>	<b>1,111,065</b>

A. The borrowings from the Saudi Industrial Development Fund are secured as follows:

- (i) in respect of borrowings amounting to SAR 394.9 million for 31 December 2006 and SAR 310.5 million for 31 December 2005 by a mortgage on specific assets;
- (ii) in respect of borrowings amounting to SAR 16.2 million for 31 December 2006 and SAR 15.4 million for 31 December 2005 by a bank payment guarantee.

B. The borrowings from Saudi Arabian Agricultural Bank are secured by a bank payment guarantee.

C. The borrowings from Islamic banking facilities (Murabaha) are secured by promissory notes given by the Company.

D. Maturity of Financial Liabilities:

Less than one year	110,781	118,927
One to two years	850,569	625,678
Two to five years	302,856	284,470
Greater than five years	124,000	81,990
<b>Total</b>	<b>1,388,206</b>	<b>1,111,065</b>

The Islamic banking facilities (Murabaha) with a maturity period of less than two years are predominantly of a revolving nature. The Company is in the process of restructuring these loan facilities to convert them into medium to long term loans with a maturity period of between three to five years.





## 9. FIXED ASSETS

	<b>Land &amp; Buildings</b>	<b>Plant, Machinery &amp; Equipment</b>	<b>Motor Vehicles</b>
	SAR '000	SAR '000	SAR '000
<b>COST</b>			
At 1 January 2006	993,760	1,568,309	289,125
Additions during 2006	-	-	-
Livestock Appreciation	-	-	-
Transfers during 2006	128,410	266,227	129,885
Reclassification during 2006	-	-	-
Disposals during 2006	(5,280)	(36,333)	(10,672)
<b>At 31 December 2006</b>	<b>1,116,890</b>	<b>1,798,203</b>	<b>408,338</b>
<b>ACCUMULATED DEPRECIATION</b>			
At 1 January 2006	190,752	660,170	157,655
Reclassification during 2006	-	-	-
Disposals during 2006	(3,797)	(29,667)	(7,592)
Charges for 2006	34,688	149,992	45,077
<b>At 31 December 2006</b>	<b>221,643</b>	<b>780,495</b>	<b>195,140</b>
<b>NET BOOK VALUE</b>			
<b>At 31 December 2006</b>	<b>895,247</b>	<b>1,017,708</b>	<b>213,198</b>
<b>At 31 December 2005</b>	<b>803,008</b>	<b>908,139</b>	<b>131,470</b>

Dairy Herd	Young Stock	Capital Work-in-Progress	Total
SAR '000	SAR '000	SAR '000	SAR '000

249,672	99,099	277,741	3,477,706
18,273	19,317	839,927	877,517
-	132,419	-	132,419
106,872	(106,871)	(524,523)	-
1,275	789	-	2,064
(63,806)	(21,829)	-	(137,920)
<b>312,286</b>	<b>122,924</b>	<b>593,145</b>	<b>4,351,786</b>

72,871	-	-	1,081,448
2,064	-	-	2,064
(24,602)	-	-	(65,658)
58,365	-	-	288,122
<b>108,698</b>	<b>-</b>	<b>-</b>	<b>1,305,976</b>

<b>203,588</b>	<b>122,924</b>	<b>593,145</b>	<b>3,045,810</b>
<b>176,801</b>	<b>99,099</b>	<b>277,741</b>	<b>2,396,258</b>





## 10. SHARE CAPITAL

As per the direction of the Ministry Board, the Saudi Arabian Capital Market Authority the par value of shares was restated to SAR 10 per share instead of SAR 50 per share. This change in the par value of shares took effect from 17 Rabi II 1427 A.H. (15 April 2006), and therefore the composition of the share capital of the Company was changed from 20 million fully paid and issued shares of SAR 50 each to 100 million fully paid and issued shares of SAR 10 each.

## 11. STATUTORY RESERVE

In accordance with its Articles of Association and the regulations for Companies in the Kingdom of Saudi Arabia, the Company is required each year to transfer 10% of its net income to a Statutory Reserve until such reserve equals 50% of its share capital. This Statutory Reserve is not available for distribution to Shareholders.

## 12. SEGMENTAL REPORTING

Analysis of Sales is given by Product Group as shown below. The disclosure of segmental information by geographical area would, in the opinion of the Board of Directors, be prejudicial to the interest of the Company and accordingly is not disclosed.

