QUALITY
YOU CAN TRUST
QUALITY YOU CAN TRUST
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Quality You Can Trust

Almarai Company
2008
Annual Report

2008 at a glance

▲ 33.4% Sales	▲ 35.9% Operating Profit	▲ 36.4% Net Profit / EPS
▲ 18.5% Shareholders' Equity	▲ 16.4% Market Capitalisation	▲ 26.2% No of Employees

SALES
Increased by 33.4% from SAR 3,769.8 million to SAR 5,029.9 million.

NET PROFIT
Increased by 36.4% from SAR 667.3 million to SAR 910.3 million.

CAPITAL EXPENDITURE
The Board of Directors approved a capital investment plan estimated at SAR 6.0 billion for the 5 years starting 2009 until 2013. 2008 capital expenditure was SAR 1,655.6 million.

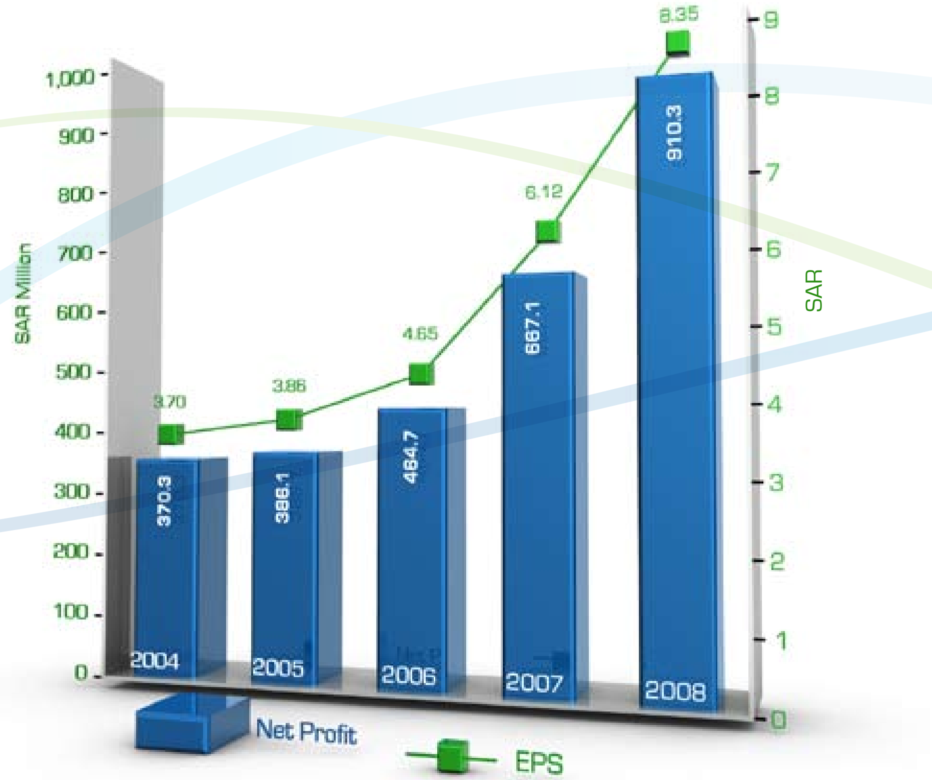
PRODUCTION FACILITIES
Increased the factory foot print by 20% to 171,550 square metres. Increased Al Danah capacity to 22,000 milking cows and 20,000 young stock.

PRODUCTS
Launched and developed more than 12 products.

CONSUMERS
Almarai serving 42,000 customers throughout the GCC and Western Bakery serving 27,500 customers.

EMPLOYEES
Almarai employs 11,998 of whom approximately 1,750 are GCC nationals.

Net Profit and Earnings Per Share (EPS)



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chairman's statement

Year after year Almarai continues its successes in all aspects, and this is due to the blessings from the Almighty Allah. 2008 has been another great year contributing to achieve a 29% sales compounded annual growth rate for the past five years.

In 2007, Almarai doubled its 2004 performance, and 2008 saw this trend continuing by more than doubling the sales and net profit of 2005, ending with total sales of more than SAR 5.0 billion and a net profit of SAR 910.3 million.

This aggressive growth is the culmination of continuing investments and efforts to meet consumer demand with high-quality products to strengthen the company's position among its competitors in the Saudi market, as well as the Arab and Middle Eastern markets.

2008 witnessed vertical and horizontal growth in the activities of the company by a series of investments inside and outside the Kingdom with the objective to expand the scope of Almarai's services. The company continues to invest in storage and distribution capacities, the new Riyadh North depot with modern technologies and equipment is an example of this.

In 2007, Almarai acquired Western Bakeries Company Limited, known for its trademark "L'usine", to expand its product range. To continue with the strategy of becoming the leading food company in the Middle East, the company submitted a formal offer to Hail Agriculture Development Company (HADCO) on November 2008 to acquire 100% of its outstanding share capital in exchange for new shares to be issued by Almarai in the ratio of one new Almarai share for every six HADCO shares. This equates to the issuance of five million new Almarai shares to HADCO shareholders.

Almarai has set in action its strategy to grow geographically in the Middle East countries by initiating the 100% acquisition of Beyti, an Egyptian dairy and juice company, and the 75% of Teeba, a Jordanian dairy and juice company. We are confident that with such investments, organised expansion plans and our quality products, we will be able to further solidify our position as the pioneer in national and international markets.

Almarai will maintain an on-going capability to meet consumer expectations by offering high quality products that are healthy and reasonably priced. In addition, it will continue to attract qualified team members and train them to develop bridges of communications, trust and mutual loyalty.

The Board of Directors is committed to the continued success of Almarai, meet Shareholders' expectations and consumer needs. We are dedicated to what our brand stands for: "Quality You Can Trust".

Sultan Bin Mohammed Bin Saud Al Kabeer

المراعي
Almarai
Quality You Can Trust

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 decentralised to a centralised structure. The first Central Processing Plant was commissioned replacing 5 decentralised plants. Almarai also established four large dairy farms in the central area replacing ten decentralised small farms. This investment phase created the base for Almarai to becomes a 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 was commissioned and a second one is currently under construction. Today we are capable of serving high quality products to more than 42,000 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 60,000 shareholders.

With the acquisition of Western Bakeries in 2007, the product range was expanded to include a range of bakery products, in addition to the existing range of fresh and long-life dairy products. During 2008, we have announced plans to extend our geographic reach, with acquisition proposals for Jordan and Egypt under negotiation, and extend our product range further with the offer to acquire HADCO.

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.

The combination of all of these actions has led to results in 2008 exceeding all expectations, with Almarai generating a profit of SAR 910.3 million from a turnover of SAR 5,029.9 million.

board of directors' report

Almarai has weathered the storm of increased commodity prices and the credit crunch to deliver industry leading sales and net income growth in 2008.

The Company achieved record sales of SAR 5,029.9 million and a net income of SAR 910.3 million, a significant increase of 33.4% and 36.4%, respectively over the previous year's figures. These results bear testament to Almarai's brand strength, innovation and execution.

2008: A Year of Growth

Under the Almarai brand, we continue to grow as the preferred choice of the consumer of all ages. We achieved significant growth in turnover across all our product categories: Fresh Dairy grew by 25.2%, Long-Life Dairy by 59.5%, Fruit Juice by 42.4%, Cheese and Butter by 38.7% and Bakery by 39.6%. Having absorbed direct material cost increases for a number of years the company was obliged to pass on some of these cost increases to the consumer. This growth has come from a combination of consumer knowledge, superior product and excellence in execution across all aspects of the business.

Our subsidiary, Western Bakeries, the leading producer and distributor for a wide variety of baked food products under the brand name L'usine, commenced roll out of sales to the rest of the GCC, first of all in Kuwait with the remainder of the GCC to follow in 2009. In 2008, the bakery products' contribution was significant, forming 10.2% of turnover. Going forward, expansion of this product range through new products, the joint venture Modern Food Industries and the new factory in the Central Region will give further impetus for growth.

The ambitious expansion of our distribution network has been a major contributor to our growth. We now operate 97 sales depots throughout the GCC. To service this growth, the number of distribution vehicles has increased. In addition, to ensure that fresh products are maintained in a chilled environment, additional fridges were placed in retail outlets.

During the second half of the year, Almarai announced its intention to grow the business geographically through the acquisition of 75% of the Teeba Investment for Development Food Processing Company (Teeba), a dairy and juice company in Jordan and a proposal to acquire 100% of the International Company for Agro Industrial Projects (Beyti), a dairy and juice company in Egypt. Plans were announced to grow our new product lines with the offer to acquire Hail Agricultural Development Company (HADCO). In addition, a full scale feasibility study to enter into the infant formula market is underway.

In order to expand and diversify investments, the Board of Directors has ratified a number of decisions, agreements, loan and facilities agreements, commitments and specially those concerning Almarai Company's participation in Zain Telecommunication Company and the agreement between Almarai Company and Almada Telecommunications Company for financing Almarai Company's share in Zain. Moreover, the Board has approved the Memoranda of Association and By-Laws of Zain and Almada Companies and ratified the loan agreement between Almarai Company and Almada Company.

We reiterate our commitment to continue to develop new products and seek new business opportunities by offering a wider range of improved products and services to our customers and consumers with the objective of increasing stakeholder value. The favourable and productive economic environment in Saudi Arabia and the rest of GCC and the visionary initiatives undertaken will ensure that, despite the world economic crisis, we 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 our 11,998 employees for their continued support, dedication and commitment to the development of the Company.

The Board of Directors
18th January 2009

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, Gulf Investment Company and Al Tayar Group. He is the Managing Director of Yamama Cement Company, Al Farabey Chemical Company Limited. 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. Founding member of the Saudi-Yemeni Cement Company. Honorary member President of Saudi Chest Medicine and Surgery Association, Saudi Physio-therapy Association, Saudi Cardiology Association and Saudi Association for Victims of Hypertension.

Ibrahim M. Alissa
Director
Holds a degree in Business Administration from Chapman University, California, USA. Chairman and Managing Director of Saudi Sodrorbau Company. He is a director of the Saudi Turkish Holding Investment Company, Banque Saudi Fransi, The Savola Group, Taiba Holding Company, Yanbu Cement Company, International Medical Center, French Bank for the East, Jeddah Company for Development, Civil Aviation Authority and a member of the Municipal Council of Jeddah.

