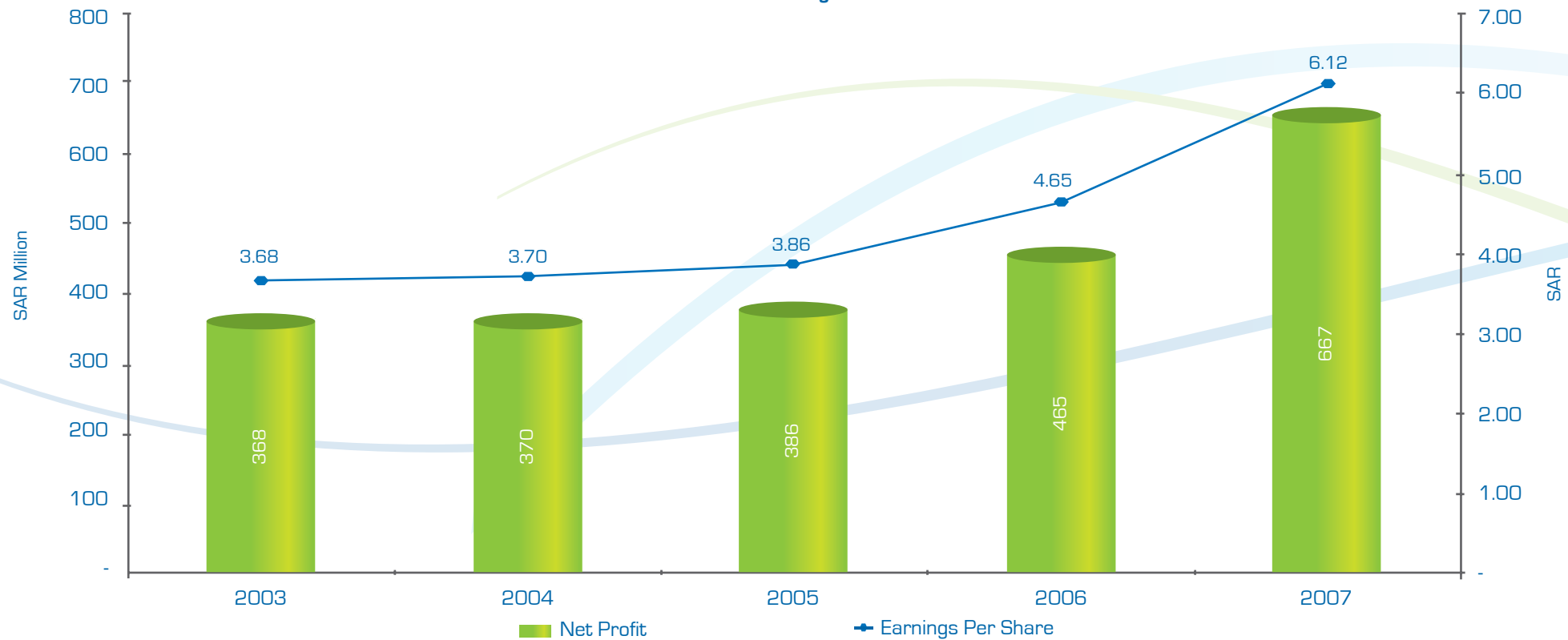


# 2007 at a glance



Net Profit and Earnings Per Share



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## *chairman's statement*



Following on from the phenomenal results of 2006, 2007 was another year of record breaking success for Almarai, achieving sales of SAR 3,769.8 million and a net income of SAR 667.3 million, a significant increase of 36.7% and 43.6%, respectively over the previous year's figures. These results bear testament to Almarai's ability to meet customer and consumer requirements within our chosen product categories and is in line with the 5 year plan approved in June 2007.

The performance can also be attributed to Almarai's product range expansion. This was enhanced by the 100% acquisition of Western Bakeries, a producer and distributor for a wide variety of baked food products under the brand name L'Usine. This newly acquired business delivered a strong financial performance in 2007 and will strengthen Almarai's leadership in the food industry.

Almarai is committed to its mission and community responsibilities. We aim to satisfy and respond to consumers' needs through our range of high quality products at reasonable prices. Almarai is equally committed to recruit the best qualified staff, provide adequate training programs and create a positive work environment for its employees.



To ensure this continued success and to be able to expand its product range, Almarai will continue with its dynamic forward looking approach to grow the business. Delivery of the 5 year capital investment plan will allow Almarai to develop and launch new products through world class production and distribution facilities and further strengthen our market leadership.

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

Finally, we would like to thank the management and employees of Almarai for their continued efforts and commitment to maintaining Almarai's success.

**Sultan bin Mohammed bin Saud Al Kabeer**

21 January 2008



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## *an overview of the company*



### **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.

The Almarai success story began in 1976, when the Chairman, HH Prince Sultan bin Mohammed bin Saud Al Kabeer recognised 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 of serving high quality products to more than 35,000 customers within the GCC, on a daily basis.

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 moved from being a privately owned Company to a publicly listed Company and today has over 90,000 shareholders.

During 2007, with the acquisition of Western Bakeries, Almarai extended its footprint in the food category in the region. Exceeding all expectations, the results for 2007 show Almarai generating a profit of SAR 667.3 million from a turnover of SAR 3,770 million.

One of the mainstays of its success is Almarai's unique ability to maintain and deliver high quality products. This intrinsic attribute combined with a strong understanding of consumer tastes and preferences – acquired through intensive consumer research – ensures that Almarai continues to be a market leader in the GCC countries. With the acquisition of Western Bakeries, the product range has been expanded to include a range of bakery products as well as fresh and long-life dairy products, which are made primarily from fresh milk, fruit juices, cheese, butter and other non-dairy products.

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



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## *board of directors' report*

For the first time in the Company's history Almarai had sales in excess of US\$ 1 billion. 2007 has been a phenomenally successful year.

The Company achieved record sales of SAR 3,769.8 million and a net income of SAR 667.3 million, a significant increase of 36.7% and 43.6%, respectively over the previous year's figures. These results bear testament to Almarai's ability to meet customer and consumer requirements within our chosen product categories.

### 2007: A Year of Diversification

The acquisition of Western Bakeries, the producer and distributor for a wide variety of baked food products under the brand name L'Usine, which currently operates solely within Saudi Arabia, has opened-up new avenues in the market place. In 2007, the bakery products' contribution was significant, forming 9.8% of turnover. Going forward, expansion of this product range to the rest of the GCC will give further impetus to future growth within the Almarai group.

Under the Almarai brand, we continue to grow as the preferred choice of the consumer of all ages. This has been achieved with a combination of superior consumer knowledge and excellence in execution across all aspects of the business. As an example, dairy sales have grown by 20.4%, building on the growth achieved in 2006 and the launch of additional juice flavours together with the change to a unique PET pack format has seen an exceptional increase in juice turnover by 64.8%.





The ambitious expansion of the sales distribution network has been a major contributor to our growth. We now operate 90 Sales Depots throughout the GCC. To service this growth, the number of distribution vehicles have increased and to ensure the product is maintained in a chilled environment additional fridges were placed in retail outlets.

As part of our expansion plans, the Company also witnessed an increase in the total workforce to 9,506 employees.

During the third quarter of the year, Almarai ventured into telecommunications when it acquired a 5% share in the telecommunication consortium led by Zain Kuwait, (formerly Mobile Telecommunication Company in Kuwait - MTC) to operate the third mobile network in the Kingdom of Saudi Arabia. The 5% share will be reduced to 2.5% after the IPO, which is expected to take place between the 9th and 18th of February 2008.

Going forward, we reiterate our commitment to continue to develop new products and seek new business opportunities with the objective of increasing stakeholder wealth and offering a wider range of improved products and services to our customers and consumers. We are confident that with a favourable and productive economic environment in Saudi Arabia and the GCC, and the visionary initiatives undertaken, we will continue to excel on the path to progress and can 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.

**Board of Directors**  
21 January 2008



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## 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 Foundation for Supporting the Talents, Board of Equestrian Club and the Board of Graduates Committee for Maahad Al Asima Al Namouzaji Institute.



**Ibrahim M. Alissa**  
Director

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



**Dr. Majed A. Al Gassabi**  
Director

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



**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.



**Mosa Omran Al Omran**  
Director

Holds a Bachelor Degree in Industrial Engineering from King Saud University in Saudi Arabia in 1991, he holds a Master Degree in Business Administration from St. Edward University USA in 1994 and Diploma in science and technical bread from Pittsburgh Institute USA in 2001. He is a board member of the Savola Group, United Sugar Company and Banque Saudi Fransi. He is an active member of the Young Managers, The Economic and Social Committee Makkah Principality, The Industrial Care of the Chamber of Commerce and Industry in Jeddah, The Department of the Public Authority for Investment and a member of the Makkah region.



**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 organisations such as 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, is Chairman of Projects and Technical Contracting Corporation and a director of the Savola Group



**Dr. Sami Mohsen Baroom**  
Director

Holds a PH.D. and Masters degree in Business Administration from Pennsylvania University, USA. He is currently Managing Director of the Savola Group as well as being CEO of both International Quarter Co. and the Economic Information City. He is President of the Board of Directors of Technomedia as well as a board member of the Alsira Real Estate Co., Alazizya Banda Co., Almarafiq Real Estate Co. (Savola Group), United Real Estate Development Co. and Venture Capital Bank (Bahrain).



**Abdulrahman bin Abdulaziz Al Muhanna**  
Managing Director

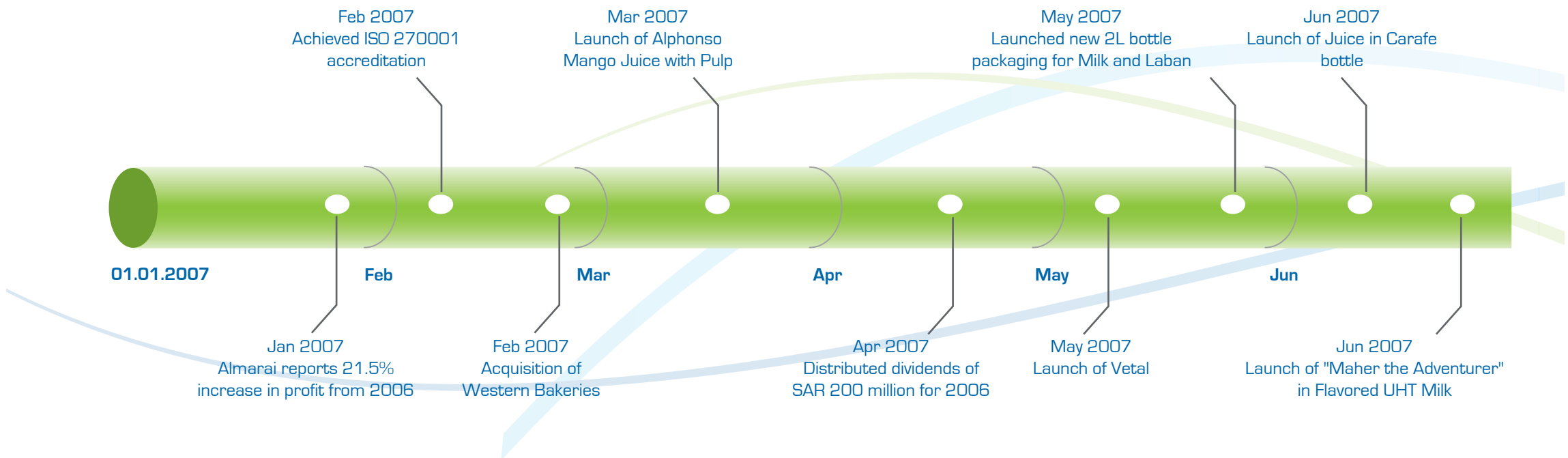
Joined Almarai in 1979 on graduating from King Saud University, Saudi Arabia, with a degree in Agricultural Economics. He was appointed Managing Director in 1997. He is a board member of Arabian Agricultural Services Company and the First Islamic Bank, Bahrain, Vice-President of the National Committee of Fresh Dairy Producers and a member of the Agricultural Committee of Riyadh Chamber of Commerce.