	2006	2005
	SAR '000	SAR '000
<b>SALES</b>		
<b>By Product Group:</b>		
Fresh Dairy	1,648,265	1,370,896
Long Life Dairy	251,286	209,903
Fruit Juice	206,502	142,424
Cheese & Butter	629,630	405,042
Non-Dairy Foods	15,164	10,619
Other	6,088	7,229
<b>Total</b>	<b>2,756,935</b>	<b>2,146,113</b>

	<b>2006</b>	<b>2005</b>
	SAR '000	SAR '000
<b>13. COST OF SALES</b>		
Direct Material Costs	1,170,584	891,128
Employee Costs	189,043	154,159
Depreciation & Amortization	239,120	173,392
Livestock Appreciation	(132,419)	(103,351)
Loss on Disposal of Livestock	18,780	18,118
Other Expenses	197,154	165,892
<b>Total</b>	<b>1,682,262</b>	<b>1,299,338</b>
<b>14. SELLING AND DISTRIBUTION EXPENSES</b>		
Marketing Expenses	138,963	114,541
Employee Costs	186,812	133,898
Depreciation & Amortization	41,377	39,275
Other Expenses	56,029	34,635
<b>Total</b>	<b>423,181</b>	<b>322,349</b>
<b>15. GENERAL AND ADMINISTRATION EXPENSES</b>		
Insurance	12,742	13,090
Employee Costs	75,858	66,884
Depreciation & Amortization	7,625	8,090
Profit on Disposal of Other Fixed Assets	(721)	(8,539)
Other Expenses	21,256	12,998
<b>Total</b>	<b>116,760</b>	<b>92,523</b>





<b>2006</b>	<b>2005</b>
SAR '000	SAR '000

## 16. ZAKAT

A. Zakat is charged at the higher of the net income or net working capital methods as required under Saudi Arabian Zakat Regulations. In the current year, the Zakat charge is based on the net income method, calculated as follows:

Net Income before Zakat	478,817	396,339
Disallowed Expenses:		
Accrual for Employees' Termination Benefits	22,716	12,781
Other Provision	6,518	365

<b>Net Income for Zakat Purposes</b>	<b>508,051</b>	<b>409,485</b>
--------------------------------------	----------------	----------------

Zakat Charge @ 2.5%	12,701	10,237
Adjustment in respect of prior year provision	986	-

<b>Charged to Consolidated Statement of Income</b>	<b>13,687</b>	<b>10,237</b>
--	---------------	---------------

B. Zakat Provisions

Balance at 1 January	10,237	9,681
Charged to Consolidated Statement of Income	13,687	10,237
Payments	(11,223)	(9,681)

<b>Balance at 31 December</b>	<b>12,701</b>	<b>10,237</b>
-------------------------------	---------------	---------------

C. The Company has paid its Zakat liabilities for all years up to 31 December 2005 and has obtained Zakat Certificates in respect of the years then ended. The final assessments up to 2004 has been agreed with the DZIT and the final assessment for 2005 is to be received.

2006	2005
SAR '000	SAR '000

## 17. DEPRECIATION AND AMORTIZATION

### Livestock

Depreciation of Dairy Herd	58,365	29,480
Livestock Appreciation	(132,419)	(103,351)

<b>Net Livestock Appreciation</b>	<b>(74,054)</b>	<b>(73,871)</b>
-----------------------------------	-----------------	-----------------

Depreciation of Fixed Assets	229,757	183,398
Amortization of Intangible Assets	-	7,879
Loss on the Disposal of Livestock	18,780	18,118
Profit on Disposal of Fixed Assets	(721)	(8,539)

<b>Total Depreciation and Amortization</b>	<b>173,762</b>	<b>126,985</b>
--	----------------	----------------

### (Profit)/Loss on the Disposal of Assets

### Livestock

Proceeds from Disposal of Livestock	(42,253)	(33,654)
NBV of Dairy Herd Cows Disposed	39,204	37,852
NBV of Youngstock Disposed	21,829	13,920

<b>Loss on the Disposal of Livestock</b>	<b>18,780</b>	<b>18,118</b>
--	---------------	---------------

### Fixed Assets

Proceeds from the Disposal of Assets	(11,950)	(18,321)
NBV of Assets Disposed	11,229	9,782

<b>Profit on the Disposal of Fixed Assets</b>	<b>(721)</b>	<b>(8,539)</b>
---	--------------	----------------





## 18. FINANCIAL INSTRUMENTS

Financial instruments carried on the consolidated balance sheet include cash and bank balances, trade and other accounts receivable, short term bank borrowings, accounts payable, accrued expenses and other liabilities, and long term debt.