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 and the Handicapped Society.

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 Company and Ashbal Al Arab Corporation. He is also a member of the board of the Faraby Al Khaleej Petrochemical Company, Zain Company, Kuwaiti-Sudanese Company and Kuwaiti-Chinese Company.

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 Company and Al Azizia Panda Company and Deputy Chairman of the United Sugar Company. He is also a board member of the Almarifa Company and Kinan Real Estate Company.

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, the Arcapita Bank, Bahrain, and the Al Jazeerah Press, Printing and Publication Company.

2008 key milestones

JANUARY
- Launch of Lactofree Milk
- Launch of Guava Juice

FEBRUARY

MARCH
- Launch of Sliced Cake
- Launch of Pound Cake

APRIL
- Launch of Trim Laban
- Became market leader in the Jar Cheese category

MAY

JUNE
- Revamp of 200ml Juice Carafe
- Zabadi sales exceed a record breaking 50% market share in KSA

JULY
- Custards pack update
- Labneh pack update

AUGUST
- Almarai entered into a non binding Memorandum of Understanding to acquire 100% of The International Company for Agro Industrial Projects (Beyti) in Egypt
- Almarai entered into a non binding Memorandum of Understanding to acquire 75% of Teeba company in Jordan

SEPTEMBER

OCTOBER
- Launch of Toffee Cup Cake

NOVEMBER
- Launch of 150ml UHT Flavoured Milk
- Almarai makes an offer to acquire Hail Agriculture Development Company (HADCO)

DECEMBER
- Major renovation and relaunch of new Gold Jar Cheese

management discussion and analysis

Our sales and net income for 2008 amounted to SAR 5,029.9 million and SAR 910.3 million, which represents an increase of 33.4% and 36.4% respectively on the previous year.

Year 2008 was another excellent year in the history of Almarai. The year on year growth is mainly attributed to the strength of the Almarai brand, the quality of our products, the initiatives launched and improved marketing and distribution strategies.

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

Sales by Product Group (SAR Million)	Year ended 31 December 2008	2007	% Change
Fresh Dairy	2,474.6	1,977.1	25.2%
Long-Life Dairy	495.7	310.7	59.5%
Fruit Juice	484.5	340.3	42.4%
Cheese and Butter	1,028.2	741.5	38.7%
Bakery Products	514.8	368.8	39.6%
Others	32.1	31.4	2.5%
Total Sales	**5,029.9**	**3,769.8**	**33.4%**

Sales and EBIT* Margin %

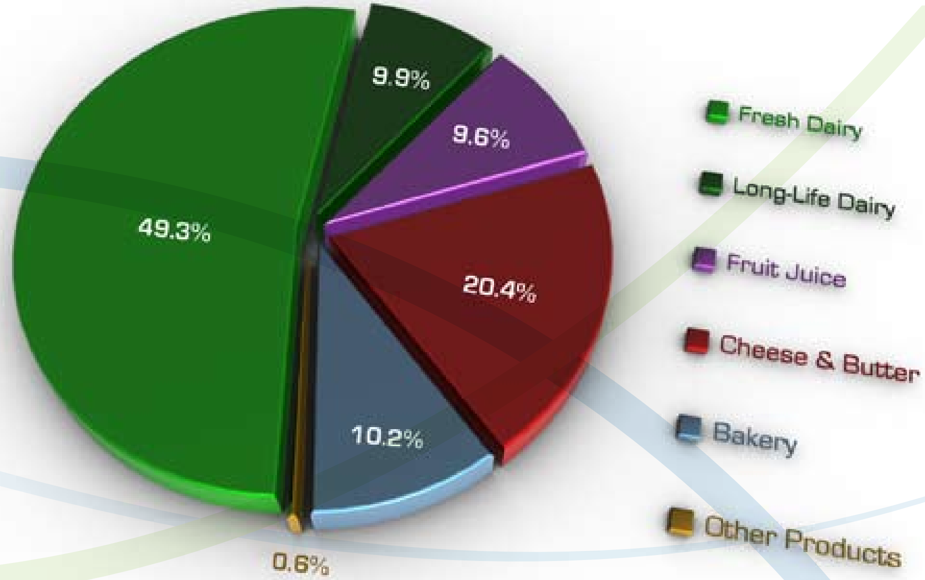
*Earning before bank charges and Zakat

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. 2008 saw the regions first diet orientated laban, "Trim", a fortified product mainly targeting the health and weight conscious. Ghiste, labneh and custard products underwent new packaging designs.

Sales for our fresh dairy products, the largest product category, amounted to SAR 2,474.6 million, which represents an increase of 25.2% on the prior year.

We continue to be the market leader in this product group in the GCC.



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 underwent a packaging change to a more convenient 150ml pack. The long life offering was expanded by the introduction of the 500ml pack size for plain milk. In addition, the regions first lactose free milk was launched, to help the lactose intolerant consumers enjoy Almarai quality milk without any complications.

Sales for Long-life dairy amounted to SAR 495.7 million, which represents an increase of 59.5% on the prior year.

Fruit Juice

Following on from the revitalisation of the product range in 2007, fruit juice products have continued their phenomenal growth with exciting new flavours (Guava and Lemon), improved recipes and fresh packaging, giving us a competitive advantage and increasing our market share across the GCC.

Sales for Fruit Juice amounted to SAR 484.5 million, which represents an increase of 42.4% on the prior year.

Cheese and Butter

Although a portion of the dairy commodity cost increases were passed on to the consumer, sales of Cheese and Butter remained strong. As part of our continuous product improvement programme, a number of the products have been updated with improved recipes and packaging to increase our competitive advantage.

Sales for Cheese and Butter amounted to SAR 1,028.2 million, which represents an increase of 38.7% on the prior year.

Bakery Products

This relatively young product group for the Almarai food basket, has shown significant growth as a result of new packaging, flavours and products. During 2008, waffles, slices, pound cakes and toffee flavoured cup cakes were launched.

Sales for Bakery Products amounted to SAR 514.8 million, which represents an increase of 39.6% on the prior year.

Operating Costs

The Direct Material Costs increase of 38.9% reflects the increase in world commodity prices and the fluctuation of foreign currencies, as well as the volume increase of 19.0%.

Increases in world commodity prices for all raw materials has adversely affected Almarai in 2008. The direct government subsidies of SAR 17.6 million were a small compensation for the explosion of the input costs seen in 2008. The increase in dairy commodity prices is a reflection of increased world demand, compounded by insufficient supply and low inventory levels. Packaging cost increases were primarily driven by high petrochemical prices. In addition, the weakening of the Saudi Riyal against the Euro had an additional negative impact on imported goods. The adjacent tables detail the dramatic increase in some of these costs.

In keeping with our policy of offering value to consumers we try to avoid passing on cost increases whenever possible and to reduce their impact by alternative sourcing or by other methods. However, the scale of cost increases in 2007 and 2008 were such that these had to be partially passed on to the consumer in most product categories. Although these costs have eased towards the end of 2008, the effect on our cost structure will not be seen until the middle of 2009.

Operating Costs (SAR Million)	Year ended 31 December 2008	2007
Direct Material Costs	2,225.1	1,601.9
Other Cost of Sales	805.8	674.6
Selling and Distribution Expenses	750.9	570.1
General and Administration Expenses	187.1	142.5
Total Operating Costs	**3,968.9**	**2,989.1**

Increase in Input cost from 2003 - 2008: Description	Increase
Feed Costs per litre	28% to 34%
Cheese and Butter	102% to 164%
Resin LDPE / HDPE	147% to 158%
EURO versus SAR	33%

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

Operating Costs (SAR Million)	Year ended 31 December 2008	% of Sales	2007	% of Sales
Direct Material Costs	2,225.1	44.2%	1,601.9	42.5%
Employee Costs	746.7	14.8%	594.8	15.8%
Operating Overheads	459.0	9.1%	356.0	9.4%
Marketing Expenses	247.3	4.9%	190.6	5.1%
Insurance	20.9	0.4%	18.1	0.5%
Depreciation and Amortisation	269.9	5.4%	227.7	6.0%
Total Operating Costs	**3,968.9**	**78.9%**	**2,989.1**	**79.3%**

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 property plant and equipment increased by SAR 63.4 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 2008	2007
Customs duty	68.2	55.6
Zakat	19.9	14.0
G.O.S.I.	18.7	17.4
Ministry Costs	21.8	14.2
Others	7.6	6.3
Total Payments to Government Agencies	**136.2**	**107.5**

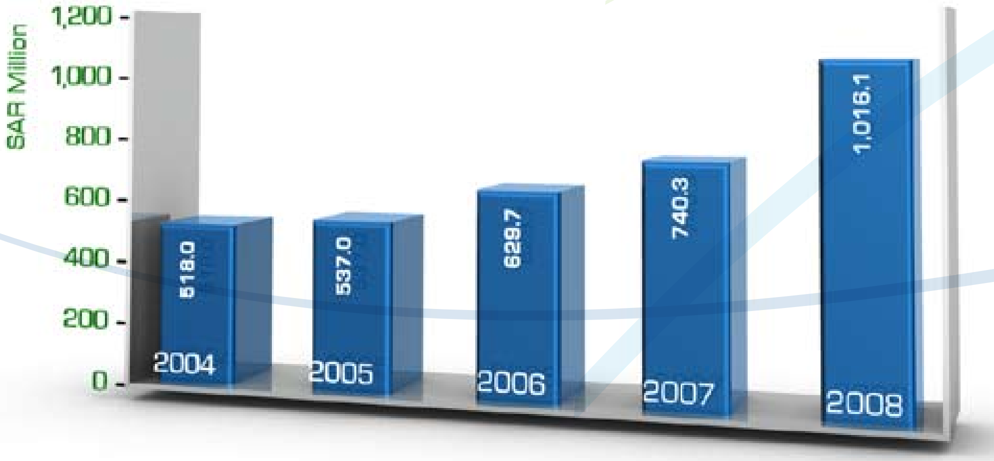
Net Income

Net income increased from SAR 667.3 million in 2007 to SAR 910.3 million in 2008. Net income as a percentage of sales increased from 17.7% to 18.1%.

