



Consumers  
**at our heart**

ANNUAL REPORT 2016

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# VISION MISSION & VALUES

A decorative background featuring a variety of food and beverage icons in shades of green and yellow. The icons include fruits like lemons, limes, and pears; vegetables like leafy greens and tomatoes; and beverages like smoothies, juices, and coffee. The icons are scattered across the page, creating a vibrant and fresh atmosphere.

## Vision

To be the consumer's preferred choice by leading in chosen markets with superior food and beverage products.

## Mission

To provide quality and nutritious food and beverages that enrich our consumers' lives every day.

## Values

Adaptable  
Sharing  
Passionate  
Innovative  
Respect  
Excellence



# Company Overview

We have earned the trust of consumers through our unwavering commitment to quality.



# Company profile

Almarai is the Middle East's leading food and beverage manufacturer and distributor – and the world's largest vertically integrated dairy company. Since our foundation in 1977, consumers across the region have come to recognise the Almarai brand as synonymous with quality. Every day, we live and work by the maxim: 'Quality you can trust.'

A quality culture exists throughout the Company. It begins with strategic decision-making by the Board of Directors and senior management, extends across our farming, manufacturing and distribution operations, and is integral to the development of our employees' professional skills. We have similarly high expectations of our suppliers and vendors, and exercise rigorous quality control measures across our procurement activities.

## Our activities

With headquarters in Riyadh, Saudi Arabia, we are active in five categories across the Middle East and North Africa (MENA) region: Dairy, Juice, Bakery, Poultry and Infant Nutrition. In Egypt and Jordan we operate through our joint venture International Dairy & Juice (IDJ) for Dairy and Juice products. In addition to our main Bakery segment, L'usine products, we operate through our joint venture, Modern Food Industries (MFI), for 7Days products.

Today, Almarai's paid up share capital amounts to SAR 8.0 billion, consisting of 800 million fully paid and issued shares of SAR 10.00 each. Almarai's available and tradable shares by the end of 2016 amounted to 290 million shares, representing 36.3% of its total available shares. As at 31st December 2016, Almarai's market capitalisation was SAR 54.8 billion.

### Head Office

Riyadh,  
Saudi Arabia

### Farming

Argentina  
Jordan  
Poland  
Saudi Arabia  
Ukraine  
USA

### Manufacturing

Egypt  
Jordan  
Saudi Arabia

### Sales and Distribution

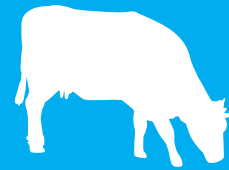
Bahrain  
Egypt  
Jordan  
Kuwait  
Oman  
Qatar  
Saudi Arabia  
UAE

# Almarai highlights 2016

**18**  
million  
daily consumers



Over 650 products



104,500 milking cows and  
85,000 young stock



Production capacity of 200  
million chickens per year



1.5 million tonnes of animal  
feed imported annually



Approximately 2,000 trucks  
on GCC roads at any time



1.35 billion litres of milk  
produced per year

**42.25**  
litres  
of milk per cow per day



Most positively perceived  
brand in Saudi Arabia 2016



Biggest FMCG brand in  
MENA by brand value

**#40**

#40 on Forbes' 100 Most  
Innovative Companies 2016



585% sales growth since  
IPO in 2005



Best Corporate for Investor  
Relations Saudi Arabia 2016

Almarai stands for 'Quality you can trust'. It's not just a promise, it's a commitment we live by every day: placing consumers at the heart of everything we do and providing them with an outstanding product experience every time.

Georges P. Schorderet, Chief Executive Officer





# Consumers at our heart

Almarai has an unwavering commitment to quality. This is demonstrated every year through our market leadership and strong financial performance. Our consumers are the focus of our work: from our boardroom deliberations and senior management decision-making – through to our manufacturing and distribution operations. The dedication of our people and their commitment to consumers drives us forward.

We work tirelessly to deliver on our mission to provide quality and nutritious products that enrich people's lives on a daily basis. More than 30.0% of our sales revenue every year is invested in consolidating our position as a sector leader, with a commitment to devising new and improved products that continuously surprise and delight our consumers.

Our innovation activity is closely aligned with the requirements and expectations of our consumers. We consistently look to expand our range, with a focus on meeting regional tastes and preferences. Ours is a growth strategy that truly places consumers at its heart.