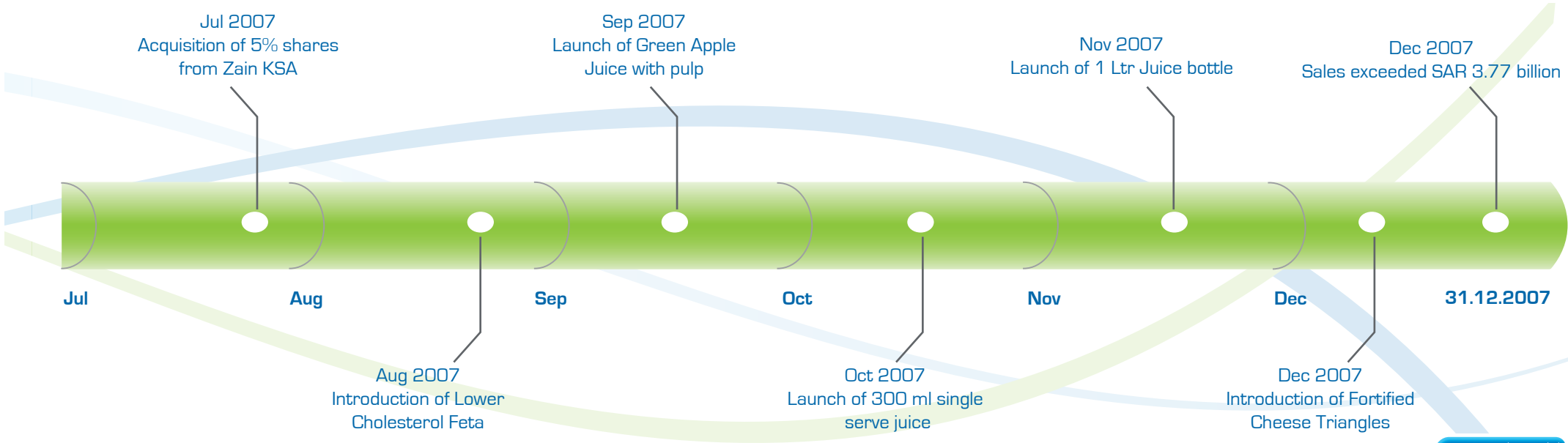


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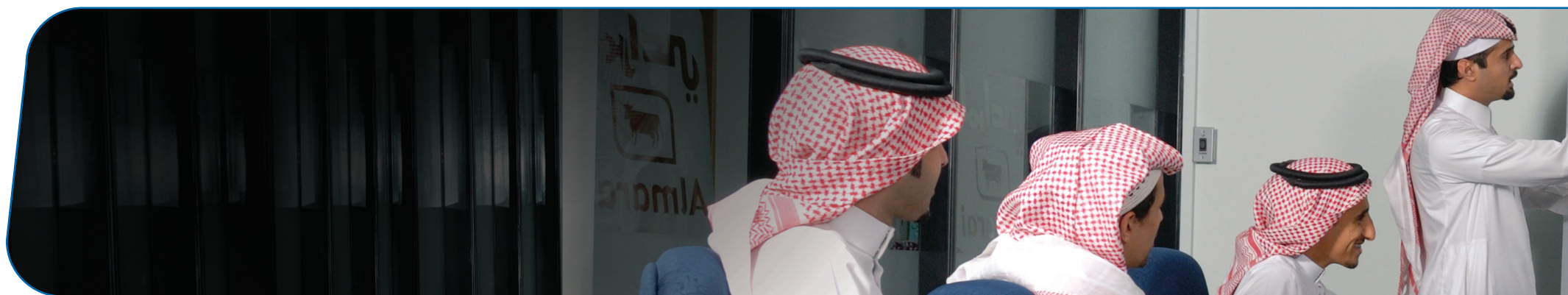


## 2007 key milestones





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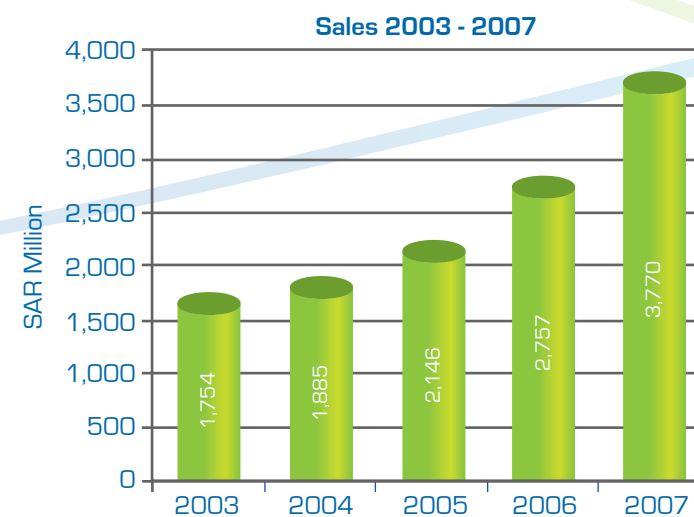
## *management discussion & analysis*

Our Sales and Net Income for 2007 amounted to SAR 3,769.8 million and SAR 667.3 million, which represents an increase of 36.7% and 43.6% respectively on the previous year.

2007 was a memorable year in the history of Almarai. The year on year growth for the Almarai product range based on 2006 is 23.4%, 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, the contribution made by bakery products, which is the third largest revenue generator of the Almarai product group, was significant.

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

Sales by Product Group (SAR Million)	Year ended 31 December		% Change
	2007	2006	
Fresh Dairy	1,977.1	1,648.2	20.0%
Long-Life Dairy	310.7	251.3	23.6%
Fruit Juice	340.3	206.5	64.8%
Cheese & Butter	741.5	629.6	17.8%
Other Sales	31.4	21.3	47.6%
<b>Total Sales (2006 Product Range)</b>	<b>3,401.0</b>	<b>2,756.9</b>	<b>23.4%</b>
Bakery	368.8	-	NA
<b>Total Sales (2007 Product Range)</b>	<b>3,769.8</b>	<b>2,756.9</b>	<b>36.7%</b>



Sales by Product Group (SAR Million)	Year ended 31 December		% Change
	2007	2006	
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Other Sales	31.4	21.3	47.6%
Total Sales (2006 Product Range)	3,401.0	2,756.9	23.4%
Bakery	368.8	-	NA
Total Sales (2007 Product Range)	3,769.8	2,756.9	36.7%

### Fresh Dairy

The flagship product group, fresh dairy includes short-life products made with locally produced fresh raw milk. The range includes fresh laban, milk, natural and fruit yoghurts, cream, and dairy desserts. 2007 saw a revitalisation of the 2 litre range with fresh packaging. In addition, the regions first "beauty milk," Vetal, a fortified product mainly targeting women, was launched. Custards, now renamed BonSweet, were launched with new packaging designs as were Layered and Stirred Fruit Yoghurts, Crème Caramel and Gishta.

Sales of our fresh dairy products, which is the largest product category, amounted to SAR 1,977.1 million, which represents an increase of 20% on the previous year.

### Long-life Dairy

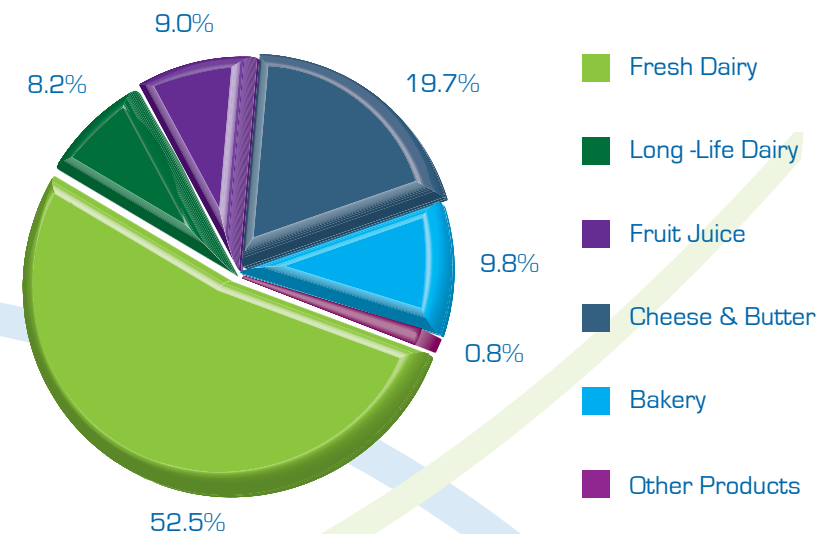
Long-life dairy made from locally produced raw milk, includes UHT milk and cream, evaporated milk and sterilized cream. Flavoured UHT Milk for children saw the birth of "Maher The Adventurer" as the animated character to bring the product and its benefits to life.

Sales of long-life dairy amounted to SAR 310.7 million, which represents an increase of 23.6% on the previous year.

### Fruit Juice

During 2007, the fruit juice products have shown phenomenal growth driven by the revitalisation of the product range with exciting new flavours, improved recipes and fresh packaging, giving us a competitive advantage to increase our market share across the GCC. Almarai launched the carafe in 1.75 litre, 1 litre and 300ml single serve. Added to this, the world's first Alphonso Mango with pulp and a regional first with Green Apple with pulp were delivered.

Sales of fruit Juice amounted to SAR 340.3 million, which represents an increase of 64.8% on the previous year.



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### **Cheese and Butter**

Innovative products such as Low Cholesterol Feta Cheese, Block Cheddar Cheese, and another first in the market, Low Fat Tinned Cheddar Cheese joined this product group.

Sales for cheese and butter amounted to SAR 741.5 million, which represents an increase of 17.8% on the previous year.

### **Bakery Products**

The acquisition of Western Bakeries has introduced bakery products into the product portfolio. The products include cup cakes, puffs, mamoul and bread all marketed under the L'Usine brand.