Cash Flows

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

Cash Flows From Operating Activities 2004 - 2008



Cash Flow Statement (SAR Million)	Year ended 31 December 2008	2007
From Operating Activities	1,016.1	740.3
Used in Investing Activities	(1,572.1)	(1,488.2)
From Financing Activities	664.6	817.8
Increase / (Decrease) in Cash	108.6	69.9
Cash at Beginning of Period	138.0	68.0
Cash at End of Period	**246.6**	**137.9**

Cash Flows from Operating Activities (SAR Million)	Year ended 31 December 2008	2007
Net Income	910.3	667.3
Depreciation and Amortisation	269.9	227.6
Bank Charges	125.5	94.9
Change in Employees' Termination Benefits	23.1	19.5
Share of Minority Interest in Net Income of a Consolidated Subsidiary	0.5	0.5
Net Changes in Working Capital	(313.2)	(269.5)
Net Operating Cash Flows	**1,016.1**	**740.3**

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.

The increase in world commodity prices together with high stock cover requirements, have had a negative impact on our inventory levels and consequent additional working capital of SAR 313.2 million.

The high level of capital expenditure in 2008 reflects the ongoing investment in our farming, production and distribution facilities.

Investing Cash Flows (SAR Million)	Year ended 31 December 2008	2007
Capital Expenditure	(1,655.6)	(1,099.2)
Proceeds from Disposals	83.5	73.6
Acquisitions of Investments	-	(471.1)
Acquisitions / Disposals of Derivative Financial Assets	-	0.9
Acquistions / Disposals of Subsidiaries, Net of Cash Acquired	-	7.6
Net Investing Cash Flows	**(1,572.1)**	**(1,488.2)**

Dividends

For 2007, the General Assembly approved, on 27 March 2008, the distribution of a dividend of SAR 2.50 per share amounting to SAR 272.5 million.

For 2008 the Board of Directors is proposing the distribution of a dividend of SAR 3.50 per share amounting to SAR 381.5 million.

In the next few years our high level of investment may limit our ability to pay a high dividend to our Shareholders. Going forward, we will consider alternative dividend policy options, which are in the best interest of the Company and its Shareholders.

Whist our investment levels remain high, Almarai will target a dividend pay out ratio of 30% to 40%.

Cash Flows used in Financing Activities (SAR Million)	Year ended 31 December 2008	2007
Dividends Paid	(270.2)	(199.4)
Distribution to Minority Interest	(0.5)	(0.4)
Borrowings from state financial Institutions		
Repayments	(62.5)	(48.2)
Receipts	67.0	140.5
Borrowings from Islamic banking facilities (Murabaha)		
Repayments	(119.9)	(61.5)
Receipts	1,167.7	1,096.8
Net Movement on Commercial Borrowings		
Bank Charges	(125.5)	(94.9)
Deffered Charges	(5.5)	(15.1)
Minority Interest share in Modern Food Industries	14.0	-
Net Investing Cash Flows	**664.6**	**817.8**

Zakat

Zakat is charged at the higher of net adjusted income or Zakat base as required by the Saudi Arabian Zakat Regulations. In the current year, the Zakat charge is based on the net income method.

The Company has filed its Zakat returns for all the years up to 2007 and settled its Zakat liabilities accordingly. The Zakat assessments have been agreed with the Department of Zakat and Income Tax (DZIT) for all the years up to 2006 while the 2007 Zakat return is still under review by the DZIT.

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 borrowings from SIDF is typically lower than borrowings from commercial banks and is not subject to commission rate risk.

Recognising the need for further finance to fund organic growth and acquisitions, the company secured an additional SAR 1,700.0 million of commercial loan (Murabaha) facilities and an additional SAR 327.7 million of SIDF facilities with a maturity of between three to five years.

The commission rate of more than 50% of these borrowings is on a fixed rate basis.

As at 31 December 2008, SAR 1,729.8 million and SAR 581.4 million of commercial loan facilities and SIDF facilities respectively were unutilised and available for drawdown. Bank charges increased from SAR 94.9 million to SAR 125.5 million mainly due to the increased level of borrowings.

Facilities and Utilisation

Board Meetings and Directors' Remuneration

During the year we held seven board meetings the majority of which were fully attended.

Directors Name and other Public Company Directorships	Independent or Not Independent	No of attendance
HH Prince Sultan bin Mohammed bin Saud Al Kabeer (Chairman of the Board of Almarai) Yamama Cement Company, Arabian Shield Insurance Company	Not Independent	7
Dr Sami Mohsen Baroom The Savola Group and Arabian Cement Company	Not Independent	7
Abdulrahman bin Abdulaziz Al Muhanna (Managing Director of Almarai) Saudi Fisheries Company	Not Independent	6
Mohammed Al Damer	Independent	6
Engr. Nasser Al Muttawa Arabian Shield Insurance Company	Independent	5
HH Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer Zain KSA	Not Independent	6
Dr. Majed M. Al Gassabi Red Sea Company	Independent	6
Ibrahim M. Alissa Banque Saudi Fransi, The Savola Group, Taibah for Investments, Yanbu Cement Company	Not Independent	7
Mosa Omran Al Omran The Savola Group, Arabian Cement Company, Banque Saudi Fransi	Not Independent	7

Movement in the shareholdings of the Board of Directors	No of Shares held at 31.12.2007	Changes during the year	No of Shares held at 31.12.2008	% of issued share capital
HH Prince Sultan bin Mohammed bin Saud Al Kabeer	33,000,000	-	33,000,000	30.275%
Abdulrahman bin Abdulaziz Al Muhanna	939,828	(89,828)	850,000	0.780%
HH Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer	1,000,000	-	1,000,000	0.917%
Mohammed Abdulrahman Al Damer	1,000	-	1,000	0.001%
Nasser Mohammed Al Muttawa	149,330	(6,000)	143,330	0.132%
Dr. Majed Abdullah Al Gassabi	1,210	-	1,210	0.001%
Ibrahim Mohammed Al Issa	1,000	-	1,000	0.001%
Mosa Omran Al Omran	901,000	256,563	1,157,563	1.062%
Sami Muhsin Ahmed Baroom	140	-	140	-
Total Number of Shares	**35,993,508**		**36,154,243**	**33.169%**

The Company's By-Laws stipulate that the appointment of Board members is by a majority vote at the General Assembly Meeting.

Related Party Transactions

During the normal course of its operations, the Company had the following significant transactions with related parties during the year ended 31 December 2008 and 31 December 2007 along with their balances:

Related Party Relationship (SAR Million)	Nature of Transaction	Amount	Balance at 31 December
2008			
Common Shareholders / Owners	Sales	(155.1)	31.4
Common Shareholders / Owners	Purchases	186.0	(46.4)
2007			
Common Shareholders / Owners	Sales	(113.3)	17.9
Common Shareholders / Owners	Purchases	183.6	(37.3)

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.

Segmental Reporting

The Group's principal business activities are divided into three segments namely manufacturing and trading of dairy products, fruit juices and related foods under the Almarai brand, manufacturing and trading of bakery products under the L'usine brand and investing activities. Selected financial information as of 31 December 2008 and 2007 and for the years then ended categorized by these business segments, are as follows:

SAR Million	Dairy, Fruit Juices and Related Food		Bakery Products		Investing Activities		Almarai Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007
Sales	4,515.1	3,401.0	514.8	368.8	-	-	5,029.9	3,769.8
Earnings before Depreciation, Amortisation, Bank Charges and Zakat	1,116.4	892.6	158.4	115.8	-	-	1,274.8	1,008.4
Depreciation and Amortisation	(169.3)	(193.3)	(44.5)	(34.4)	-	-	(213.8)	(227.7)
Earnings before Bank Charges and Zakat	947.1	699.3	113.9	81.4	-	-	1,061.0	780.7
Bank Charges	(107.1)	(87.5)	(4.8)	(4.6)	(13.6)	(2.8)	(125.5)	(94.9)
Zakat	(21.8)	(16.0)	(2.9)	(2.0)	-	-	(24.7)	(18.0)
Minority Interest	(0.6)	(0.5)	-	-	-	-	(0.6)	(0.5)
Net Income	817.6	595.3	106.2	74.8	(13.6)	(2.8)	910.3	667.3
Average NOA Net Operating Assets	4,993.6	3,779.1	966.2	832.6	480.2	235.6	6,440.1	4,847.2
Total Assets	6,556.3	4,906.5	1,135.7	958.3	489.3	471.1	8,181.3	6,335.8
Total Liabilities	(3,904.2)	(2,637.9)	(158.1)	(173.1)	(487.5)	(471.1)	(4,549.8)	(3,282.1)
RONOA Return on Net Operating Assets	19.0%	18.5%	11.8%	9.8%	-	-	16.5%	16.1%
RONOA without Goodwill	19.0%	18.5%	27.3%	28.7%	-	-	18.0%	18.2%
Number of Shares (in million)	100.0	100.0	9.0	9.0	-	-	109.0	109.0
Earnings Per Share in SAR	8.18	5.95	11.80	8.31	-	-	8.35	6.12

The business activities and operating assets of the Group are mainly concentrated in the GCC countries, and selected financial information as at 31 December 2008 and 2007, categorised by these geographic segments are as follows:

SAR Million	Sales 2008	Sales 2007	Non - Current Assets 2008	Non - Current Assets 2007
Saudi Arabia	3,453.6	2,653.2	6,332.8	5,029.3
Other GCC Countries	1,510.5	1,087.9	88.8	66.2
Other Countries	65.8	28.7	-	-
Total	**5,029.9**	**3,769.8**	**6,421.6**	**5,095.5**

Subsidiaries

Name of Subsidiary	Country of Incorporation	Business Activity	Direct and Beneficial Ownership Interest 2008	Direct and Beneficial Ownership Interest 2007	Shares Capital	Shares Issued
Western Bakeries Company Ltd.	Saudi Arabia	Bakery Company	100%	100%	SAR 100,000,000	100,000
International Baking Services Company Ltd.	Saudi Arabia	Trading Company	100%	100%	SAR 500,000	500
Almarai Company Bahrain S.P.C.	Bahrain	Sales Company	100%	100%	BHD 100,000	1,000
Almarai Holding Company W.L.L.	Bahrain	Holding Company	100%	-	BHD 250,000	2,500
Markley Holdings Limited	Jersey	Dormant	100%	100%	-	-
Arabian Planets for Trade and Marketing L.L.C.	Oman	Sales Company	90%	90%	OMR 150,000	150,000
Modern Food Industries Company Ltd.	Saudi Arabia	Bakery Company	60%	-	SAR 35,000,000	35,000

Geographic and Market Expansion

Almarai Company, through its subsidiary Almarai Holding Company W.L.L., entered into a definitive agreement on 16 December 2008 to acquire 75% of Teeba Investment for Developed Food Processing Company PSC ("Teeba"). The remaining shares will be retained by the founding shareholders. The transaction was based on an enterprise value of JOD 89.0 million (SAR 474.0 million) for 100% of the shares and is expected to close in January 2009.