# Chairman's statement

On behalf of the Board of Directors, I am delighted to present Almarai's Annual Report, covering the year ending 31st December 2016.

## A slower economic environment

Across the world, the slower growth trend continued during 2016. This impacted Almarai's international supply chain. In the Middle East, sustained low oil prices led to fiscal deficits across the Gulf's oil exporting countries.

## An ambitious and promising future

As the champion of the region's food and beverage industry, Almarai will maintain its leadership position and be at the forefront of companies that respond to and comply with the government's efforts to diversify the Kingdom's economy, achieving the ambitious objectives of a bright and promising future.

## Adapting our approach to growth

Business growth was affected by challenging market conditions, particularly in the second half of the year, resulting in year-on-year sales growth of 6.6%. Fortunately, early cost containment measures, good planning and cost management meant that Net Profit grew by 8.6% on the previous year. Having accelerated the completion of existing capital investment projects, greater scrutiny was applied to certain investments; those deemed unnecessary were delayed, scaled-down or cancelled. The Board is therefore pleased to report that, despite multiple challenges, 2016 was another record year for Almarai, and the supply chain capacities we have built will respond to our growth requirements in the years to come.

## Commitment to our strategic pathway

In line with our strategic plan, we are committed to growth across categories, geographies and customer segments. With 'consumers at our heart', we are conscious of the need to adapt and respond to market volatility, while focusing on delivering the highest quality products and services. Every day our business becomes more agile, efficient and consumer-oriented. For our 39th year of operations, we stayed true to our defining principle: 'Quality you can trust'. We built on efforts to improve our occupational Health, Safety, Security and Environment (HSSE) framework and strengthened our Risk Management capabilities. We also launched a new and improved sustainability model, which is discussed later in this report.

## Governance

The Board continued to perform its duties throughout 2016. The Extraordinary General Assembly held in April elected a new Board of Directors for a three year term. A new Nomination and Remuneration Committee and Audit Committee were formed, with the Company's Executive Committee also confirmed. During the year, a Board Member representing the Savola Group, HE Engr. Abdullah bin Mohammed Noor Rihaimi, resigned from the Board of Directors. Another Director representing the Savola Group, Mr. Ibrahim bin Mohammed Al Issa and one of the Board's independent Directors, Engr. Nasser bin Mohammed Al Muttawa, did not seek the renewal of their respective directorships. We would like to extend our thanks to all three Board Members for their dedicated service to the Company and wish them all the best for the future.

In 2016 we welcomed the appointment of three new Board Members. Mr. Bader bin Abdullah Al Issa and Engr. Rayan bin Mohammed Fayez were appointed to the Board to represent the Savola Group. In addition, Dr. Abdulrahman bin Suliman Al Turaigi was selected as an independent Director.



## Creating shareholder value

The Company's total market capitalisation at the end of 2016 reached SAR 54.8 billion. A share capital increase, distributing one bonus share for every three shares owned, took place in April 2016. The Board of Directors will propose a cash distribution of SAR 720.0 million, which equals SAR 0.90 per share, at the Annual General Meeting to be held in 2017, representing 34.6% of Almarai's Net Income.

## Valuing all stakeholders

I would like to thank my fellow Directors for their wise counsel during the year. On behalf of the Board, I would also like to thank Almarai's management and staff for the hard work they carry out daily to ensure that the Company delivers on its promises to stakeholders. I extend my appreciation and thanks to our consumers for their continued trust in Almarai and its products. Finally, I would like to thank our shareholders for their continued loyalty and support. We remain confident that Almarai will continue to perform well during the challenging years ahead.

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

**Chairman**



# What we do

For almost 40 years we have nurtured a reputation for quality across the Middle East. It remains our highest priority – and applies to every step of our value chain: from the animals we rear to the products on our customers' shelves. Our ownership of the supply chain gives us complete control of feed production, processing, manufacturing, packaging and distribution. We can therefore apply and maintain the highest standards of quality assurance.

Almarai's principal objective is consumer satisfaction. We are committed to a programme of ongoing innovation that helps us satisfy and exceed the

expectations of our consumers. At any given time, we have at least 65 new products under development and evaluation. Our extensive distribution infrastructure enables us to deliver products to more than 110,000 retail outlets across the Gulf Cooperation Council (GCC), Egypt and Jordan.