Sales for Bakery Products amount to SAR 368.8 million which represents 9.8% of total turnover.

### **Other Products**

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



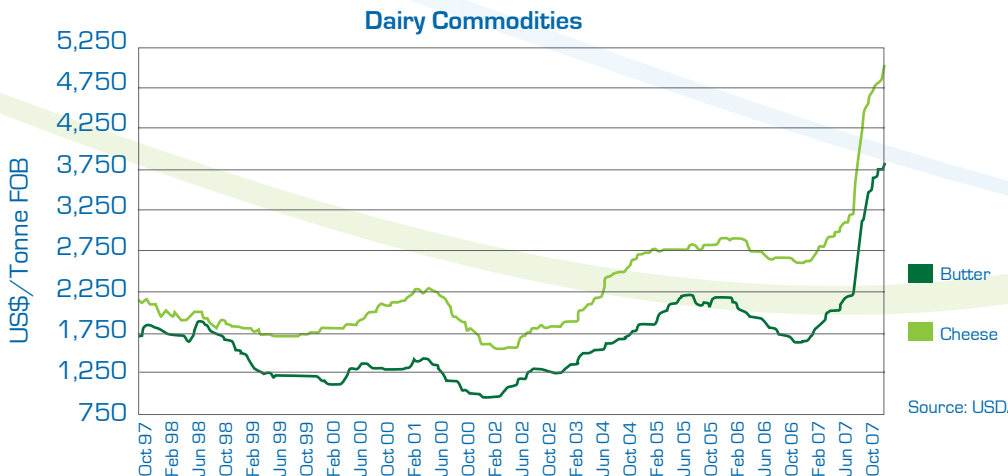


## Operating Costs

The increase in Operating Costs in 2007 over 2006 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 2007. This is particularly relevant to animal feeds as well as ingredients and packaging for our products. In addition, the weakening of the SAR versus the Euro has caused costs for imported ingredients and packaging to increase. The following detail the dramatic increase in some

Operating Costs (SAR Million)	Year ended 31 December	
	2007	2006
Direct Material Costs	1,601.9	1,170.6
Other Cost of Sales	674.6	511.7
Selling & Distribution Expenses	570.1	423.2
General & Administration Expenses	142.5	116.7
<b>Total Operating Costs</b>	<b>2,989.1</b>	<b>2,222.2</b>



of these costs. In keeping with our policy of offering value to consumers we try to avoid passing on to the consumer price increases whenever possible and to reduce their impact by alternative sourcing or by other methods. As described in the table below, the other Operating Costs have increased in line with or at a lesser rate than sales growth due to increasing economies of scale within the business.

Increase in Input cost from 2002 - 2007	
Description	Increase
Feed Costs per litre	25% to 32%
Cheese & Butter	155% to 170%
Resin LDPE / HDPE	157%
EURO versus SAR	43%



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

Operating Costs (SAR Million)	Year ended 31 December			
	2007	% of Sales	2006	% of Sales
Operating Costs	1,601.9	42.5%	1,170.6	42.5%
Employee Costs	594.8	15.8%	451.7	16.4%
Operating Overheads	356.0	9.4%	274.4	10.0%
Marketing Expenses	190.6	5.1%	139.0	5.0%
Insurance	18.1	0.5%	12.7	0.5%
Depreciation & Amortisation	227.7	6.0%	173.8	6.3%
<b>Total Operating Costs</b>	<b>2,989.1</b>	<b>79.3%</b>	<b>2,222.2</b>	<b>80.6%</b>

### **Depreciation and Amortisation**

Net livestock appreciation represents the growth in our dairy herd, which is capitalised 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 53.9 million, due to the ongoing investment in our farming, production and distribution facilities.



### Payments to Government Agencies

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

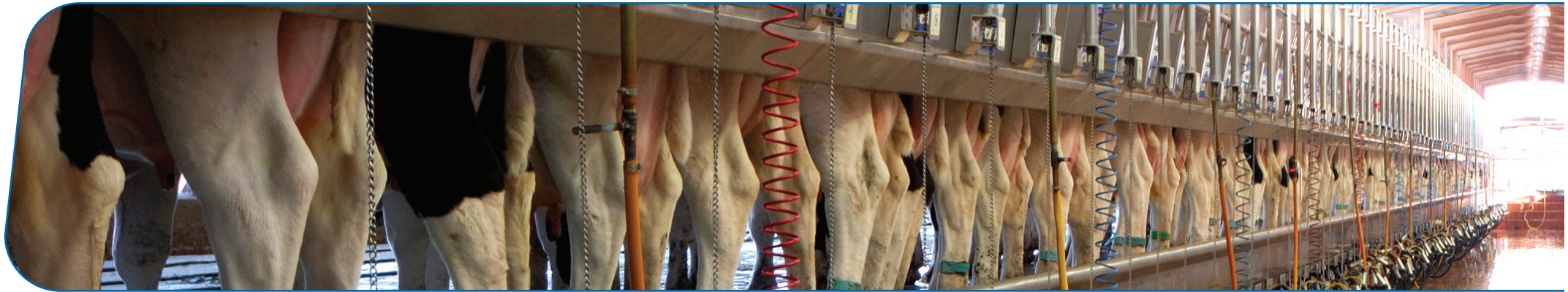
Payments to Government Agencies (SAR Million)	Year ended 31 December	
	2007	2006
Customs duty	55.6	46.0
Zakat	14.0	11.2
G.O.S.I.	17.4	13.9
Ministry Costs	14.2	11.5
Others	6.3	6.0
<b>Total Payments to Government Agencies</b>	<b>107.5</b>	<b>88.6</b>

### Net Income

Net Income increased from SAR 464.7 million in 2006 to SAR 667.3 million in 2007. Net Income as a percentage of sales increased from 16.9% to 17.7%. These results were achieved despite the Company absorbing an increase in Direct Material Costs.



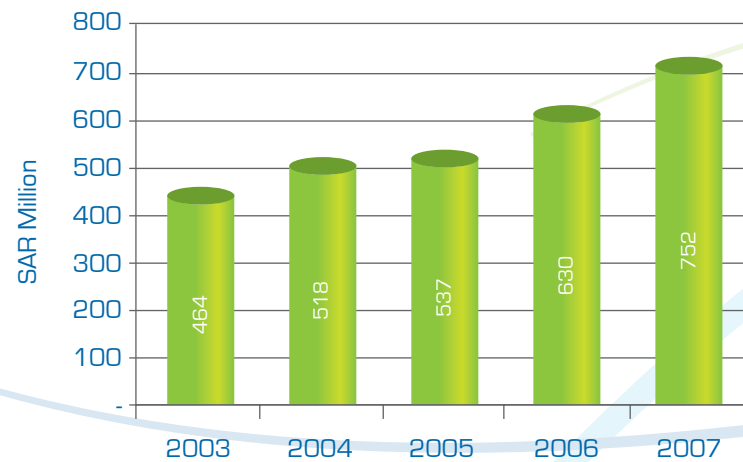
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## Cash Flows

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

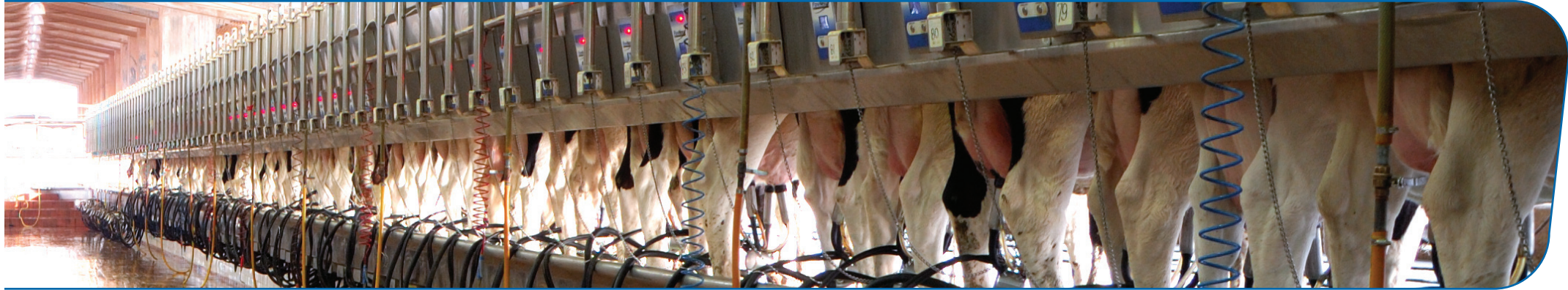
Cash Flows from Operating Activities 2003 - 2007



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 Flow Statement (SAR Million)	Year ended 31 December	
	2007	2006
From Operating Activities	725.2	629.7
Used in Investing Activities	(1,488.2)	(824.2)
From Financing Activities	833.0	220.8
Increase in Cash	70.0	26.3
Cash at beginning of period	68.0	41.7
Cash at end of period	138.0	68.0

Cash Flows from Operating Activities (SAR Million)	Year ended 31 December	
	2007	2006
Net Income	667.3	464.7
Depreciation & Amortisation	227.7	173.8
Bank Charges	94.9	55.9
Change in Employees' Termination Benefits	19.5	15.9
Share of Minority Interest in Net Income of a Consolidated Subsidiary	0.5	0.4
Net Changes in Working Capital	(284.7)	(81.0)
Net Operating Cash Flows	725.2	629.7



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 increases in commodity prices and stock levels have resulted in an increased working capital requirement of SAR 284.7 million.

The high level of capital expenditure in 2007 reflects the ongoing investment in our farming, production and distribution facilities.

Investing Cash Flows (SAR Million)	Year ended 31 December	
	2007	2006
Capital Expenditure	(1,099.2)	(877.5)
Proceeds from disposals	73.6	54.2
Acquisitions of Investments	(471.1)	-
Acquisitions/Disposals of Derivative Financial Assets	0.9	(0.9)
Acquisitions/Disposals of subsidiaries, Net of Cash Acquired	7.6	-
<b>Net Investing Cash Flows</b>	<b>(1,488.2)</b>	<b>(824.2)</b>



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### Dividends

For the fiscal year 2006, the General Assembly approved on 27 March 2007 the distribution of a dividend of SAR 2 per share amounting to SAR 200 million.

For 2007 the Board of Directors is proposing to the General Assembly to approve the distribution of a dividend of SAR 2.50 per share amounting to SAR 272.5 million.



Cash Flows used in Financing Activities (SAR Million)	Year ended 31 December	
	2007	2006
Dividends Paid	(199.4)	-
Distribution to Minority Interest	(0.4)	(0.4)
<b>Borrowings from state financial Institutions</b>		
Repayments	(48.2)	(26.5)
Receipts	140.5	108.1
<b>Borrowings from Islamic banking facilities (Murabaha)</b>		
Repayments	(61.5)	(61.5)
Receipts	1096.9	257.0
<b>Net Movement on Commercial Borrowings</b>		
Bank Charges	(94.9)	(55.9)
Net Investing Cash Flows	833.0	220.9

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 interest of the Company and its Shareholders.