In the third quarter of 2008, the Group signed a non binding Memorandum of Understanding regarding the acquisition of 100% of International Company for Agro Industrial Projects (Beyti) in Egypt. The acquisition is expected to be completed in the first quarter of 2009.

On 5 November 2008 Almarai submitted a formal offer to the Board of Directors of Hail Agriculture Development Company ("HADCO") to acquire 100% of the outstanding share capital of HADCO in exchange for new shares to be issued by Almarai in the ratio of one new Almarai share for every six HADCO shares. This equates to the issue of five million new Almarai shares to HADCO shareholders. The proposed offer has been approved by the Board of Directors, however the final offer is subject to due diligence, approvals required by the Capital Market Authority and the approval of the shareholders of both Almarai and HADCO.

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. 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.

Further details on financial risk management can be seen in note 20 of the Consolidated Financial Statements.

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 to, 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 and Risk Committee, continually support strong corporate governance practices and regularly review the company's governance and control practices.

Audit and Risk Committee
The Audit and 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 in 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 constituted a Nomination and Remuneration

Committee, in line with the recommendations of the Board of Directors and the approval of the General Assembly.

The committee members are:
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 and 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.

The remuneration of the Chairman and members of the Board in 2008 was SAR 6.4 million. The remuneration paid to the top executives in 2008 was SAR 10.1 million.

General Assembly Meeting

The General Assembly Meeting will be held in the Riyadh Sheraton Hotel on Monday, 23 March 2009 at 6:30 in the evening.

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.

success factors

Our Brands and Consumers

Our consumers continue to be at the core of everything we do. Under the Almarai brand, we strive to provide innovative consumer solutions by developing new products that meet the varied needs and lifestyles of the people of the GCC. Their loyalty, to both our brands and products, was a fundamental factor in our continued success over the past 12 months.

Milk and Laban are core to the success of Almarai. These products continued their market leadership with market shares in KSA of 59%* and 51%*, respectively. In addition, the company's first "lactose free product," Lacto Free Milk, was launched to help our brand reach even more consumers. Also launched was Almarai Trim, which has helped us to provide health conscious consumers an opportunity to consume their favourite Almarai Laban whilst keeping an eye on their waistline.

Zabadi continued its growth in popularity, going from strength to strength within our key market of KSA. As an important product in the pots category, it achieved a market share over 50%*, which is a record high. Other important changes to strengthen consumer loyalty include product enhancements such as packaging re-designs on key products.

In 2008, we consolidated the successes in juice of the previous year. Having redefined the juice market with the introduction of the new carafe bottle, this year we followed up with the revamp of the 200ml juice in carafe. This continued packaging excellence has helped to achieve strong growth versus 2007 and increased market share. In addition, we introduced the popular new flavours of Guava and Lemon.

* Market share information is supplied by ACNielsen based on October 2008 survey data

Renewed focus was given to consumers looking for great taste, optimum nutrition and convenient formats easily consumed at all snack times. Products such as Tinned Cheddar, Cheddar and Cream Jar Cheese, Haloumi, Cheese Slices, Cheese Square Portions and Cheddar Block Cheese all continued to deliver from both a value and health perspective.

We also placed more emphasis on ingredients essential to the home cooking process. Butter, Butter Ghee, Feta, Mozzarella and Whipping Cream all received increased focus to ensure that exciting new product opportunities are available to our consumers.

Young consumers are also high on our priority list. In this critical period, children start to build up their brand awareness and brand preference. Currently products targeting these consumers include cheese triangles, UHT flavoured milk (Maher) and Zady Laban, as well as yoghurt and Zady children dairy snacks. In 2008, we tailored products to the unique taste requirements of young consumers, whilst also launching the new 150ml flavoured UHT milk.

Western Bakeries also continued the strong growth of 2007, by further enhancing their consumer appeal with numerous new product launches under the L'usine brand. These exciting new products included Pound Cake, Slice Cake as well as the new Toffee Cup Cake. The L'usine brand reinforced its position in the market in 2008 by a total re-launch of the brand, introducing a new modern logo and completely updating packaging across their entire product range.

Our People

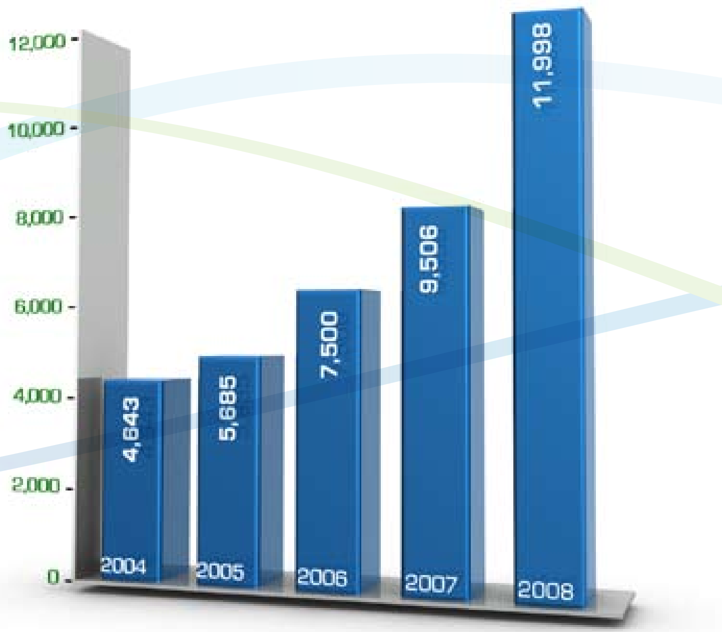
People are our most important asset. Attracting the right people, training them and providing the resources they need to satisfy the requirements of a world-class food company, continues to be a major priority of Almarai.

The significant growth achieved in the past few years and the future growth plans contemplated have triggered many human resource challenges. Currently, we employ 11,998 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 in Almarai by giving long service awards to employees with 10 years, 20 years, 30 and more years service.

Almarai believes that investing in employees is pivotal to maintaining its competitive advantage. We believe 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 we can meet our 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 have 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 2004 - 2008



Quality You Can Trust

Following the creation of the Quality and Product Development (QPD) Division in Q4, 2007, the QPD objectives and strategies were developed and approved to deliver an integrated and consolidated brand protection, brand development and performance improvement focus. At its core is the Almarai promise of 'Quality You Can Trust' and a strategy of consistently aligned product renovation and innovation.

The Almarai Quality Programme has been designed to deliver the above ideals via a mix of internationally recognised management programmes and certification to world recognised food safety standards and leading edge test and sample technology. This programme with its focus on further developing the existing quality culture will be delivered across the business with a completion targeted for end 2009.

This proactive approach to quality has been recognised by GCC regulators and statutory bodies alike with Almarai being invited to participate in the development and implementation of several product quality initiatives inclusive of product standards and the recent international Food Safety Seminar in the region. Cooperation at this level is both a validation of Almarai's corporate governance values and a testament to Quality You Can Trust.

Almarai
Quality You Can Trust

New Product Development

It is recognised that innovation will play an increasingly important role in the future growth and success of Almarai. In order to ensure growth through innovation, the Almarai Innovation Management (AIM) Programme was developed and fully implemented in 2008 focusing on both innovation and renovation excellence.

Innovation excellence supports business goals by delivering projects that achieve maximum value. Our programme has a process that will drive lean, rapid and profitable product development and a culture that embraces innovation, with consumers at the core of everything we do.

Product renovation excellence increases the strength of our core products and their corresponding market share by remaining focused on our consumers, customers, competition and our technical and operational abilities. In line with our promise to meet new consumer requirements, we launched a group of products targeting specific identified health issues. Among these were Trim Laban, a weight management product targeting fat metabolism and the reduction in obesity in consumers and Lactose Free Milk for lactose intolerant consumers. Both products were built on existing product frameworks but delivered innovative solutions to identified consumer issues. The expansion into the health and wellbeing market will be supported in the years ahead.

Infrastructures and Resources

Sales

In 2008, Almarai managed to grow most of its product groups in all territories at rates higher than that of the market. This has been achieved by continuing to refine shop coverage and distribution, targeting more precisely the products and quantities of those products by outlet. This has enabled us to maximise sales and minimise wastage better than ever before.

2008 has seen significant growth and some consolidation in the major retailer chains throughout the region driving the need for an even more sophisticated service to this demanding and fast growing part of market.

We have continued with our planned depot development programme, completing a second depot in Riyadh, our biggest depot so far, as well as new depots in Qunfudah and Baljurshi in the South West and a major upgrade in Jeddah, doubling the capacity.

In 2008, we added 245 new routes in order to carry the growing volumes and increase the depth and quality of service to our 42,000 customers throughout the GCC.

A major challenge, successfully completed, has been recruiting and retaining the quantity and quality of manpower of all disciplines in an extremely competitive market.

Operations

Almarai has again invested in its operations to ensure that it is able to meet the demand for our products. Major projects included: increasing the factory foot print by 20% to 171,550 square meters; an increase in accommodation for employees of 700 beds; warehouse facility expansion of over 20,000 pallet spaces; an increase in blow moulding capacity enabling us to produce over 60% of bottle production in house and 100% of caps; an additional 12 lines installed and 5 line upgrades; and a 13% increase in our fleet.

Our peak daily production exceeded all expectations by reaching more than 2.6 million litres in a day.

In addition to this activity, we were able to maintain our ISO 22000 quality accreditation.

Farming

Several expansion projects in line with the company's 5 Year Plan were completed during 2008, ensuring that Almarai's future milk requirement will be met. Additional livestock accommodations were built to provide more housing for the existing dairy herd of 58,000 milking cows, currently producing a rolling herd average (RHA) of 12,800 litres per cow. During the year 8,532 high genetic Holstein heifers were imported and accommodated at Almarai's new state-of-the-art farm, Al Danah. This farm was extended to have extra capacity to milk up to 22,000 cows and cater for another 20,000 heads of young stock.