From our origins as a dairy company, we have diversified our product range to include Juice, Bakery, Poultry and Infant Nutrition products. Recognising the importance of organic growth for improving our bottom line, we are also committed to entering new categories to broaden our existing offering.



## Dairy

Our Dairy business is the traditional core of Almarai. Our extensive product range includes fresh milk, laban, flavoured milk, milkshakes, UHT, evaporated milk, cream, yoghurts, desserts, natural and processed cheeses, butter and ghee.

## Juices

In 1999 we launched our Juice category under the Almarai brand. We have since become the market leader in the segment, offering consumers a range of popular mixed and 100% juices, as well as children's juices marketed under the Nijoom sub-brand.

## Bakery

In 2007 we entered the Bakery category by acquiring Western Bakeries and establishing Modern Food Industries (MFI), a joint venture with Chipita and Olayan Group. Our Bakery products are marketed under the L'usine and 7Days brands – both of which have leading shares in the countries where they are present.

## Poultry

Following the acquisition of Hail Agricultural Development Company (HADCO) in 2009, Almarai launched its Poultry business under the Alyoum brand. We offer a comprehensive selection of whole, part and value-added products of high nutritional value with specialised packaging to ensure optimum food hygiene.

## Infant Nutrition

In 2010 Almarai established IPNC in a joint venture with Mead Johnson to manufacture and distribute Infant Nutrition products to mothers in Saudi Arabia and the GCC. In 2014, we acquired full control of the business, launching our wholly owned brands, Nuralac and Nuralac Plus. In 2016 we launched Nurababy cereal and the Nuraplus Suregrow supplement for children.

# Wholesome goodness in every product

Quality is the cornerstone of our growth – and nowhere is it more evident than in the products we deliver to consumers every day. Our Quality & Product Development (QPD) department is responsible for industry-leading quality assurance and the creation of new and improved products with high nutritional value and wide-ranging appeal. QPD rigorously studies consumer preferences to understand changing tastes, enabling us to anticipate and respond to demand by using the most advanced manufacturing technologies. Almarai is committed to the highest standards of food safety, with ISO 9001:2015 certification in place across

the organisation. Our high manufacturing and quality assurance standards are underpinned by a unique ingredients and supply infrastructure, which encompasses our farms, manufacturing facilities and distribution network. Almarai's ingredients are sourced both locally and internationally before being processed in some of the world's most advanced production plants.

The quality of our products is assured by the unique control we exercise over our value chain:



1

Our animals consume the highest quality feed, the majority of which is imported from abroad, to preserve the local water supply. In 2016, 80.0% of forage requirements came from our own farms in Argentina, Europe and the USA.

2

Our dairy herds and poultry flocks receive best-in-class 24-hour veterinary care, temperature-controlled housing and highly nutritious feed, ensuring maximum yields and a high quality end product.

3

Our factories and bakeries employ cutting-edge technology to create nutritious products on a large scale. Our facilities are continuously expanded, renovated and improved to meet ever-growing demand.

4

Almarai's Transport & Logistics division is larger than any logistics company in the Middle East. More than 8,000 trucks and cold trailers deliver 2 billion kg of products every year, on time and in perfect condition.

5

We have earned the trust of consumers to become a brand that is known and loved across the Middle East. We constantly gather feedback to maintain our commitment to quality and consumer satisfaction.



# Geographic footprint

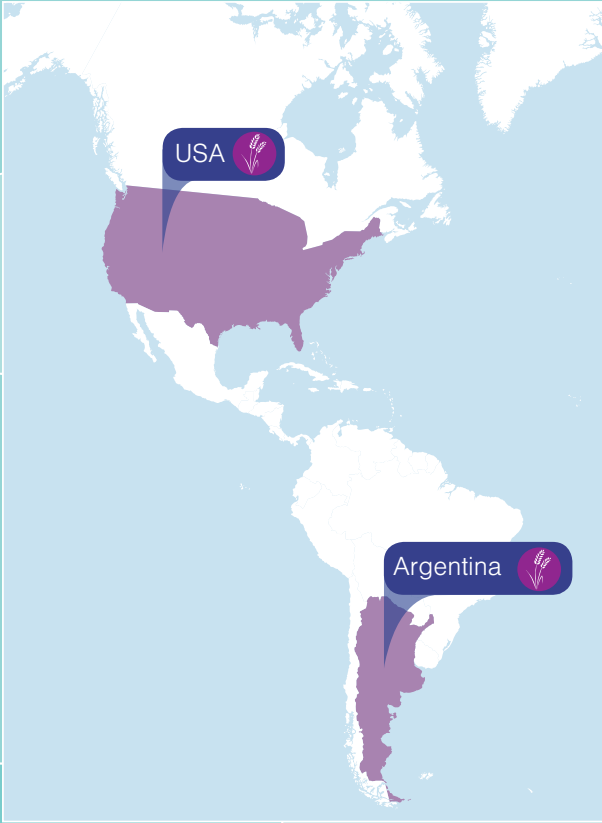
Almarai's production and distribution footprint covers the GCC states, Egypt and Jordan. Our global reach extends to Europe, the USA and South America, where we own, operate and manage extensive arable farming assets.