### Borrowings

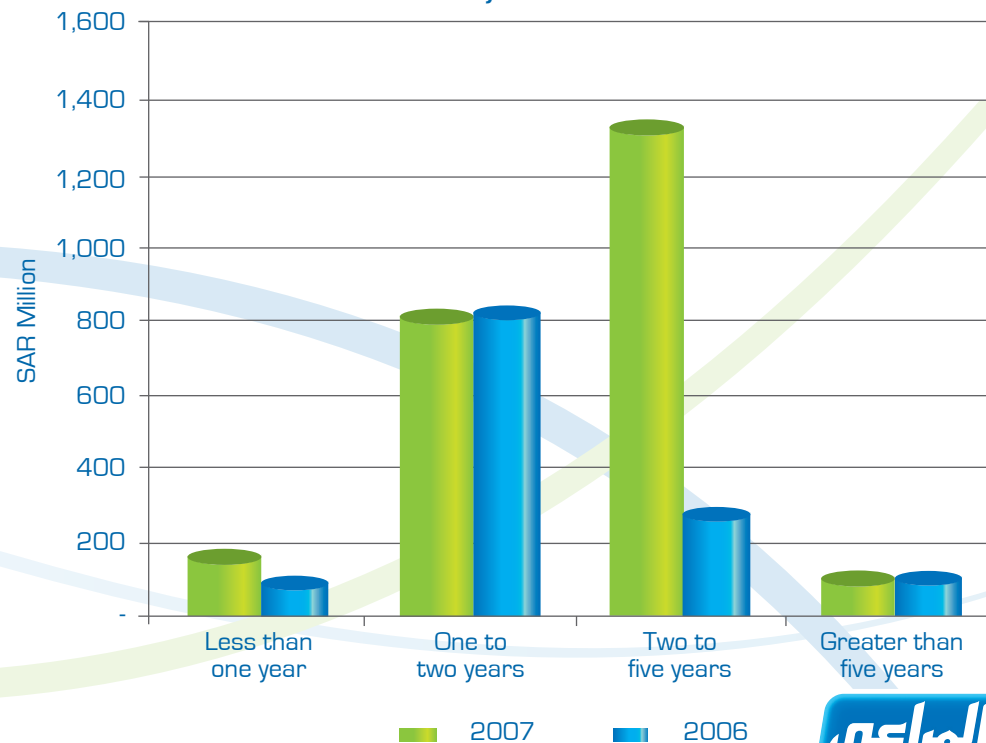
We have obtained financing in respect of our major investment programs from Government financial institutions in Saudi Arabia, namely the Saudi Industrial Development Fund (SIDF) and the Saudi Arabian Agricultural Bank (SAAB). This financing is not commission-bearing and in the case of SIDF, carries 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 55.9 million to SAR 94.9 million due to the increased level and cost of borrowings.

Recognising the relative short term nature of our Islamic banking facilities (Murabaha), the company restructured SAR 1.7 billion of loan facilities, at commercially more attractive costs, into medium to long-term loans with a maturity of between three to five years. This is more in line with the life of the assets that the facilities have been used to acquire and ensures that over half of the borrowing facilities are of a medium to long-term nature. As at 31st December 2007 SAR 352 million of these facilities were unutilised and available for drawdown.

At 31 December 2007 the group had SAR 321 million of unutilised Saudi Industrial Development Fund facilities available for drawdown with maturities predominantly greater than five years.

Maturity of Financial Liabilities



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### **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 2007 amounted to SAR 2.1 million.

Directors Name and other Public Company Directorships	Independent or Not Independent	Attendance
HH Prince Sultan bin Mohammed bin Saud Al Kabeer (Chairman of the Board of Almarai Company) Yamama Cement Company, Arabian Shield Insurance Company	Not Independent	4
Ibrahim M. Alissa Banque Saudi Fransi, The Savola Group, Taibah for Investments, Yanbu Cement Company	Not Independent	5
Dr. Majed M. Al Gassabi Red Sea Company	Independent	5
Mohammed Al Damer	Independent	4
Mosa Omran Al Omran (appointed 27 March 2007) The Savola Group, Arabia Cement, Banque Saudi Fransi	Not Independent	4
Engr. Nasser Al Muttawa	Independent	3
HH Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer	Not Independent	5
Dr Sami Mohsen Baroom (appointed 1 April 2007) The Savola Group	Not Independent	4
Dr Abdulraof Mannaa (until 31 March 2007) The Savola Group	Not Independent	1
Abdulrahman bin Abdulaziz Al Muhanna (Managing Director of Almarai Company) Saudi Fisheries Company	Not Independent	5



### Related Party Transactions

During the year Sales to related parties amounted to SAR 105.5 million, while Purchases amounted to SAR 173.6 million.

Related Party Relationship (SAR Million)	Nature of Transaction	Amount	Balance at 31 December
<b>2007</b>			
Common Shareholders / Owners	Sales	(105.5)	15.6
Common Shareholders / Owners	Purchases	173.6	(36.6)
<b>2006</b>			
Common Shareholders / Owners	Sales	(80.4)	10.4
Common Shareholders / Owners	Purchases	100.3	(26.6)



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## Segmental Reporting

The Group's principal business activities involve manufacturing and trading of dairy products, fruit juices, dairy and non-dairy foods, bakery products and investing activities. Selected financial information as of 31 December 2007 and 2006 and for the years then ended categorised by segments, are as follows:

SAR Million	Dairy, Fruit Juices & Related Food		Bakery Products		Investing Activities		Almarai Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
Sales	3,401.0	2,756.9	368.8	-	-	-	3,769.8	2,756.9
Earnings before Depreciation, Amortisation, Bank Charges and Zakat	892.6	708.5	115.8	-	-	-	1,008.4	708.5
Depreciation	(193.3)	(173.8)	(34.4)	-	-	-	(227.7)	(173.8)
Earnings before Bank Charges and Zakat	699.3	534.7	81.4	-	-	-	780.7	534.7
Bank Charges	(87.5)	(55.9)	(4.6)	-	(2.8)	-	(94.9)	(55.9)
Zakat	(16.0)	(13.7)	(2.0)	-	-	-	(18.1)	(13.7)
Minority Interest	(0.5)	(0.4)	-	-	-	-	(0.5)	(0.4)
Net income	595.3	464.7	74.8	-	(2.8)	-	667.3	464.7
Average NOA Net Operating Assets	3,779.1	2,929.6	832.6	-	235.6	-	4,847.2	2,929.6
Total Assets	4,906.5	3,771.9	958.3	-	471.1	-	6,335.8	3,771.9
Total Liabilities	(2,637.9)	(1,873.7)	(173.1)	-	(471.1)	-	(3,282.1)	(1,873.7)
RONOA Return on Net Operating Assets	18.5%	18.3%	9.8%	-	-	-	16.1%	18.3%
RONOA without goodwill	-	-	28.7%	-	-	-	18.2%	-
Number of shares (in million)	100.0	100.0	9.0	-	-	-	109.0	100.0
Earnings per share in SAR	5.95	4.65	8.31	-	-	-	6.12	4.65



The business activities and operating assets of the Group are mainly concentrated in GCC countries, and selected financial information as at 31 December 2007 and 2006 and for the years then ended, categorised by these geographic segments are as follows:

SAR Million	Sales		Non - Current Assets	
	2007	2006	2007	2006
GCC	3,741.1	2,737.7	5,060.8	3,045.8
Other Countries	28.7	19.2	-	-
<b>Total</b>	<b>3,769.8</b>	<b>2,756.9</b>	<b>5,060.8</b>	<b>3,045.8</b>

### Subsidiaries

Name of Subsidiary	Country of Incorporation	Direct and Beneficial Ownership Interest	
		2007	2006
Western Bakeries Company Limited	Kingdom of Saudi Arabia	100%	-
International Baking Services Company Ltd.	Kingdom of Saudi Arabia	100%	-
Arabian Planets for Trade and Marketing L.L.C.	Sultanate of Oman	90%	90%
Almarai Company Bahrain W.L.L.	Kingdom of Bahrain	100%	100%

### Risk Management

Risk taking is an integral part of doing business. Risks are managed in our operational processes where risks are identified, probability of occurrence assessed and potential consequences estimated. Actions are then taken to reduce or mitigate the risk exposures and limit potential unfavourable consequences.

We broadly categorise risks into operational risks and financial risks. Our approach to risk management leverages the scale and diversity of our business activities and balances central co-ordination with well - defined risk management responsibilities within each operational unit.



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Risk Management tools such as reviews, policies, procedures and reports are in place on all major categories of risk including, but not limited to, overall business risk in the Company's operations, treasury risk (including currency and borrowing risks), procurement, insurance and litigation.



### **Corporate Governance**

Almarai is dedicated to maintaining the highest standards of quality and performance in all of its activities. This applies equally to the area of Corporate Governance where the Company is committed to best practice principles in all of its dealings. The Company has a comprehensive Corporate Governance policy setting out rules for directors and officers to adhere with, in order to protect and further the interests of the Company and its stakeholders. The Board of Directors, with the assistance of sub-committees like the Audit & Risk Committee, continually support strong corporate governance practices and regularly review the Company's governance and control practices.

#### **Audit and Risk Committee**

The Audit & Risk committee is a vital part of Almarai's commitment to strong corporate governance. The committee is comprised of three experienced non-executives and reports to the Almarai Board of Directors.

The committee members are:

- a) Dr Ibrahim Al Madhoun, Chairman
- b) HH Prince Naif bin Sultan Al Kabeer
- c) Hesham Tashkandi

The committee maintains a close oversight of financial, governance and risk related matters in the Company, and monitors audit activities in order to gain sufficient comfort on the adequacy of internal control systems, the safeguards over the assets of the Company and the integrity of the Company's financial statements.



#### Nomination and Remuneration Committee

In accordance with Capital Market Authority (CMA) requirements, Almarai has created a Nomination & Remuneration Committee comprised of the following members:

- a) HH Prince Sultan bin Mohammed bin Saud Al Kabeer, Chairman
- b) Abdulrahman bin Abdulaziz Al Muhanna
- c) Mosa Omran Mohammed Al-Omran
- d) Abdulrahman Al Fadley

The Nomination & Remuneration Committee looks at the appointment, composition, capacity and remuneration of the Board of Directors and the senior management of the Company. The purpose of the committee is to ensure that the Directors of the Company are able to oversee the affairs of the Company in the interests of all Shareholders and that the remuneration paid to Directors and senior management is appropriate for the roles performed.

#### **General Assembly Meeting**

The Board of Directors will advise the Shareholders of the date of the General Assembly Meeting in due course.

#### **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.



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## *success factors*

### ***Our Consumers***



Almarai's consumers are the most important stakeholder in the business. Without our consumers and their loyalty to our products, our achievements are not possible.

In 2007, Almarai turned the juice market on its head with the launch of the new Carafe bottle in PET. Through careful planning and superb execution, the launch of the Carafe in 1.75 litre, 1 litre and 300ml Single Serve has helped Almarai achieve over a 50% growth versus 2006 and increase market share. Added to this, Almarai delivered a world's first with Alphonso Mango with Pulp and a regional first with Green Apple with pulp.