An extra 7,000 hectares of arable land was secured and planted to produce alfalfa and maize forage to feed the cows. Likewise, the processing capacity of the flaked maize plant was doubled to 80 tonnes per hour. Additional grain silos were also built to store 120,000 tonnes of imported maize corn.

Bakery

In pursuit of excellence in the area of sales and distribution, L'usine has come a long way since 2007. Another 100 sales routes were added in 2008, to bring the total number of routes in KSA to 625. To provide high quality service to our valued customers, the Kingdom was divided into 12 regions in 2008 from the existing 3 regions in 2007. The strong consumer brand connection and increasing brand pull also helped us to increase our customer base from the existing 25,000 in 2007 to 33,000 in 2008. In parallel to these developments, the wastage component in sales was reduced by 3%.

Production capacity was increased by the commissioning of plant 3.

Corporate Social Responsibility

Almarai has been a positive contributor of society which stems from its belief in the importance of contributing to social investment efforts. The company has been proactively engaged in the community through direct charitable donations and vital sponsorships of events supporting social causes.

In conjunction with the Arab Bureau of Education at the Gulf Cooperation Council, Almarai took part in organising the Scholastic Excellence Award for Public Education students. The award was inducted in the United Arab Emirates, where Almarai recognised 42 students from all levels of public education throughout the Gulf region for their academic achievements.

In addition, an Award for Scientific Creativity was launched in partnership with the King Abdulaziz City for Science and Technology with the aim of encouraging scientific research which will eventually benefit society as a whole.

Moreover, Almarai supported Bin Baz Charitable Project to Assist Young Men in Marriage and facilitated the biggest group-marriage that ever took place in Saudi Arabia. The event helped in increasing access to marriage for men with limited means.

Some of the non profit organisations supported by Almarai includes the Orphan Welfare Society (Ensan), Down Syndrome Charitable Association (DSCA), Saudi Autism Organization and the Saudi Breast Cancer Society (Zahra).

Almarai believes that by giving something back to the community in which we operate we will all benefit in the longer term.

key financial highlights

Key Financial Highlights (SAR Million)	Year Ended 31 December 2008	2007	2006	2005	2004
Operational Performance					
Total Sales	5,030	3,770	2,757	2,146	1,885
Cost of Sales	(3,031)	(2,276)	(1,682)	(1,299)	(1,127)
Gross Profit	1,999	1,494	1,075	847	758
Selling and Distribution Expenses	(751)	(570)	(423)	(322)	(276)
General and Administration Expenses	(187)	(143)	(117)	(93)	(86)
Financing Cost and Bank Charges	(125)	(95)	(56)	(36)	(17)
Income before Zakat	936	686	479	396	379
Zakat	(25)	(18)	(14)	(10)	(9)
Minority Interest	(1)	(1)	-	-	-
Net Income	**910**	**667**	**465**	**386**	**370**
Balance Sheet					
Net Operating Working Capital	837	526	249	168	143
Property, Plant and Equipment	5,343	4,041	3,046	2,396	1,909
Intangible Assets - Goodwill	549	549	-	-	-
Investment and Financial Assets	529	506	-	-	-
Net Operating Assets	**7,258**	**5,622**	**3,295**	**2,564**	**2,052**
Net Debt	3,499	2,463	1,315	1,069	706
Employee Termination Benefits	128	105	82	66	53
Shareholders' Equity	3,617	3,054	1,898	1,429	1,293
Minority Interest	14	-	-	-	-
Net Capital Employed	**7,258**	**5,622**	**3,295**	**2,564**	**2,052**
Cash Flow					
Cash Flow from Operating Activities	1,016	740	630	537	518
Cash Flow used in Investing Activities	1,572	1,488	824	614	450
Dividend Paid	270	199	-	250	300
Key Indicators					
Return on Sales	18.1%	17.7%	16.9%	18.0%	19.6%
Return on Equity	27.3%	23.6%	27.9%	28.4%	29.4%
Return on Net Operating Assets	16.5%	16.1%	18.3%	18.7%	20.9%
Net Debt to Equity Ratio	96.7%	80.7%	69.3%	74.8%	54.7%
Current Ratio	136.5%	161.6%	141.2%	118.6%	159.1%
Revenue Growth Rate	33.4%	36.7%	28.5%	13.8%	7.5%
Dividends Payout Ratio*	41.9%	40.5%	42.9%	-	67.5%
Shares Issued (in millions)	109	109	100	100	100
Earnings per Share (SAR)	8.35	6.12	4.65	3.86	3.70
Dividend Proposed	382	-	-	-	-

* Calculated on previous year's net income and for 2008 based on the dividend proposed.

AUDITORS' REPORT TO THE SHAREHOLDERS
OF ALMARAI COMPANY
(A SAUDI JOINT STOCK COMPANY)

SCOPE:

We have audited the accompanying consolidated balance sheet of Almarai Company (a Saudi Joint Stock Company) ("the Company") and its subsidiaries ("the Group") as at 31 December 2008 and the related consolidated statements of income, cash flows and changes in equity for the year than ended. These consolidated financial statements are the responsibility of the Group's management and have been prepared by them in accordance with the provisions of article 123 of the regulations for companies and submitted to us Together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. 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 statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

UNQUALIFIED OPINION:

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

i) present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2008 and the results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

ii) comply with the requirements of the Regulations for Companies and the Company's by-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

For Ernst & Young

Abdulaziz A. Al-Sowailim
Certified Public Accountant
Registration No. 277
Riyadh: 21 Muharram 1430H
(18 January 2009)

consolidated balance sheet

Consolidated Balance Sheet	Notes	2008 SAR '000	2007 SAR '000
ASSETS			
Current Assets			
Cash and Cash Equivalents	4	246,585	137,975
Derivative Financial Instruments	21	6,648	938
Receivables and Prepayments	5	409,777	367,810
Inventories	6	1,096,723	733,573
Total Current Assets		**1,759,733**	**1,240,296**
Non Current Assets			
Investments and Financial Assets	7	489,337	471,074
Property, Plant and Equipment	8	5,343,308	4,041,132
Intangible Assets - Goodwill	9	548,636	548,636
Deferred Charges		40,270	34,692
Total Non Current Assets		**6,421,551**	**5,095,534**
TOTAL ASSETS		**8,181,284**	**6,335,830**
LIABILITIES AND EQUITY			
Current Liabilities			
Short Term Loans	10	511,165	182,348
Payables and Accruals	11	669,558	575,337
Derivative Financial Instruments	21	108,072	10,033
Total Current Liabilities		**1,288,795**	**767,718**
Non Current Liabilities			
Long Term Loans	10	3,132,956	2,409,428
Employees' Termination Benefits		128,041	104,903
Total Non Current Liabilities		**3,260,997**	**2,514,331**
Shareholders' Equity			
Share Capital	12	1,090,000	1,090,000
Share Premium		612,000	612,000
Statutory Reserves		416,689	325,663
Other Reserves		(83,161)	(9,095)
Retained Earnings		1,581,614	1,034,878
Total Shareholders' Equity		**3,617,142**	**3,053,446**
Minority Interest		**14,350**	**335**
TOTAL LIABILITIES AND EQUITY		**8,181,284**	**6,335,830**

The accompanying notes form an integral part of these consolidated financial statements.

consolidated statement of income

Consolidated Statement of Income	Notes	2008 SAR '000	2007 SAR '000
Sales	13	5,029,904	3,769,833
Cost of Sales	14	(3,030,947)	(2,276,495)
Gross Profit		**1,998,957**	**1,493,338**
Selling and Distribution Expenses	15	(750,878)	(570,149)
General and Administration Expenses	16	(187,108)	(142,451)
Income before Bank Charges, Zakat and Minority Interest		**1,060,971**	**780,738**
Bank Charges		(125,489)	(94,860)
Income from Main and Continuing Operations		**935,482**	**685,878**
Zakat	17	(24,662)	(18,079)
Income before Minority Interest		**910,820**	**667,799**
Minority Interest		(558)	(530)
Net Income for the Year		**910,262**	**667,269**
Earnings Per Share (SAR)	18		
Attributable to Income from Main and Continuing Operations		8.58	6.29
Attributable to Net Income for the Year		8.35	6.12

The accompanying notes form an integral part of these consolidated financial statements.

consolidated statement of cash flows

Consolidated Statement of Cash Flows	Notes	2008 SAR '000	2007 SAR '000
OPERATING ACTIVITIES			
Net Income for the Year		910,262	667,269
Adjustments for:			
Depreciation of Property, Plant and Equipment	19	378,968	315,528
Net Livestock Appreciation	19	(165,142)	(114,810)
Loss on Disposal of Property, Plant and Equipment	19	56,086	26,966
Bank Charges		125,489	94,860
Change in Employees' Termination Benefits		23,138	19,509
Share of Minority Interest in Net Income of Consolidated Subsidiary		558	530
Changes in:			
Receivables and Prepayments		(41,967)	(131,698)
Inventories		(363,150)	(279,646)
Payables and Accruals		91,894	141,801
Cash Flows from Operating Activities		**1,016,136**	**740,309**
INVESTING ACTIVITIES			
Additions to Property, Plant and Equipment	8	(1,655,619)	(1,099,196)
Proceeds from the Sale of Property, Plant and Equipment	19	83,531	73,556
Acquisition of Investments and Financial Assets	7	-	(471,074)
Acquisition / Disposal of Derivative Financial Assets		-	931
Acquisition of Subsidiaries, Net of Cash Acquired		-	7,580
Cash Flows used in Investing Activities		**(1,572,088)**	**(1,488,203)**
FINANCING ACTIVITIES			
Increase in Loans		1,052,345	1,127,596
Dividends Paid		(270,173)	(199,396)
Distribution to Minority Interests		(543)	(387)
Bank Charges		(125,489)	(94,860)
Change in Deferred Charges		(5,578)	(15,110)
Minority Interest Share in Modern Food Industries Company Ltd.		14,000	-
Cash Flows from Financing Activities		**664,562**	**817,843**
Increase in Cash and Cash Equivalents		108,610	69,949
Cash and Cash Equivalents at 1 January		137,975	68,026
Cash and Cash Equivalents at 31 December	4	**246,585**	**137,975**

The accompanying notes form an integral part of these consolidated financial statements.