Our farms cover leased and owned arable land totalling 68,000 hectares on three continents. They produce more than 770,000 tonnes of agricultural livestock feed (cereals and forage) annually, including alfalfa, corn and soya bean, which is shipped to our dairy and poultry farms. Our herd of almost 190,000 Holstein cows live in Saudi Arabia and Jordan, where they each produce over 40 litres of milk every day, while our poultry plant in Hail (Saudi Arabia) has a production capacity of 200 million birds per annum.

Almarai's state-of-the-art manufacturing facilities are located in Saudi Arabia, Egypt and Jordan. Our capacity growth is ongoing, with several production lines now capable of producing higher volumes in less production time. Our Juice facility is, for example, producing 800 bottles of juice every minute. Our Infant Nutrition plant in Al Kharj, Saudi Arabia is among the most advanced in the world.

More than 3,000 staff are employed in transport, warehousing, maintenance and planning in our 88 Sales depots across the GCC. This extensive infrastructure delivers products to over 110,000 retailers across the region, achieving 99.0% on-time delivery. At any given moment, Almarai has approximately 2,000 trucks on the road.





### Legend



Dairy farms in Saudi Arabia and Jordan



Arable farms in Saudi Arabia, Argentina, the USA, Poland and Ukraine



Poultry farms in Saudi Arabia



Manufacturing in Saudi Arabia, Jordan and Egypt



Distribution and logistics in Saudi Arabia, the UAE, Jordan and Egypt



Sales depots across the GCC, Jordan and Egypt

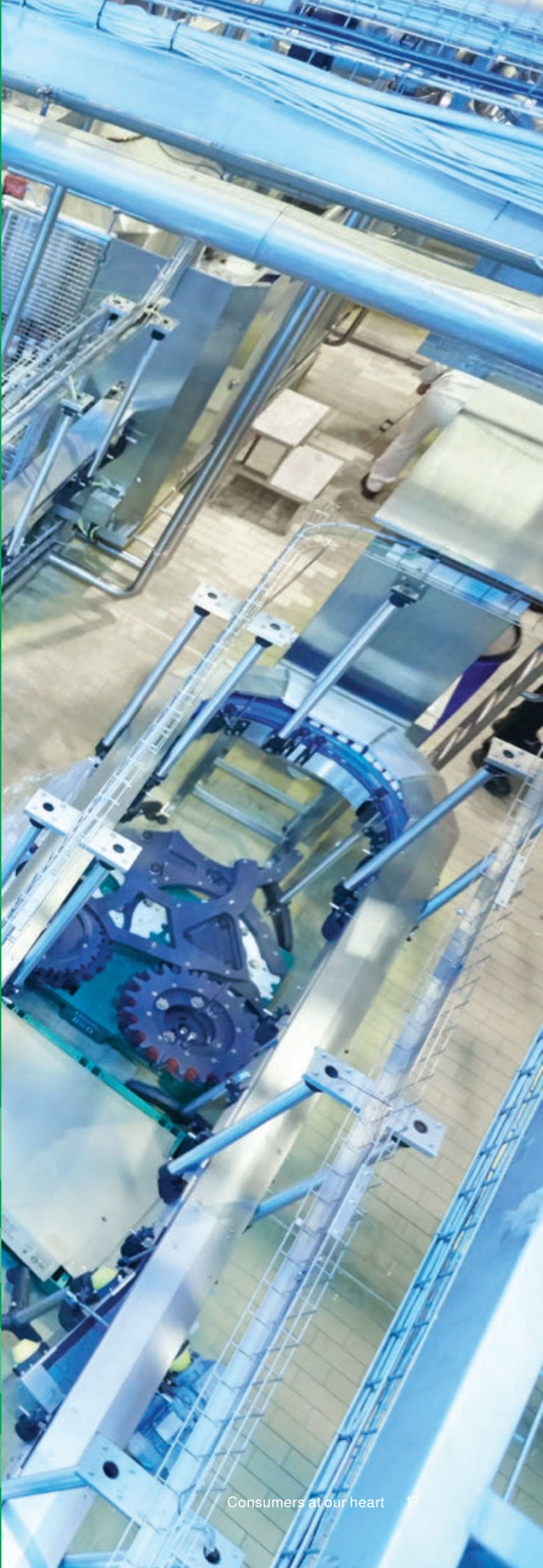


Head Office in Riyadh, Saudi Arabia



# Strategic Report

Operational improvement, entry into new markets and innovative products are at the heart of our corporate philosophy.



# Strategic overview

Almarai is the Middle East's largest food and beverage manufacturer and distributor. Our mission is to provide high quality, nutritious food and beverages that enrich consumers' lives every day. Focused on quality, we are the consumer's preferred choice for superior products that meet their needs. We maintain market leadership across our core product categories by leveraging consumer insights and through our dedication to delivering high quality products and services.

## Almarai 2021

Our five year plan for the period 2017-2021 reflects recent global and regional economic developments, as well as the implications of Saudi Arabia's Vision 2030 programme. The plan's distinctive characteristics are a focus on operating cost control and optimal usage of available funds. As a result, anticipated capital investment for the period 2017-2021 is estimated to be SAR 14.5 billion. This will be focused on replacement of existing assets, improvement of production capacities and capabilities in farms and manufacturing facilities, distribution and transportation facilities, extension of our geographic footprint and the enhancement of innovation and product development capabilities. The investment programme will be financed from Operating Cash Flow. We will also take advantage of finance resources available from banks, the Saudi Industrial Development Fund, the Agricultural Development Fund and Sukuk programmes.