The mainstay of our business remains fresh dairy, with milk and laban achieving all time record market shares in KSA of close to 60%\* and 50%\*, respectively. In addition, the regions first "beauty milk," Vetal, a fortified product mainly targeting women, was launched. Flavoured UHT Milk for children saw the birth of "Maher The Adventurer" as the animated character to bring the product and its benefits to life.

Another stellar performer was Zabadi, which continues to grow from strength to strength within our key market of KSA, resulting in an all time high market share at almost 50%\*. Custards, now renamed BonSweet, were launched with new packaging designs as were Layered, and Stirred Fruit Yoghurts, Crème Caramel and Gishta.



The performance of the cheese and butter portfolio delivered its highest market shares to date for Jar Cheese, Cheese Slices and Butter. Innovative products such as Low Cholesterol Feta Cheese, Block Cheddar Cheese, and another first in the market, Low Fat Tinned Cheddar Cheese joined this product group.

The other products also played their part in producing record growth.

An important milestone in Almarai's growth was the acquisition of Western Bakeries. With this acquisition, products including cup cakes, puffs, mamoul and bread were added to the Almarai portfolio, under the L'Usine brand. During 2007, Western Bakeries launched an ambitious manufacturing expansion and the development of a state of the art logistic system within KSA. These developments, together with a new product development programme, have laid the foundations for the continued growth of the business.

\* Market share information is supplied by ACNielsen based on September 2007 survey data



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## Our People

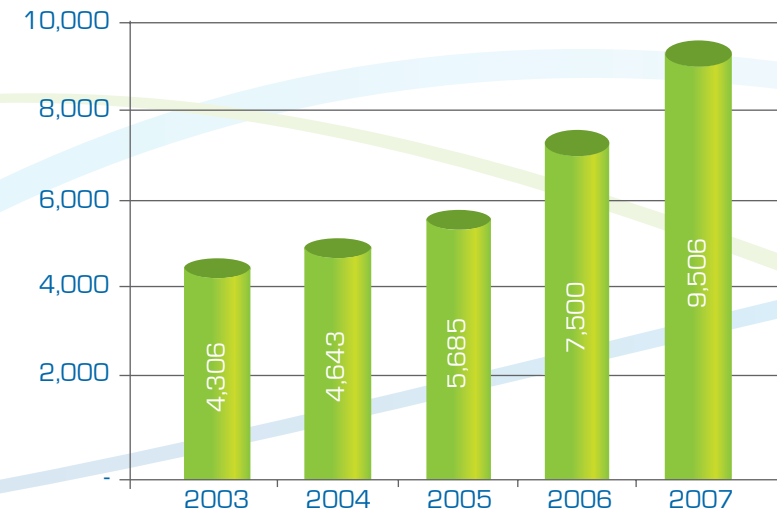
Almarai's workforce remains its most important asset. Hiring the right people, training them and providing the resources they need to satisfy the requirements of a world-class food company, is always a major priority.

The significant growth achieved in the past few years has triggered many HR challenges. Currently we employ over 9,500 employees predominantly in KSA. This number is expected to continue to increase. The challenge for the future is to continue to provide an excellent working environment and ensure continued employee recruitment and retention. Experience is also valued, with long service awards made to employees with 10 years, 20 years, 30 years and more service.

Investing in employees is pivotal to maintaining competitive advantage. Almarai believes in creating a learning organisation, where individuals are provided opportunities to enhance their abilities and to perform their roles effectively. A comprehensive induction program, combined with training and development initiatives ensure that Almarai can meet its business goals. Great importance is also placed on improving employee awareness of health and safety issues and appropriate training is provided.

Almarai is actively engaged in attracting and retaining local nationals and has signed several agreements with the Saudi Human Resource Development Fund (HRDF) to recruit and train young, dynamic people and provide them with jobs in the many divisions of the Company.

Number of employees 2003 - 2007





### ***Quality You Can Trust***

The Almarai promise is “Quality You Can Trust”. Our consumers expect us to keep this promise every time. Our promise to the consumer is that all products are safe to consume, comply with regulations and meet our high standards and their expectations. To further support this commitment, a dedicated Quality and Product Development division was created during 2007.

Both product and packaging research and development remain at the core of all future growth, and 2007 was another year with many new packaging and product launch initiatives. In terms of packaging, the main launch was the new juice PET bottles. New products launched in 2007 include: Premium Alphonso Mango and Green Apple juices; block Cheddar cheese; low-fat products such as fat-free slices; and the re-launch of Triangle Cheese portions.

To further support the new product development process, an in-house sensory panel was established. This panel will assist in the delivery of products with improved sensory attributes, reinforcing high quality standards.

Almarai’s commitment to delivering products of superior quality has further been strengthened by the awarding of ISO 22000:2005, a task that has seen 18 months of rigorous staff training, further systems integration and realisation, complementing the already gained ISO 9000:2000 accreditation. Almarai was the first dairy manufacturer in the region to receive this accreditation.

Quality goes far beyond the products; the quality of service to our retailers has also been upgraded in terms of timeliness, frequency and provision of showcase fridges.



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### Infrastructures and Resources

In 2007, additional strategic alliances and agreements were formed with key suppliers of raw materials. Work was undertaken to increase supplier awareness of inbound material quality standards. This was also a year that saw world commodity prices increase dramatically, particularly in the area of animal feeds, ingredients and packaging. Almarai worked to expand its sources of supplies, to increase competition amongst suppliers and reduce the costs to the Company.

Recognising the growth in sales and new product launches, approximately 35% additional production capacity was added during the year to Almarai's production site located approximately 130 kilometres from central Riyadh. Among the initiatives undertaken were in-house bottle manufacturing, securing a large percentage of bottle cap requirements and a new bottle moulding facility.

The freshness of all Almarai products is guaranteed by the continuous collection of fresh milk from the nearby Almarai farms and continuous manufacturing on a 24/7 basis. The Central processing plant adopts a high level of sophisticated and flexible technology designed to deliver a long-term sustainable manufacturing base to the business.

Utilising a self-maintained, modern fleet of tractor/reefer vehicle combinations, specifically designed to cater for Almarai fresh dairy products, deliveries are made to sales depots located around the GCC. In the peak of 2007 Almarai had more than 1,400 tractor/reefers on the road.





A major contributor to year on year growth has been improved space and displays in current outlets. The program of display fridge placement continues with very positive results.

During 2007, the main challenge has been to keep the infrastructure of the Sales division in line with the tremendous growth of sales. Expansion and upgrading of our 90 sales depots throughout the GCC have progressed rapidly.

One of Almarai's competitive advantages has been the quality of our information systems. In February 2007, Almarai was awarded with ISO 270001 accreditation.

A major improvement in our ability to target and measure the accurate and timely distribution to over 35,000 shops has reduced both wastage and out of stock occasions.

Large-scale retailers continue to open more hypermarkets throughout the region, which has necessitated the development of our Key Account management skills. Careful negotiations with these demanding outlets have ensured that we have the space and position commensurate with the brand leader in the region.



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### ***Our Brands***

In June 2007, Maher the Adventurer was launched with a clear focus on younger consumers. The character that talks their language and reflects their values and traditions. The introduction of Maher led to the re-launch of the Flavored UHT milk range.

Following Almarai's continuous efforts to provide consumers with unique dairy products that match their needs and lifestyle, we launched Vetal, the first 'Beauty' milk product dedicated entirely to women in the region. Throughout the extensive research studies and market observations undertaken, we noticed the lack of special dairy products that suit women and their needs. Vetal's unique elements, more calcium & protein and less fat, cater to these needs and offer women in the region all the nutritional benefits they require to maintain their beauty.

Almarai Fruit Beverages are the leading fruit beverages in the Kingdom and the Gulf, focused on developing innovative products to improve consumer's health and wellness. By revolutionising the juices category through exciting innovations in formula – forget conventional juice benefits, the rules have changed with Almarai. In 2007, we launched several new juice flavours with Premium Strawberry Juice, Premium Alphonso Mango with Pulp Juice, a first in the world, and our premium Green Apple with Pulp; the first of its kind in the region. We've also entered two new emerging pack segments with our 300ml single serve, and our 1L pack. Finally, one of our biggest initiatives was the introduction of our new 1.75 L PET family-size bottle.





### **Corporate Social Responsibility**

As a leading company in the Kingdom, Almarai has been and continues to be engaged in several important community welfare activities.

From charities and donations to important causes, both locally and on a global scale, to sponsoring community events and sporting activities, Almarai has been an active member of society, helping and giving back to the community.

Through the Ruat Al Khair Program, employees are encouraged to donate to local associations and organisations and their donation is matched by Almarai.

As part of its support for scientific innovation, an awards program was launched in collaboration with King Abdulaziz City for Science and Technology.

In conjunction with the Arab Bureau of Education for the Gulf States and to encourage the brightest girls and boys from elementary, intermediate and secondary schools across the GCC countries, we've established a yearly awards ceremony to honour children for their outstanding academic achievements.

The support for children does not stop with academic awards. Almarai has also established an annual children's drawing contest for children aged 6-12, encouraging them to tap into their creativity. This year's theme was a beautiful and peaceful future. 1800 children participated and three winners were chosen.

In an effort to raise awareness in the Kingdom about osteoporosis, Almarai has assumed a major supporting role in its sponsorship of a Ministry of Health campaign. Osteoporosis has become common amongst women above 50 in the Kingdom and over a million text messages were sent by the ministry about the importance of addressing this serious health issue.

Almarai understands that by giving something back to our community, we will in turn help one another in improving the future in the entire region.



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## key financial highlights

Key Financial Highlights (SAR Million)	Year Ended 31 December				
	2007	2006	2005	2004	2003
<b>Operational Performance</b>					
Total Sales	3,770	2,757	2,146	1,885	1,754
Cost of Sales	(2,277)	(1,682)	(1,299)	(1,127)	(1,019)
Gross Profit	1,494	1,075	847	758	735
Selling and Distribution Expenses	(570)	(423)	(322)	(276)	(258)
General and Administration Expenses	(143)	(117)	(93)	(86)	(80)
Financing Cost and Bank Charges	(95)	(56)	(36)	(17)	(19)
Income before Zakat	686	479	396	379	378
Zakat	(18)	(14)	(10)	(9)	(10)
Minority Interest	(1)	-	-	-	-
Net Income	667	465	386	370	368
<b>Balance Sheet</b>					
Net Operating Working Capital	561	249	168	143	148
Property, Plant and Equipment	4,041	3,046	2,396	1,909	1,586
Intangible Assets - Goodwill	549	-	-	-	-
Investment and Financial Assets	471	-	-	-	-
Net Operating Assets	5,622	3,295	2,564	2,052	1,734
Net Debt	2,463	1,315	1,069	707	458
Employee Termination Benefits	105	82	66	53	54
Shareholders' Equity	3,054	1,898	1,429	1,293	1,222
Minority Interest	-	-	-	-	-
Net Operating Assets	5,622	3,295	2,564	2,052	1,734
<b>Cash Flow</b>					
Cash Flow from Operating Activities	725	630	537	518	464
Cash Flow used in Investing Activities	1,488	824	614	450	433
Dividend Paid	199	-	250	300	280
<b>Key Indicators</b>					
Return on Sales	17.7%	16.9%	18.0%	19.6%	21.0%
Return on Equity <sup>1</sup>	23.6%	27.9%	28.4%	29.4%	31.3%
Return on Net Operating Assets <sup>1</sup>	16.1%	18.3%	18.7%	20.9%	25.4%
Net Debt to Equity Ratio	80.7%	69.3%	74.8%	54.7%	37.4%
Current Ratio	166.1%	141.2%	118.6%	159.1%	167.6%
Revenue Growth Rate	36.7%	28.5%	13.8%	7.5%	9.6%
Dividends Payout Ratio <sup>2</sup>	40.8%	42.9%	-	67.5%	81.5%
Earnings per Share (SAR) <sup>3</sup>	6.12	4.65	3.86	3.70	3.68
Dividend Proposed	273	-	-	-	-

<sup>1</sup> With the acquisition of Western Bakeries on 1 January 2007, equity as at that date has increased by SAR 702 million and the net operating assets by SAR 778 million.