**Credit Risk** is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Company has no significant concentration of credit risks. Cash and bank balances are placed with national and international banks with sound credit ratings. Trade and other accounts receivable are mainly due from local customers and related parties and are stated at their estimated realizable values.

**Interest Rate Risk** is the exposure to various risks associated with the effect of fluctuations in the prevailing interest rates on the Company's financial position and cash flows. The Company has no significant interest-bearing assets at 31 December 2006. Islamic banking facilities (Murabaha) amounting to SAR 958.1 million at 31 December 2006 bear financing charges at the prevailing market rates.

**Liquidity Risk** is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value.

Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet the Company's future commitments. Also see Note 8.

**Currency Risk** is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi Riyals, United States Dollars, British Pounds and Euros. Management believe that the currency risk for inventory and capital expenditure purchases is adequately managed primarily through entering into foreign currency forward purchase agreements. Other transactions in foreign currencies are not material.

The outstanding foreign currency forward purchase agreements were as follows:

	2006	2005
	SAR '000	SAR '000
Euro	239,545	138,932
United States Dollar	101,226	-
British Pound	27,602	38,383
Other	20,890	23,041
<b>Total</b>	<b>389,263</b>	<b>200,356</b>

Foreign currency forward purchase agreements are secured by promissory notes given by the Company.

**Fair Value** is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the Company's consolidated financial statements are prepared under the historical cost method, differences can arise between the book values and the fair value estimates. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values.

## 19. COMMITMENTS AND CONTINGENCIES

- A. The contingent liabilities against letters of credit was SAR 52.9 million and SAR 6.2 million for 31 December 2006 and 31 December 2005 respectively.
- B. The contingent liabilities against letters of guarantee was SAR 33.6 million and SAR 34.8 million for 31 December 2006 and 31 December 2005 respectively.
- C. The Company had capital commitments to SAR 475.8 million and SAR 387.6 million for 31 December 2006 and 31 December 2005 respectively in respect of ongoing projects. The majority of the capital commitments are for new production facilities, sales depot development, distribution fleet, fridges and information technology.
- D. Commitments under operating leases expire as follows:

	<b>2006</b>	<b>2005</b>
	SAR '000	SAR '000
Within one year	35,676	17,452
Two to five years	69,260	57,845
After five years	13,094	10,561
<b>Total</b>	<b>118,030</b>	<b>85,858</b>





## 20. DIRECTORS REMUNERATION

The Directors' fees paid to the Board of Directors for years ending 31 December 2006 and 31 December 2005 amounted to SAR 2.1 million and SAR 2.0 million respectively.

## 21. RELATED PARTY TRANSACTIONS

During the normal course of its operations, the Company had the following significant transactions with related parties during the year ended 31 December 2006:

	<b>2006</b>	<b>2005</b>
	SAR '000	SAR '000
Sales	80,390	60,530
Purchases	158,429	146,706
Due to Related Parties - Net	(34,141)	(10,469)

## 22. DIVIDENDS PROPOSED

The Board of Directors, on 1 Muharram 1428 A.H. (20 January 2007), proposed for approval at the General Assembly Meeting a dividend for the year ended 31 December 2006 of SAR 200 million (SAR 2 per share).

## 23. SUBSEQUENT EVENTS

In the opinion of the Management, there have been no significant subsequent events since the year end that would have a material impact on the financial position of the Company as reflected in these consolidated financial statements.

## contact details

Almarai welcomes your feedback, suggestions and queries.

For investor relations matters, please contact:

**Khalid M. Al Nasser**  
**+966 (1) 470 0005 Ext. 280**  
**investor.relations@almarai.com**

For product related matters, please contact:

**800 124 6688 (KSA)**  
**+966 (1) 453 6688 (International)**  
**info@almarai.com**

**www.almarai.com**





ALMARAI COMPANY

P.O.Box: 8524, Riyadh 11492, Kingdom of Saudi Arabia

Telephone +966 (1) 470 0005 Fax +966 (1) 470 1555

[www.almarai.com](http://www.almarai.com)