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	Total SAR '000	Minority Interest SAR '000	Total SAR '000
Balance at 1 January 2007	1,000,000	-	258,936	4,759	634,336	1,898,031	192	1,898,223
Net Income for the Year	-	-	-	-	667,269	667,269	530	667,799
Transfers from Retained Earnings	-	-	66,727	-	(66,727)	-	-	-
Shares Issued	90,000	612,000	-	-	-	702,000	-	702,000
Distribution to Minority Interests	-	-	-	-	-	-	(387)	(387)
Dividends Approved	-	-	-	-	(200,000)	(200,000)	-	(200,000)
Net Movement on Cash Flow Hedges	-	-	-	(13,854)	-	(13,854)	-	(13,854)
Balance at 31 December 2007	**1,090,000**	**612,000**	**325,663**	**(9,095)**	**1,034,878**	**3,053,446**	**335**	**3,053,781**
Net Income for the Year	-	-	-	-	910,262	910,262	558	910,820
Transfers from Retained Earnings	-	-	91,026	-	(91,026)	-	-	-
Net Gain on Financial Investments	-	-	-	18,263	-	18,263	-	18,263
Distribution to Minority Interests	-	-	-	-	-	-	(543)	(543)
Dividends Approved	-	-	-	-	(272,500)	(272,500)	-	(272,500)
Net Movement on Cash Flow Hedges	-	-	-	(92,329)	-	(92,329)	-	(92,329)
Share in Modern Food Industries	-	-	-	-	-	-	14,000	14,000
Balance at 31 December 2008	**1,090,000**	**612,000**	**416,689**	**(83,161)**	**1,581,614**	**3,617,142**	**14,350**	**3,631,492**

The accompanying notes form an integral part of these consolidated financial statements.

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 Dl' Hijjah 1411 A.H. (1 July 1991) and 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 Saudi Arabia and the neighbouring Gulf Cooperative Council (GCC) countries.

The dairy, fruit juices and related food business is operated under the Almarai brand name. All raw milk production and related processing along with dairy 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 Group's long haul distribution fleet.

The bakery products are traded by Western Bakeries Company Limited and International Baking Services Company Limited under the brand name L'usine. These are two Limited Liability companies registered in Saudi Arabia and based in Jeddah.

The distribution centres in the GCC countries (except for Bahrain and Oman) are managed by the Group 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 S.P.C and Arabian Planets for Trade and Marketing L.L.C. respectively.

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

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

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 formed with an initial share capital of SAR 35 million, 60% Western Bakeries Company Limited, 25% Chipita Saudi Arabia (Cyprus) Limited (a fully owned subsidiary of Vivartia SA) and 15% Olayan Financing Company. The company registration was finalised in 2 Rabia I 1429 A.H. (9 April 2008) under the name of Modern Food Industries Company Limited.

The IPO for Zain, the operator of Saudi Arabia's third mobile phone network, successfully took place from 2 to 11 Safar 1429 A.H. (9 to 18 February 2008). Through the IPO the Group's participating interest in Zain has been reduced from 5.0% to 2.5%. The shares started trading on the Saudi Arabian Stock Exchange (Tadawul) on 14 Rabia I 1429 A.H. (22 March 2008).

On 29 Thul-Quada 1429 A.H. (27 November 2008) a new subsidiary, Almarai Holding Company W.L.L. was incorporated as a holding company for acquisitions outside Saudi Arabia.

Almarai Company, through its subsidiary Almarai Holding Company W.L.L., has entered into a definitive agreement on 18 Thul-Hujja 1429 A.H. (16 December 2008) to acquire 75% of Teeba Investment for Developed Food Processing Company PSC ("Teeba"). The remaining shares will be retained by the founding shareholders. The transaction was based on an enterprise value of JOD 89 million (SAR 474 million) for 100% of the shares and is expected to close in January 2009.

In the third quarter of 2008, the Group signed a non binding Memorandum of Understanding regarding the acquisition of 100% of International Company for Agro Industrial Projects (Beyti) in Egypt. The acquisition is expected to be completed in the first quarter of 2009.

On 7 Thul-Quada 1429 A.H. (5 November 2008) Almarai submitted a formal offer to the Board of Directors of Hail Agriculture Development Company ("HADCO") to acquire 100% of the outstanding share capital of HADCO in exchange for new shares to be issued by Almarai in the ratio of one new Almarai share for every six HADCO shares. This equates to the issuance of five million new Almarai shares to HADCO shareholders. The proposed offer has been approved by the Board of Directors, however the final offer is subject to due diligence, approvals required by the Capital Market Authority and the approval of the shareholders of both Almarai and HADCO.

Details of the subsidiary companies are as follows:

Name of Subsidiary	Country of Incorporation	Business Activity	Direct and Beneficial Ownership Interest		Shares	
			2008	2007	Capital	Issued
Western Bakeries Company Limited	Saudi Arabia	Bakery Company	100%	100%	SAR 100,000,000	100,000
International Baking Services Company Limited	Saudi Arabia	Trading Company	100%	100%	SAR 500,000	500
Almarai Company Bahrain S.P.C.	Bahrain	Sales Company	100%	100%	BHD 100,000	1,000
Almarai Holding Company W.L.L.	Bahrain	Holding Company	100%	-	BHD 250,000	2,500
Markley Holdings Limited	Jersey	Dormant	100%	100%	-	-
Arabian Planets for Trade and Marketing L.L.C.	Oman	Sales Company	90%	90%	OMR 150,000	150,000
Modern Food Industries Company Limited	Saudi Arabia	Bakery Company	60%	-	SAR 35,000,000	35,000

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

(a) The consolidated financial statements have been prepared on the accrual basis under the historical cost convention (except for derivative financial instruments and investments that have been measured at fair value) 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 period comparatives have been regrouped or adjusted on a basis consistent with current period classification. Any adjustments are considered immaterial in the context of these consolidated financial statements.

(d) These consolidated financial statements include assets, liabilities and the results of the operations of Almarai Company (the company) and its subsidiaries (the Group) as set out in note (1) above. A subsidiary company is that in which the Company has, directly or indirectly, long term investment comprising an interest of more than 50% in the voting capital or over which it exerts practical control. A subsidiary company is consolidated from the date on which the Company obtains control until the date that control ceases. The consolidated financial statements are prepared on the basis of the individual financial statements of the company and the audited financial statements of its subsidiaries, as adjusted by the elimination of all significant inter group balances and transactions. Minority interests represent the portion of profit or loss and net assets not controlled by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated balance sheet.

(e) The figures in these consolidated financial statements are rounded to the nearest thousand.

3. Significant Accounting Policies

A. Use of Estimates

The preparation of consolidated financial statements, in conformity with accounting standards generally accepted in the Saudi Arabia, 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 reward passes, subject to the physical return of expired products. Adjustment is made in respect of known actual returns.

C. Cash and Cash Equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents consists of cash at bank, cash on hand, and short-term deposits that are readily convertible into known amounts of cash and have a maturity of three months or less when purchased.

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 or more than three months due. Bad debts are written off as incurred.

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. Accounts payable and accruals

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

G. Intangibles-Goodwill

Goodwill represents the difference between the cost of businesses acquired and the Group's share in the net fair value of the acquiree's assets liabilities and contingent liabilities 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.

H. 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 and Equipment	5% - 33%
Motor Vehicles	15% - 25%
Land is not depreciated	

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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 cconsolidated statement of income.

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 recognized for the asset in prior periods. A reversal of an impairment loss is recognized as income immediately in the consolidated statement of income.

I. 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 statement of income as appropriate.

The functional currencies of foreign operations, Almarai Company Bahrain S.P.C, Almarai Holding Company W.L.L. and Arabian Planets for Trade and Marketing L.L.C are the Bahrain Dinar and Omani Riyal respectively. As at the reporting date, the assets and liabilities of these subsidiaries are translated into the presentation currency of Almarai Group (the SAR) at the rate of exchange ruling at the balance sheet date and their income statements are translated at the weighted average exchange rates for the year.

J. Employees' Termination Benefits

Employees' termination benefits are payable as a lump sum to all employees employed under the terms and conditions of the respective GCC Labour and Workman Laws 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 respective GCC countries.

K. Selling, Distribution, General and Administration Expenses

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

L. Management Fees

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

M. 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.

N. Operating Leases

Rentals in respect of operating leases are charged to the consolidated statement of income over the terms of the leases.

O. Investments in Securities

Investments in securities are measured and carried in the consolidated balance sheet at fair value with unrealised gains or losses recognised directly in equity. When the investment is disposed of or impaired the cumulative gain or loss previously recorded in equity is recognised in the consolidated statement of income. 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.

P. Derivative Financial Instruments and Hedging

Forward foreign exchange contracts are entered into to hedge exposure to changes in currency rates on purchases and other expenditures of the Group. Commission rate swap agreements are entered into to hedge the exposure to commission 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 Shareholders' Equity. When the hedging instrument matures or expires any associated gain or loss in Other Reserves is reclassified to the consolidated statement of income, or the underlying asset purchased that was subjected to the hedge.

The Group policy is to use financial instruments which are compliant with Shari'a.

Q. Statutory Reserve

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

R. Segmental Reporting

A segment is a distinguishable component of the group that is engaged either in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments.

	2008 SAR '000	2007 SAR '000

4. Cash and Cash Equivalents

Cash at Bank	191,272	108,617
Cash in Hand	55,313	29,358
Total	246,585	137,975

5. Receivables and Prepayments

Trade Accounts Receivable	- Third Parties	309,422	248,958
	- Related Parties (Refer to note 24)	31,357	17,856
		340,779	266,814
Less: Provision for Impairment of Trade Receivables		(11,726)	(7,442)
Less: Provision for Sales Returns		(10,039)	(7,055)
Net Accounts Receivable		319,014	252,317
Prepayments		90,763	115,493
Total		409,777	367,810

A. The Group's policy is to provide 100% impairment provision for all trade receivables due over three months. As at 31 December 2008, trade receivables more than three months due and impaired were SAR 11.7 million (2007: SAR 7.4 million). Movements on the group provision for impairment of trade receivables were not significant.

Trade Accounts Receivable		
Up to 3 months	329,053	259,372
More than 3 months	11,726	7,442
Total	340,779	266,814

B. Unimpaired receivables are expected on the basis of past experiences, to be fully recoverable. It is not the practice of the group to obtain collateral over receivables.