<sup>2</sup> Calculated on previous year's net income and for 2007 based on the dividend proposed.

<sup>3</sup> 2007 Earnings per share are calculated on the total number of issued shares at 31 December 2007 (109 million shares) while the previous years are calculated on the total number of issued shares at 31 December 2006 (100 million shares).

# auditors' report

Aldar Audit Bureau   
Abdullah AlBasri & Co.

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 2007 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year ended 31 December 2007 together with notes 1 - 29. 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 2007 and the results of its operations and cash flows for the year ended 31 December 2007, 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.



Abdullah M. Al-Basri  
Certified Accountant  
License No. 171



Riyadh, 13 Muharram 1429 A.H.  
Corresponding to 21 January 2008 A.D.



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# consolidated balance sheet

Consolidated Balance Sheet	Notes	2007 SAR' 000	2006 SAR' 000
<b>ASSETS</b>			
Current Assets			
Cash and Bank Balances	5	137,975	68,026
Derivative Financial Instruments	23	938	5,690
Receivables and Prepayments	6	402,502	221,100
Inventories	7	733,573	431,283
Total Current Assets		<u>1,274,988</u>	<u>726,099</u>
Non Current Assets			
Investments and Financial Assets	8	471,074	-
Property, Plant and Equipment	9	4,041,132	3,045,810
Intangible Assets - Goodwill	4/10	548,636	-
Total Non Current Assets		<u>5,060,842</u>	<u>3,045,810</u>
<b>TOTAL ASSETS</b>		<u><b>6,335,830</b></u>	<u><b>3,771,909</b></u>
<b>LIABILITIES AND EQUITY</b>			
Current Liabilities			
Short Term Loans	11	182,348	110,781
Payables and Accruals	12	575,337	403,378
Derivative Financial Instruments	23	10,033	-
Total Current Liabilities		<u>767,718</u>	<u>514,159</u>
Non Current Liabilities			
Long Term Loans	11	2,409,428	1,277,425
Employees' Termination Benefits		104,903	82,102
Total Non Current Liabilities		<u>2,514,331</u>	<u>1,359,527</u>
Shareholders' Equity			
Share Capital	13	1,090,000	1,000,000
Share Premium	4	612,000	-
Statutory Reserve	14	325,663	258,936
Other Reserves	15	(9,095)	4,759
Retained Earnings		1,034,878	634,336
Total Shareholders' Equity		<u>3,053,446</u>	<u>1,898,031</u>
Minority Interest		<u>335</u>	<u>192</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u><b>6,335,830</b></u>	<u><b>3,771,909</b></u>

The accompanying notes form an integral part of this statement.

## consolidated statement of income

Consolidated Statement of Income	Notes	2007 SAR' 000	2006 SAR' 000
Sales	16	3,769,833	2,756,935
Cost of Sales	17	(2,276,495)	(1,682,262)
Gross Profit		1,493,338	1,074,673
Selling and Distribution Expenses	18	(570,149)	(423,181)
General and Administration Expenses	19	(142,451)	(116,760)
Income before Bank Charges, Zakat and Minority Interest		780,738	534,732
Bank Charges		(94,860)	(55,915)
Income before Zakat and Minority Interest		685,878	478,817
Zakat	20	(18,079)	(13,687)
Income before Minority Interest		667,799	465,130
Minority Interest		(530)	(402)
Net Income		667,269	464,728
Earnings per Share (SAR)	21	6.12	4.65

The accompanying notes form an integral part of this statement.



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# consolidated statement of cash flows

Consolidated Statement of Cash Flows	Notes	2007 SAR' 000	2006 SAR' 000
<b>OPERATING ACTIVITIES</b>			
Net Income		667,269	464,728
Adjustments for:			
Depreciation	22	227,684	173,762
Bank Charges		94,860	55,915
Change in Employees' Termination Benefits		19,509	15,901
Share of Minority Interest in Net Income of Consolidated Subsidiary		530	402
Changes in:			
Receivables and Prepayments		(146,808)	(3,661)
Inventories		(279,646)	(110,302)
Payables and Accruals		141,801	32,987
Cash Flows from Operating Activities		<u>725,199</u>	<u>629,732</u>
<b>INVESTING ACTIVITIES</b>			
Additions to Property, Plant and Equipment	9	(1,099,196)	(877,517)
Proceeds from the Sale of Property, Plant and Equipment		73,556	54,203
Acquisition of Investments and Financial Assets	8	(471,074)	-
Acquisition / Disposal of Derivative Financial Assets		931	(931)
Acquisition of Subsidiaries, Net of Cash Acquired	4	7,580	-
Cash Flows used in Investing Activities		<u>(1,488,203)</u>	<u>(824,245)</u>
<b>FINANCING ACTIVITIES</b>			
Increase in Loans		1,127,596	277,141
Dividends Paid		(199,396)	-
Distribution to Minority Interests		(387)	(362)
Bank Charges		(94,860)	(55,915)
Cash Flows from Financing Activities		<u>832,953</u>	<u>220,864</u>
Increase in Cash and Bank Balances		69,949	26,351
Cash and Bank Balances at 1 January		68,026	41,675
Cash and Bank Balances at 31 December		<u>137,975</u>	<u>68,026</u>

The accompanying notes form an integral part of this statement.

## consolidated statement of changes in equity

Consolidated Statement of Changes in Equity	Share Capital SAR '000	Share Premium SAR '000	Statutory Reserve SAR '000	Other Reserves SAR '000	Retained Earnings SAR '000	Minority Interest SAR '000	Total SAR '000
Balance at 1 January 2006	1,000,000	-	212,463	-	216,081	152	1,428,696
Net Income for the Year	-	-	-	-	464,728	402	465,130
Transfers from Retained Earnings	-	-	46,473	-	(46,473)	-	-
Distribution to Minority Interests	-	-	-	-	-	(362)	(362)
Net Movement on Cash Flow Hedges	-	-	-	4,759	-	-	4,759
Balance at 31 December 2006	1,000,000	-	258,936	4,759	634,336	192	1,898,223
Balance at 1 January 2007	1,000,000	-	258,936	4,759	634,336	192	1,898,223
Net Income for the Year	-	-	-	-	667,269	530	667,799
Transfers from Retained Earnings	-	-	66,727	-	(66,727)	-	-
Shares Issued (Note 4)	90,000	612,000	-	-	-	-	702,000
Distribution to Minority Interests	-	-	-	-	-	(387)	(387)
Dividends Paid (Note 27)	-	-	-	-	(200,000)	-	(200,000)
Net Movement on Cash Flow Hedges	-	-	-	(13,854)	-	-	(13,854)
Balance at 31 December 2007	1,090,000	612,000	325,663	(9,095)	1,034,878	335	3,053,781

The accompanying notes form an integral part of this statement.



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# notes to the consolidated financial statements

## 1. The Company, its Subsidiaries 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 Dī' Hijrah 1411 A.H. (1 July 1991) and still operates under Commercial Registration No. 1010084223.

The Company and its subsidiaries (together, "the Group") are a major integrated consumer food group in the Middle East with leadership positions in the Kingdom of Saudi Arabia and the neighbouring Gulf Cooperative Council (GCC) countries. All raw milk production and related processing along with food manufacturing activities are undertaken in Saudi Arabia and United Arab Emirates (UAE). Final consumer products are distributed from the manufacturing facilities in Saudi Arabia and UAE to local distribution centres by the Company's long haul distribution fleet.

The distribution centres 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 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

On 30 Muharram 1428 A.H. (18 February 2007) the Company acquired 100% of the share capital of Western Bakeries Company Limited and its subsidiary International Baking Services Company Limited, two Limited Liability Companies registered in the Kingdom of Saudi Arabia.

On 8 Rabi I 1428 A.H. (27 March 2007), the Company issued 9 million shares to the owners of the Western Bakeries Company Limited and its subsidiary International Baking Services Company Limited, on acquisition of the same (Note 4), and as a result the share capital of the Company increased from 100 million fully paid and issued shares of SAR 10 each to 109 million fully paid and issued shares of SAR 10 each.

In the second quarter of 2007 Western Bakeries Company Limited entered into a joint venture to manufacture and distribute a range of bakery products under the "7 Days" brand. The joint venture company is under formation and its initial share capital will be SAR 35 million, 60% Western Bakeries Company Limited, 25% Vivartia SA and 15% Olayan Financing Company.

In May 2007 the Company paid SAR 7 million for a 10% stake in Jannat for Agricultural Investment Company whose objective is to develop feed supplies within and outside the Kingdom of Saudi Arabia.

On 25 Jumada I 1428 (11 June 2007) the Council of Ministers licensed the consortium led by Zain (formerly Mobile Telecommunication Company in Kuwait - MTC) to operate the Kingdom's third mobile phone network. The Zain led consortium, in which the Company will have a participating interest of 2.5% after the planned IPO from 9 to 18 February 2008, won the bid with an offer of SAR 22.9 billion. On 23 July 2007 Almarai Company paid SAR 464 million into escrow accounts as its contribution to the Zain led consortium, of which SAR 354 million was to purchase equity and SAR 110 million was to fund a shareholders' loan.

Details of the subsidiary companies are as follows:

Name of Subsidiary	Country of Incorporation	Direct and Beneficial Ownership Interest	
		2007	2006
Western Bakeries Company Limited	Kingdom of Saudi Arabia	100%	-
International Baking Services Company Limited	Kingdom of Saudi Arabia	100%	-
Arabian Planets for Trade and Marketing L.L.C.	Sultanate of Oman	90%	90%
Almarai Company Bahrain W.L.L.	Kingdom of Bahrain	100%	100%

## 2. Basis of Accounting, Preparation, Consolidation & Presentation of Consolidated Financial Statements

- (a) The 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 Organisation for Certified Public Accountants (SOCPA).
- (b) The statutory records are maintained in Arabic.
- (c) When necessary, prior year comparatives have been regrouped or adjusted on a basis consistent with current year classification. Any adjustments are considered immaterial in the context of these consolidated financial statements.
- (d) 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.
- (e) The figures in these consolidated financial statements are rounded to the nearest thousand.