By the end of 2021, the plan will have created 4,500 jobs for Saudi nationals, 20.0% of which will be for women, confirming the important economic and social role we play in the Kingdom's food and beverage industry.

## Putting consumers first

We focus on continuous improvement and diversification of our offering across existing categories. To achieve this we follow a rigorous process of research, development and quality assurance. Our consumers can thus be assured that our Dairy, Juice, Bakery, Poultry and Infant

Nutrition products have been conceived and developed to meet their specific needs. Careful measurement and analysis of consumer insights underpin every part of our product development strategy.

## Managing our supply chain

Vertical integration requires Almarai's stringent quality standards to be met or surpassed at every stage. First-class ingredients are sourced from around the world before passing through industry leading manufacturing facilities in Saudi Arabia, Egypt and Jordan. We import 1.5 million tonnes of animal feed annually, an increasing proportion of which is supplied from our own arable farming assets around the world. These are managed according to international best practice principles, ensuring that our dairy and poultry farms consume only the highest quality feed.

## Growth and expansion

We are committed to the ongoing growth of our presence in existing categories – and expanding our reach across the region. In 2016 we continued to grow sales across core categories and through our joint venture, IDJ (International Dairy & Juice), in Egypt and Jordan. The expansion of our geographic footprint since listing on Tadawul in 2005 has reduced our reliance on sales in the Saudi market, while product diversification has reduced dependence on our Dairy range. Innovation and efficiency gains will generate stronger cash flow and improve Working Capital management to support Capital Expenditure for future growth.



# Marketplace

The regional food and beverage market faced another challenging year in 2016. Population growth slowed, while pricing competition among manufacturers increased due to falling sales volumes and growing pressure on profit margins. Certain food and beverage categories – including juice – contracted.

Other macroeconomic conditions affecting the industry included the increase in fuel, water and electricity prices, which had a direct impact on transport and distribution costs. Global dairy prices reached new lows in 2016, encouraging European competitors to export products such as UHT milk to the regional market and sell them at very low prices.

Despite these difficult operating conditions, we successfully managed our bottom line and met the challenge of rising costs. While market share percentage declined in certain categories, overall performance against the market was strong. Some competitors were forced to discount products by as much as 10.0-15.0%, while we continued to sell most of ours at premium prices.

At retail level, we successfully gained share of shelf space, a notable achievement. Almarai’s current average share of the total consumer food and beverage shopping basket is 5.0-6.0%, which is very strong compared to our competitors. We aim to continue growing this share over the next four to five years.