	2008 SAR '000	2007 SAR '000

6. Inventories

	2008 SAR '000	2007 SAR '000
Raw Materials	839,688	556,770
Finished Goods	163,077	122,419
Spares	57,497	35,884
Work in Progress	36,461	18,500
Total	1,096,723	733,573

7. Investments and Financial Assets

	2008 SAR '000	2007 SAR '000
Zain Equity Investment	372,750	354,487
Zain Subordinated Funding Shareholders' Loan	109,587	109,587
Jannat for Agricultural Investment Company - 10%	7,000	7,000
	489,337	471,074

The Zain equity investment of 35 million shares at a par value of SAR 10 per share is measured at fair value based on a quoted market price for the shares on the Saudi Arabian Stock Exchange (Tadawul) at 31 December 2008 of SAR 10.65 per share. This has resulted in an unrealized gain of SAR 18.3 million which is shown within other reserves in shareholders' equity. As a founding shareholder the Group cannot sell shares for a period of 3 years commencing on the 22 March 2008 (lock-up period). Investment in Jannat for Agricultural Investment Company is stated at cost.

8. Property, Plant and Equipment

	Land and Buildings SAR '000	Plant, Machinery and Equipment SAR '000	Motor Vehicles SAR '000	Dairy Herd SAR '000	Young Stock SAR '000	Capital Work-in-Progress SAR '000	Total 2008 SAR '000	Total 2007 SAR '000
Cost								
At the beginning of the year	1,431,745	2,353,535	536,569	429,760	181,523	805,459	5,738,591	4,351,786
Acquisition of Subsidiaries	-	-	-	-	-	-	-	318,655
Additions during the year	183,042	179,659	13,642	33,655	88,447	1,157,174	1,655,619	1,099,196
Livestock Appreciation	-	-	-	-	271,589	-	271,589	165,807
Transfers during the year	232,256	464,426	126,801	180,856	(180,856)	(823,483)	-	-
Disposals during the year	(1,612)	(26,393)	(67,826)	(125,454)	(58,303)	-	(279,588)	(196,853)
At the end the year	**1,845,431**	**2,971,227**	**609,186**	**518,817**	**302,400**	**1,139,150**	**7,386,211**	**5,738,591**
Accumulated Depreciation								
At the beginning of the year	286,586	1,019,379	268,448	123,046	-	-	1,697,459	1,305,976
Acquisition of Subsidiaries	-	-	-	-	-	-	-	121,289
Charges for the year	57,738	242,292	78,938	106,447	-	-	485,415	366,525
Disposals during the year	(1,600)	(25,896)	(65,464)	(47,011)	-	-	(139,971)	(96,331)
At the end of the year	**342,724**	**1,235,775**	**281,922**	**182,482**	**-**	**-**	**2,042,903**	**1,697,459**
Net Book Value								
At 31 December 2008	**1,502,707**	**1,735,452**	**327,264**	**336,335**	**302,400**	**1,139,150**	**5,343,308**	
At 31 December 2007	**1,145,159**	**1,334,156**	**268,121**	**306,714**	**181,523**	**805,459**		**4,041,132**

9. Impairment Testing of Intangible Assets - Goodwill

Goodwill arising from the acquisition in 2007 of Western Bakeries Limited and International Baking Services Limited ("the Subsidiaries") is subject to 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 2008 (2007: SAR 548.6 million).

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 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 cost of sales 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 in 2008 is 40% and in the forecast period has been estimated to be a compound annual growth of 16%. All other assumptions kept the same; a reduction of this growth rate to 11% would give a value in use equal to the current carrying amount.

(b) Cost of Sales Inflation

The current cost of sales in 2008 is 40% and in the forecast period has been estimated at an average of 39%. All other assumptions kept the same; an increase in the rate to an average of 52% would give a value in use equal to the current carrying amount.

10. Term Loans

	Facilities available at 31 December SAR '000	2008 SAR '000	2007 SAR '000
Islamic Banking Facilities (Murabaha)		3,078,796	2,030,858
Saudi Industrial Development Fund		554,890	544,280
Saudi Arabian Agricultural Bank		10,435	16,638
Total		3,644,121	2,591,776

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

B. The borrowings from the Saudi Industrial Development Fund (SIDF) are secured as follows:
(i) in respect of borrowings amounting to SAR 554.9 million for 31 December 2008 (2007: SAR 453.9 million) by a mortgage on specific assets;
(ii) in respect of uncollateralised borrowings, no payment guarantee was given for both the years ended 31 December 2007 and 2008.

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

D. Maturity of Financial Liabilities:

	Facilities available at 31 December SAR '000	2008 SAR '000	2007 SAR '000
Less than one year	531,509	511,165	182,348
One to two years	1,830,369	1,617,148	871,932
Two to five years	2,807,821	1,500,488	1,409,050
Greater than five years	785,667	15,320	128,446
Total	5,955,366	3,644,121	2,591,776

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

During 2008 the group secured an additional SAR 1,700.0 million of commercial loan facilities with maturities between three to five years.

As at 31 December 2008 SAR 1,729.8 million Islamic Banking Facilities (Murabaha) were unutilised and available for drawdown.

As at 31 December 2008 the Group had SAR 581.4 million of unutilised SIDF facilities available for draw down with maturities predominantly greater than five years (2007: SAR 321.0 million).

11. Payables and Accruals

		2008 SAR '000	2007 SAR '000
Trade Accounts Payable	- Third Parties	350,098	324,487
	- Related Parties (Refer note 24)	46,360	37,309
Other Payables		250,318	195,513
Zakat Provision (Refer note 17)		22,782	18,028
Total		669,558	575,337

12. Share Capital

The Company's share capital at 31 December 2008 and 31 December 2007 amounted to SAR 1,090 million, consisting of 109 million fully paid and issued shares of SAR 10 each.

13. Segmental Reporting

The Group's principal business activities are divided into three segments namely manufacturing and trading of dairy products, fruit juices and related foods under the Almarai brand, manufacturing and trading of bakery products under the L'usine brand and investing activities. Selected financial information as of 31 December 2008 and 2007 and for the years then ended categorised by these business segments, are as follows:

	Dairy, Fruit Juices and Related Foods SAR '000	Bakery Products SAR '000	Investing Activities SAR '000	Total SAR '000
31 December 2008				
Sales	4,515,097	514,807	-	5,029,904
Depreciation of Property, Plant and Equipment	(334,119)	(44,849)	-	(378,968)
Income before Minority Interest	818,019	106,361	(13,560)	910,820
Total Assets	6,556,270	1,135,677	489,337	8,181,284
Total Liabilities	(3,904,200)	(158,132)	(487,460)	(4,549,792)
31 December 2007				
Sales	3,401,038	368,795	-	3,769,833
Depreciation of Property, Plant and Equipment	(279,582)	(35,946)	-	(315,528)
Income before Minority Interest	595,827	74,798	(2,826)	667,799
Total Assets	4,906,488	958,268	471,074	6,335,830
Total Liabilities	(2,635,097)	(173,052)	(473,900)	(3,282,049)

The business activities and operating assets of the Group are mainly concentrated in GCC countries, and selected financial information as at 31 December 2008 and 2007 and for the years then ended, categorised by these geographic segments are as follows:

	Sales SAR '000	Non-Current Assets SAR '000
2008		
Saudi Arabia	3,453,558	6,332,772
Other GCC Countries	1,510,552	88,779
Other Countries	65,794	-
Total	5,029,904	6,421,551
2007		
Saudi Arabia	2,653,170	5,029,367
Other GCC Countries	1,087,935	66,167
Other Countries	28,728	-
Total	3,769,833	5,095,534

Analysis of sales is given by product group as shown below:

	2008 SAR '000	2007 SAR '000
Fresh Dairy	2,474,586	1,977,117
Long Life Dairy	495,710	310,704
Fruit Juice	484,455	340,274
Cheese and Butter	1,028,206	741,581
Bakery Products	514,807	368,795
Other Products	32,140	31,362
Total	5,029,904	3,769,833

	2008 SAR '000	2007 SAR '000

14. Cost of Sales

	2008 SAR '000	2007 SAR '000
Direct Material Costs	2,225,075	1,601,895
Employee Costs	297,622	244,076
Depreciation	396,984	287,086
Livestock Appreciation	(271,589)	(165,807)
Loss on Disposal of Livestock	57,179	37,543
Other Expenses	325,676	271,702
Total	3,030,947	2,276,495

15. Selling and Distribution Expenses

	2008 SAR '000	2007 SAR '000
Employee Costs	327,951	249,680
Marketing Expenses	247,319	190,603
Depreciation	78,982	70,924
Other Expenses	96,626	58,942
Total	750,878	570,149

16. General and Administration Expenses

	2008 SAR '000	2007 SAR '000
Employee Costs	121,109	101,067
Insurance	20,936	18,070
Depreciation	9,449	8,515
Profit on Disposal of Other Fixed Assets	(1,093)	(10,577)
Other Expenses	36,707	25,376
Total	187,108	142,451

	2008 SAR '000	2007 SAR '000

17. Zakat

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

	2008 SAR '000	2007 SAR '000
Income from Main and Continuing Operations	935,482	685,878
Disallowed Expenses:		
Accrual for Employees' Termination Benefits	23,138	26,822
Other Provisions	10,946	10,460
Net Income for Zakat Purposes	969,566	723,160
Zakat Charge @ 2.5%	24,239	18,079
Adjustment in respect of Prior Year Provision	423	-
Charged to Consolidated Statement of Income	24,662	18,079

B. Zakat Provisions

	2008 SAR '000	2007 SAR '000
Balance at 1 January	18,028	12,701
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	24,662	18,079
Payments	(19,908)	(14,002)
Balance at 31 December	22,782	18,028

C. The Company has filed its Zakat returns for all the years up to 2007 and settled its Zakat liabilities accordingly. The Zakat assessments have been agreed with the Department of Zakat and IncomTax (DZIT) for all the years up to 2006 while the 2007 Zakat return is still under review by the DZIT.

18. Earnings Per Share

Earnings per Share are calculated on the total number of issued shares at 31 December 2008 and 31 December 2007 amounting to 109 million shares.