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### **3. Significant Accounting Policies**

#### **A. Use of Estimates**

The preparation of consolidated 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 period. 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 recognised on delivery of products to customers by the Group 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 realisable 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 realisable 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. Property, Plant and Equipment

Property, plant and equipment 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 property, plant and equipment 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 property, plant and equipment 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 property, plant and equipment 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 Income Statement.

Except for goodwill, 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 recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately in the Consolidated Income Statement.

## H. Conversion of Foreign Currency Transactions

During the financial period 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 Income Statement as appropriate.

## 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 Labour 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.



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#### **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 and 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 and 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 period in which such assessments are made.

#### **M. Operating Leases**

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

#### **N. Investments in Securities**

Investments in securities are measured and carried in the Consolidated Balance Sheet at fair value. Where there is no market for the Investments cost is taken as the most appropriate, objective and reliable measurement of fair value of the securities.

#### **O. Hedging**

Forward foreign exchange contracts are entered into to hedge exposure to changes in currency rates on purchases and other expenditures of the Group.

Interest rate swap agreements are entered into to hedge the exposure to interest rate changes of the Group's borrowings.

Forward purchase commodity contracts are entered into to hedge exposure to changes in price of commodities used by the Group.

All hedges are expected to be in the range of 80 – 125% effective and are assessed on an ongoing basis. All hedges are treated as cash flow hedges and gains / losses at market valuation are recorded as derivative financial instruments in the Consolidated Balance Sheet and taken to other reserves in equity. When the hedging instrument matures or expires any associated gain or loss in other reserves is reclassified to the Consolidated Income Statement, or the underlying asset purchased that was subjected to the hedge.

#### 4. Business Combination

##### Acquisition of Western Bakeries Company Limited and its Subsidiary International Baking Services Company Limited (together, "the Subsidiaries")

On 30 Muharram 1428 A.H. (18 February 2007), the Company acquired 100% of the share capital of Western Bakeries Company Limited, a company engaged in the production of bread and other bakery items, and its subsidiary company International Baking Services Company Limited, a company engaged in the wholesale and retail trading in food stuff, bakery machinery and equipment and cooked and non-cooked food catering for a purchase consideration of SAR 708 million. These consolidated financial statements include the results of the Subsidiaries for the period from 1 January 2007 as the Company effectively obtained control of the Subsidiaries from that date.

The fair value of the identifiable assets and liabilities of the Subsidiaries as at the date of acquisition were as follows:

	Recognised Values on Acquisition SAR '000	Fair Value Adjustments SAR '000	Carrying Value SAR '000
Fixed Assets	197,366	-	197,366
Inventories	22,645	(5,019)	27,664
Receivables and Prepayments	34,593	(3,334)	37,927
Bank Balances and Cash	9,275	-	9,275
	<u>263,879</u>	<u>(8,353)</u>	<u>272,232</u>
Payables and Accruals	25,233	-	25,233
Short Term Loans	33,224	-	33,224
Long Term Loans	42,750	-	42,750
Employees' Termination Benefits	3,291	-	3,291
	<u>104,498</u>	<u>-</u>	<u>104,498</u>
Fair Value of Net Assets	159,381	(8,353)	167,734
Goodwill Arising on Acquisition	548,636		
Total Acquisition Cost	<u>708,017</u>		
<b>Total Acquisition Cost:</b>			
Shares Issued, at Fair Value	702,000		
Costs Associated with the Acquisition	6,017		
Total	<u>708,017</u>		
<b>Cash Inflow on Acquisition:</b>			
Net Cash Acquired with the Subsidiaries	9,275		
Cash Paid	(1,695)		
Net Cash Inflow	<u>7,580</u>		

The total acquisition cost of SAR 708 million comprised an issue of shares and costs directly attributable to the combination. The Company issued 9 million ordinary shares with a fair value of SAR 78 each, being the published price of the shares of the Company at the date of exchange.

The goodwill is attributable to the Subsidiaries' strong positions in their markets and the projected cash flows expected to arise after acquisition by the Company.



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2007  
SAR '000

2006  
SAR '000

### 5. Cash and Bank Balances

Cash at Bank	108,617	36,330
Cash in Hand	29,358	31,696
Total	<u>137,975</u>	<u>68,026</u>

### 6. Receivables and Prepayments

Net Accounts Receivable	252,317	149,977
Prepayments	150,185	71,123
Total	<u>402,502</u>	<u>221,100</u>

### 7. Inventories

Raw Materials	592,654	344,357
Work-in-Progress	18,500	6,311
Finished Goods	122,419	80,615
Total	<u>733,573</u>	<u>431,283</u>

### 8. Investments and Financial Assets

Jannat for Agricultural Investment Company - 10%	7,000	-
Zain Equity Investment (Company Under Formation)	354,487	-
Share of Zain Subordinated Funding Shareholders' Loan	109,587	-
	<u>471,074</u>	<u>-</u>

## 9. Property, Plant and Equipment

	Land & Buildings	Plant, Machinery & Equipment	Motor Vehicles	Dairy Herd	Young Stock	Capital Work-in-Progress	Total
	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000
<b>Cost</b>							
At 1 January 2007	1,116,890	1,798,203	408,338	312,286	122,924	593,145	4,351,786
Acquisition of Subsidiaries	60,207	157,100	63,754	-	-	37,594	318,655
Additions during 2007	35,611	72,291	20,373	-	141,400	829,521	1,099,196
Livestock Appreciation	-	-	-	-	165,807	-	165,807
Transfers during 2007	227,723	354,469	72,609	215,915	(215,915)	(654,801)	-
Disposals during 2007	(8,686)	(28,528)	(28,505)	(98,441)	(32,693)	-	(196,853)
At 31 December 2007	1,431,745	2,353,535	536,569	429,760	181,523	805,459	5,738,591
<b>Accumulated Depreciation</b>							
At 1 January 2007	221,643	780,495	195,140	108,698	-	-	1,305,976
Acquisition of Subsidiaries	26,476	71,607	23,206	-	-	-	121,289
Disposals during 2007	(7,360)	(25,126)	(27,196)	(36,649)	-	-	(96,331)
Charges for 2007	45,827	192,403	77,298	50,997	-	-	366,525
At 31 December 2007	286,586	1,019,379	268,448	123,046	-	-	1,697,459
<b>Net Book Value</b>							
At 31 December 2007	1,145,159	1,334,156	268,121	306,714	181,523	805,459	4,041,132
At 31 December 2006	895,247	1,017,708	213,198	203,588	122,924	593,145	3,045,810



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## 10. Impairment Testing of Intangible Assets - Goodwill

Goodwill acquired through business combination (Note 4) has been allocated to Western Bakeries Limited and International Baking Services Limited ("the Subsidiaries") for impairment testing. These also represent a reporting segment.

The carrying amount of goodwill allocated to the Subsidiaries was SAR 548.6 million as at 31 December 2007.

Assets are tested for impairment by comparing the residual carrying amount of each cash-generating unit to the recoverable amount which has been determined based on a value in use calculation using cash flow projections based on financial forecasts approved by senior management covering a five-year period. The discount rate applied to cash flow projections is 12% and the residual value at the end of the forecast period has been calculated using the times earning multiple at acquisition multiplied by the net profit of the final year in the forecast period.

### Key Assumptions Used in Value in Use Calculations

Management determined forecast sales growth and gross margin based on past performance and its expectations of market development. The discount rates reflect management's estimate of the specific risks relating to the segment. Estimates for raw material price inflation have been made based on the publicly available information in the Kingdom of Saudi Arabia and past actual raw material price movements, which have been used as an indicator of future price movements. Growth rates are based on the industry averages.

The calculation of value in use is most sensitive to the assumptions on sales growth rate and raw materials price inflation used to extrapolate cash flows beyond the budget period.

### Sensitivity to Changes in Assumptions

With regard to the assessment of the value in use, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount. The implications of the key assumptions are discussed below.

#### (a) Sales Growth Assumption

The current sales growth is 34% and in the forecast period has been estimated to be a compound annual growth of 20%. All other assumptions kept the same; a reduction of this growth rate to 12% would give a value in use equal to the current carrying amount.

#### (b) Raw Material Price Inflation

The three main ingredients used are white cheese, margarine and flour. In the forecast projections, management have prudently provided a 15% per annum increase in white cheese and margarine and a 10% increase in flour per annum from year 3 onwards. With all these increases taken into account, cost of sales represents 37% of sales in the forecast projections. An increase in cost of sales to 54% of sales would give a value in use equal to the current carrying amount.

	2007 SAR '000	2006 SAR '000
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## 11. Loans

Saudi Industrial Development Fund	544,280	411,030
Saudi Arabian Agricultural Bank	16,638	19,099
Islamic Banking Facilities (Murabaha)	2,030,858	958,077
Total	2,591,776	1,388,206

A. The borrowings from the Saudi Industrial Development Fund (SIDF) are secured as follows:  
 (i) in respect of borrowings amounting to SAR 453.9 million for 31 December 2007 and SAR 394.9 million for 31 December 2006 by a mortgage on specific assets;  
 (ii) in respect of borrowings amounting to SAR 16.2 million for 31 December 2006 by a bank payment guarantee, whereas no payment guarantee was given for the year ended 31 December 2007.

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 Group.

D. Maturity of Financial Liabilities:

Less than one year	182,348	110,781
One to two years	871,932	850,569
Two to five years	1,409,050	302,856
Greater than five years	128,446	124,000
Total	2,591,776	1,388,206

The Islamic banking facilities (Murabaha) with a maturity period of less than two years are predominantly of a revolving nature.

During 2007 the Group restructured SAR 1.7 billion of commercial loan facilities, at commercially more attractive costs, into medium to long-term loans with maturities of between three to five years. At 31 December 2007 SAR 352 million of these facilities were unutilised and available for draw down.

At 31 December 2007, the Group had SAR 321 million of unutilised SIDF facilities available for draw down with maturities predominantly greater than five years.



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	2007	2006
	SAR '000	SAR '000

### 12. Payables and Accruals

Accounts Payable	361,796	234,108
Accrued Expenses	195,513	156,569
Zakat	18,028	12,701
Total	575,337	403,378

### 13. Share Capital

The Company's share capital at 31 December 2007 and 31 December 2006 was SAR 1,090 million and SAR 1,000 million, consisting of 109 million fully paid and issued shares of SAR 10 each and 100 million fully paid and issued shares of SAR 10 each respectively.

On 8 Rabi I 1428 A.H. (27 March 2007), the Company issued 9 million shares to the owners of the Western Bakeries Company Limited and its subsidiary International Baking Services Company Limited, on acquisition of the same (Note 4), and as a result the share capital of the Company increased from 100 million fully paid and issued shares of SAR 10 each to 109 million fully paid and issued shares of SAR 10 each.

### 14. Statutory Reserve

In accordance with its Articles of Association and the regulations for Companies in the Kingdom of Saudi Arabia, the Group 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.

### 15. Other Reserves

Included in this reserve are fair value changes on available for sale investments and gains or losses on valuing hedging instruments (treated as cash flow hedges) to market values. When the hedging instrument matures or expires any associated gain or loss in other reserves is reclassified to the consolidated Income Statement, or the underlying asset purchased that was subject to the hedge.

## 16. Segmental Reporting

The Group's principal business activities involve manufacturing and trading of dairy products, fruit juices, dairy and non-dairy foods, bakery products and investing activities. Selected financial information as of 31 December 2007 and 2006 and for the years then ended categorised by these business segments, are as follows:

	Dairy, Fruit Juices & Related Foods	Bakery Products	Investing Activities	Total
	SAR '000	SAR '000	SAR '000	SAR '000
<b>2007</b>				
Sales	3,401,038	368,795	-	3,769,833
Depreciation	(193,305)	(34,379)	-	(227,684)
Net Income	595,297	74,798	(2,826)	667,269
Total Assets	4,906,488	958,268	471,074	6,335,830
Total Liabilities	(2,637,923)	(173,052)	(471,074)	(3,282,049)
<b>2006</b>				
Sales	2,756,935	-	-	2,756,935
Depreciation	(173,762)	-	-	(173,762)
Net Income	464,728	-	-	464,728
Total Assets	3,771,909	-	-	3,771,909
Total Liabilities	(1,873,686)	-	-	(1,873,686)

The business activities and operating assets of the Group are mainly concentrated in GCC countries, and selected financial information as at 31 December 2007 and 2006 and for the years then ended, categorised by these geographic segments are as follows:

	Sales	Non-Current Assets
	SAR '000	SAR '000
<b>2007</b>		
GCC	3,741,105	5,060,842
Other Countries	28,728	-
Total	3,769,833	5,060,842
<b>2006</b>		
GCC	2,737,724	3,045,810
Other Countries	19,211	-
Total	2,756,935	3,045,810

Analysis of Sales is given by Product Group as shown below:

	2007	2006
	SAR '000	SAR '000
Fresh Dairy	1,977,117	1,648,265
Long Life Dairy	310,704	251,286
Fruit Juice	340,274	206,502
Cheese & Butter	741,581	629,630
Bakery Products	368,795	-
Other	31,362	21,252
Total	3,769,833	2,756,935



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2007  
SAR '000

2006  
SAR '000

### 17. Cost of Sales

Direct Material Costs	1,601,895	1,170,584
Employee Costs	244,076	189,043
Depreciation	287,086	239,120
Livestock Appreciation	(165,807)	(132,419)
Loss on Disposal of Livestock	37,543	18,780
Other Expenses	271,702	197,154
Total	<u>2,276,495</u>	<u>1,682,262</u>

### 18. Selling and Distribution Expenses

Marketing Expenses	190,603	138,963
Employee Costs	249,680	186,812
Depreciation	70,924	41,377
Other Expenses	58,942	56,029
Total	<u>570,149</u>	<u>423,181</u>

### 19. General And Administration Expenses

Insurance	18,070	12,742
Employee Costs	101,067	75,858
Depreciation	8,515	7,625
Profit on Disposal of Other Fixed Assets	(10,577)	(721)
Other Expenses	25,376	21,256
Total	<u>142,451</u>	<u>116,760</u>

2007  
SAR '000

2006  
SAR '000

## 20. 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	685,878	478,817
Disallowed Expenses:		
Accrual for Employees' Termination Benefits	26,822	22,716
Other Provision	10,460	6,518
Net Income for Zakat Purposes	<u>723,160</u>	<u>508,051</u>
Zakat Charge @ 2.5%	18,079	12,701
Adjustment in respect of prior year provision	-	986
Charged to Consolidated Statement of Income	<u>18,079</u>	<u>13,687</u>

### B. Zakat Provisions

Balance at 1 January	12,701	10,237
Transfer of Western Bakeries Company Limited and International Baking Services Company Limited Zakat Provision 1 January 2007	1,250	-
Charged to Consolidated Statement of Income	18,079	13,687
Payments	<u>(14,002)</u>	<u>(11,223)</u>
Balance at 31 December	<u>18,028</u>	<u>12,701</u>

C. The Company has paid its Zakat liabilities for all years up to 31 December 2006 and has obtained Zakat Certificates in respect of the years then ended. The final assessments up to 2004 have been agreed with the DZIT and the final assessment for 2005 and 2006 are to be received. The Company has answered all enquiries from the DZIT for the years 2005 and 2006.



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## 21. Earnings Per Share

Earnings per Share are calculated on the total number of issued shares at 31 December 2007 and 31 December 2006 amounting to 109 million shares and 100 million shares respectively.

On 8 Rabi I 1428 A.H. (27 March 2007), the Company issued 9 million shares to the owners of the Western Bakeries Company Limited and its subsidiary International Baking Services Company Limited, on acquisition of the same (Note 4), and as a result the share capital of the Company increased from 100 million fully paid and issued shares of SAR 10 each to 109 million fully paid and issued shares of SAR 10 each.

## 22. Depreciation

	2007 SAR '000	2006 SAR '000
<b>Livestock</b>		
Depreciation of Dairy Herd	50,997	58,365
Livestock Appreciation	(165,807)	(132,419)
Net Livestock Appreciation	(114,810)	(74,054)
Depreciation of Property, Plant and Equipment	315,528	229,757
Loss on the Disposal of Livestock	37,543	18,780
Profit on the Disposal of Property, Plant and Equipment	(10,577)	(721)
Total Depreciation	227,684	173,762
<b>(Profit)/Loss on the Disposal of Assets</b>		
<b>Livestock</b>		
Proceeds from Disposal of Livestock	(56,942)	(42,253)
NBV of Dairy Herd Cows Disposed	61,792	39,204
NBV of Youngstock Disposed	32,693	21,829
Loss on the Disposal of Livestock	37,543	18,780
<b>Fixed Assets</b>		
Proceeds from the Disposal of Property, Plant and Equipment	(16,614)	(11,950)
NBV of Assets Disposed	6,037	11,229
Profit on the Disposal of Property, Plant and Equipment	(10,577)	(721)

## 23. Financial Instruments

Financial instruments carried on the Consolidated Balance Sheet include cash and bank balances, trade and other accounts receivable, derivative financial instruments, investments in securities, loan advances, 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 trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. Trade and other account receivables are mainly due from local customers and related parties and are stated at their estimated realisable values. The receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. With respect to credit risk arising from other financial assets of the Group comprising of cash and cash equivalents, investments in securities and loan advances, the Group's exposure to credit risk arises from default of the counterparty, with maximum exposure equal to the carrying amount of these instruments. Cash and bank balances are placed with national and international banks with sound credit ratings. All derivative financial instruments form part of effective cash flow hedges.

**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. Islamic banking facilities (Murabaha) amounting to SAR 2,030.9 million and SAR 958.1 million at 31 December 2007 and 31 December 2006 respectively 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 11.

**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 Euro. 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:

	2007 SAR '000	2006 SAR '000
Euro	532,632	239,545
United States Dollar	-	101,226
British Pound	60,911	27,602
Other	7,971	20,890
Total	601,514	389,263

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



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**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.

#### **Derivative Financial Instruments and Hedging**

At 31 December 2007 the Group had three interest rate swap agreements in place covering total notional amounts of SAR 300 million and US\$ 53.3 million. At 31 December 2006 the Group had two interest rate swap agreements in place covering total notional amounts of SAR 200 million and US\$ 53.3 million. The swaps result in the Group receiving floating 6 month SIBOR and US\$ LIBOR rates while paying fixed rates of interest. The swaps are being used to hedge the exposure to interest rate changes of the Group's borrowings. The borrowings and associated interest rate swaps have the same critical terms.

At 31 December 2007 and 2006 the Group has various forward foreign exchange contracts that were designated as hedges to cover purchases and other expenditures in a variety of foreign currencies.

At 31 December 2006 the Group had forward purchase commodity contracts designated as hedges against the purchase of animal feeds.

All derivative financial instruments are being used as cash flow hedges and are carried in the balance sheet at fair value. All cash flow hedges are either against transactions with firm commitments, or forecast transactions that are highly probable.

All 2007 hedges were considered highly effective and the net loss on cash flow hedges during the year recognised in Other Reserves within equity was SAR 9.1 million (2006: net gain of SAR 4.8 million). During the year net gains reclassified to the income statement were SAR 4.8 million (2006: SAR nil).

## **24. Commitments and Contingencies**

- A. The contingent liabilities against letters of credit were SAR 73.2 million and SAR 52.9 million for 31 December 2007 and 31 December 2006 respectively.
- B. The contingent liabilities against letters of guarantee were SAR 13.4 million and SAR 33.6 million for 31 December 2007 and 31 December 2006 respectively.
- C. The Company had capital commitments to SAR 647.4 million and SAR 475.8 million for 31 December 2007 and 31 December 2006 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:

	2007 SAR '000	2006 SAR '000
Within one year	45,958	35,676
Two to five years	56,831	69,260
After five years	100,383	13,094
<b>Total</b>	<b>203,172</b>	<b>118,030</b>

## 25. Directors Remuneration

The Directors' fees paid to the Board of Directors for years ending 31 December 2007 and 31 December 2006 amounted to SAR 2.1 million for each year.

## 26. Related Party Transactions

During the normal course of its operations, the Group had the following significant transactions with related parties during the year ended 31 December 2007 and 31 December 2006:

Related Party Relationship	Nature of Transaction	Amount SAR '000	Balance at 31 December SAR '000
<b>2007</b>			
Common Shareholders / Owners	Sales	(105,527)	15,621
Common Shareholders / Owners	Purchases	173,552	(36,582)
<b>2006</b>			
Common Shareholders / Owners	Sales	(80,390)	10,420
Common Shareholders / Owners	Purchases	100,295	(26,603)

The Common Shareholders / Owners noted above include the Savola Group, Arabian Shield Insurance Company and ARASCO Feed Mills whose major shareholders are also major shareholders of the Company. Also included are Managed Arable Farms and Nofa Equestrian Resort whose owners are major shareholders of the Company.

Pricing and terms of payment for these transactions are at arms length.



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## ***27. Dividends Paid***

On 8 Rabi I 1428 A.H. (27 March 2007), the General Assembly Meeting approved a dividend of SAR 200 million (SAR 2 per share) for the year ended 31 December 2006, which was paid on 22 Rabia I 1428 A.H. (10 April 2007).

## ***28. Dividends Proposed***

The Board of Directors, on 13 Muharram 1429 A.H. (21 January 2008), proposed for approval at the General Assembly Meeting a dividend for the year ended 31 December 2007 of SAR 272.5 million (SAR 2.5 per share).

## ***29. 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.

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