19. Depreciation and Disposal of Assets

	2008 SAR '000	2007 SAR '000
A. Depreciation		
Livestock		
Depreciation of Dairy Herd	106,447	50,997
Livestock Appreciation	(271,589)	(165,807)
Net Livestock Appreciation	(165,142)	(114,810)
Fixed Assets		
Depreciation	378,968	315,528
Total	213,826	200,718
B. (Profit) / Loss on the Disposal of Assets		
Livestock		
Proceeds from Disposal of Livestock	(79,567)	(56,942)
Net Book Value of Dairy Herd Cows Disposed	78,443	61,792
Net Book Value of Youngstock Disposed	58,303	32,693
Loss on the Disposal of Livestock	57,179	37,543
Fixed Assets		
Proceeds from the Disposal of Property, Plant and Equipment	(3,964)	(16,614)
Net Book Value of Assets Disposed	2,871	6,037
Profit on the Disposal of Property, Plant and Equipment	(1,093)	(10,577)
Total	56,086	26,966

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20. Financial Risk Management Objectives and Policies

Financial instruments carried on the consolidated balance sheet include cash and cash equivalents, 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.

Commission Rate Risk is the exposure associated with the effect of fluctuations in the prevailing commission rates on the Group's financial position and cash flows. Islamic banking facilities (Murabaha) amounting to SAR 3,078.8 million at 31 December 2008 (2007: SAR 2,030.9 million) bear financing commission charges at the prevailing market rates.

The Group's policy is to manage its financing charges using a mix of fixed and variable commission rate debts. The policy is to keep between 50% and 60% of its borrowings at fixed commission. The following table demonstrates the sensitivity of the income to reasonably possible changes in commission rates, with all other variables held constant. There is no impact on the Company's equity.

	Increase / decrease in basis points of commission rates	Effect on income for the year SAR '000
2008		
SAR	+ 30	9,236
SAR	- 30	(9,236)
2007		
SAR	+ 30	6,093
SAR	- 30	(6,093)

Foreign Currency Risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group has transactional currency exposure principally in Saudi Riyals, United States Dollars, Great British Pounds and Euro. Other transactions in foreign currencies are not material.

The outstanding foreign currency forward purchase agreements were as follows:

	2008 SAR '000	2007 SAR '000
Euro	669,819	532,632
Great British Pound	94,800	60,911
Other Currencies	37,428	7,971
Total	802,047	601,514

The Group uses forward currency contracts to eliminate significant currency exposures. Management believe that the currency risk for inventory and capital expenditure purchases is adequately managed primarily through entering into foreign currency forward purchase agreements. It is the Group's policy to enter into forward contracts based on the underlying exposure available from the group's business plan / commitment with the suppliers. The forward purchase agreements are secured by promissory notes given by the Group.

The following analysis calculates the sensitivity of income to reasonably possible movements of the SAR currency rate against the respective currencies, with all other variables held constant, on the fair value of currency sensitive monetary assets and liabilities as at the reporting date.

	Increase / decrease in Euro rate to SAR	Effect on income for the year SAR '000
2008		
SAR	+ 10%	8,602
SAR	- 10%	(8,602)
2007		
SAR	+ 10%	5,035
SAR	- 10%	(5,035)

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 Group limits its credit risk by trading only with recognized, creditworthy third parties. The Group's policy is 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 realizable values. The Group seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and by monitoring outstanding receivables on an ongoing basis. The receivable balances are monitored with the result that the Group's exposure to bad debts is not significant. The five largest customers account approximately for 25% of outstanding accounts receivable at 31 December 2008 (2007: 22%).

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.

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 and bank facilities are available to meet the Company's future commitments. The Group's terms of sales require amounts to be paid either on a cash on delivery or on a terms basis. The average days of sales outstanding for 2008 were 22 days (2007: 21 days). Trade payables are typically settled on a terms basis, the average payables outstanding for 2008 were 46 days (2007: 51 days).

21. Financial Instruments

Fair Value

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 Group's consolidated financial statements are prepared under the historical cost method, differences can arise between the carrying values and the fair value. The fair values of financial instruments are not materially different from their carrying values.

Hedging Activities

At 31 December 2008 the Group had 8 commission rate swap agreements in place covering total notional amounts of SAR 100 million and US$ 210 million. At 31 December 2007 the Group had three commission rate swap agreements in place covering total notional amounts of SAR 300 million and US$ 53.3 million.

The swaps result in the Group receiving floating 6 month SIBOR / 3 month US$ LIBOR rates while paying fixed rates of commission or floating 3 month US$ LIBOR rates under certain conditions. The swaps are being used to hedge the exposure to commission rate changes of the Group's Islamic borrowings.

At 31 December 2008 and 2007 the Group had various forward foreign exchange contracts that were designated as hedges to cover purchases and other expenditures in a variety of foreign currencies.

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 either firm commitments, or forecast transactions that are highly probable. The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 14 months.

All 2008 hedges were considered highly effective and the net loss on cash flow hedges during the year recognised in Other Reserves within equity was SAR 101.4 million (2007: net loss of SAR 9.1 million). During the year net gains reclassified to the income statement were SAR 14.7 million (2007: SAR 4.8 million).

22. Commitments and Contingencies

A. The contingent liabilities against letters of credit are SAR 330 million for 31 December 2008 (2007: SAR 73.2 million).

B. The contingent liabilities against letters of guarantee are SAR 61.1 million for 31 December 2008 (2007: SAR 13.4 million).

C. The Company had capital commitments to SAR 702.5 million for 31 December 2008 in respect of ongoing projects (2007: SAR 647.4 million). 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:

	2008 SAR '000	2007 SAR '000
Within one year	50,723	45,958
Two to five years	48,288	56,831
After five years	96,268	100,383
Total	195,279	203,172

23. Directors Remuneration

The Directors' remuneration paid to the Board of Directors for year ended 31 December 2008 amounted to SAR 6.4 million (2007: SAR 2.1 million).

24. 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 2008 and 31 December 2007 along with their balances:

Related Party Relationship	Nature of Transaction	Amount SAR '000	Balance at 31 December SAR '000
2008			
Common Shareholders / Owners	Sales	(155,141)	31,357
Common Shareholders / Owners	Purchases	185,986	(46,360)
2007			
Common Shareholders / Owners	Sales	(113,298)	17,856
Common Shareholders / Owners	Purchases	183,557	(37,309)

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.

25. Dividends Approved and Paid

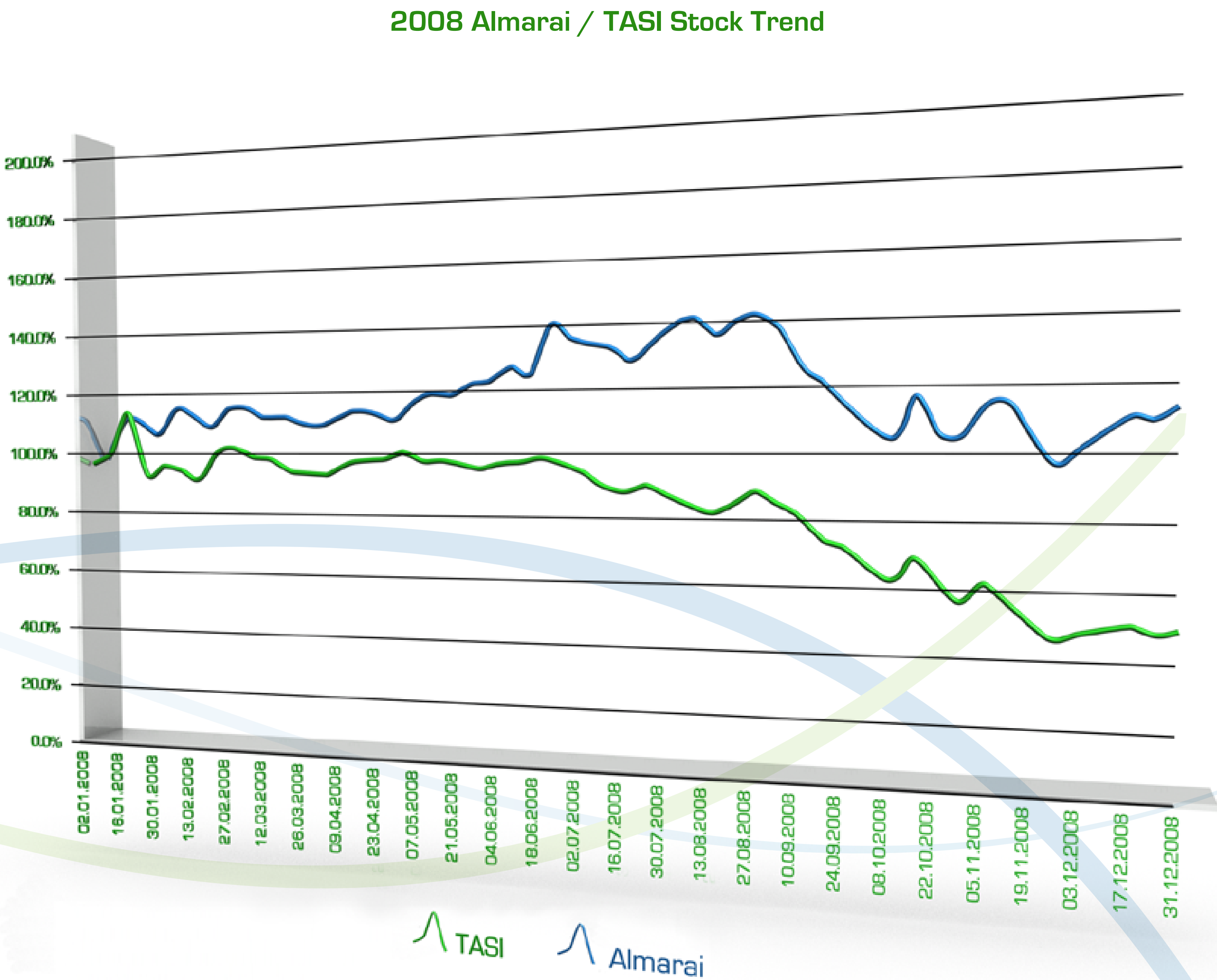
On 16 Rabia I 1429 A.H. (24 March 2008), the General Assembly Meeting approved a dividend of SAR 272.5 million (SAR 2.5 per share) for the year ended 31 December 2007, which was paid on 1 Rabia II 1429 A.H. (7 April 2008).

26. Dividends Proposed

The Board of Directors, on 21 Muharram 1430 (18 January 2009) proposed for approval at the General Assembly Meeting a dividend for the year ended 31 December 2008 of SAR 381.5 million (SAR 3.5 per share).

27. 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 Group as reflected in these consolidated financial statements.



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