Overall, we were successful in rising to the various challenges during the year. Commercial innovation is now more important than ever if we are to maintain and grow our profitability, become more resilient and continue our sector leadership. Many of our flagship products continue to perform exceptionally well – for example fresh milk in Saudi Arabia now exceeds 68.0% of total volume market share and zabadi (plain yoghurt) accounts for more than 66.0% of Saudi Arabia’s volume market share, while leading Bakery products such as L’usine sliced bread exceed 68.0% of the Kingdom’s volume market share.

# Business model

Almarai's distinctive business model is focused on achieving 'Quality you can trust'. A commitment to continual improvement lies at the heart of our day-to-day activity – and our business model helps management and staff understand and manage the interrelated processes that contribute to our effectiveness and efficiency. The application of this system allows us to:

- Understand and consistently meet the requirements of our stakeholders
- Consider all business processes in terms of added value
- Achieve a high level of operational performance
- Improve our processes based on careful evaluation of data and information

## Business process map

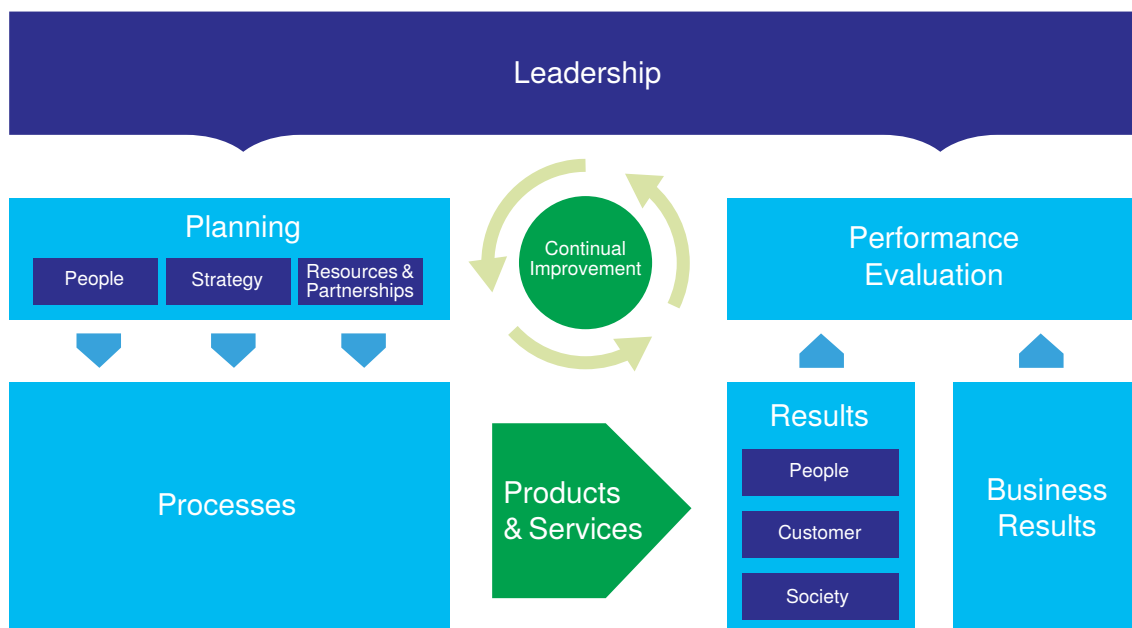
Our business process map is based on the ISO 9001:2015 'Plan, Do, Check, Act' cycle and has been developed in alignment with the European Foundation for Quality Management framework.

## An improved quality framework

In 2016 we began the process of aligning our business with the new ISO 9001:2015 quality management standard. The transition period is ongoing and will continue until 2018, with Almarai having conducted its first audit against the new standard in October 2016. We expect to receive certification against the revised standard in 2017. As part of the process of unifying our Quality Management System (QMS), we will be implementing, as a Standard, an Integrated Management System (IMS) in 2017. This will include:

- Quality (ISO 9001:2015)
- Food safety (ISO 22000:2005)
- Environment (ISO 14001:2015)

The IMS will be applied across Almarai, with the aim of better aligning quality management with other standards and adopting a broader, risk-based approach. It will make use of documented information that will be rigorously controlled and maintained. Application of the new standard takes into consideration the context of our business, the expectations of our stakeholders and our proactive leadership – rather than a narrow focus on QMS alone.



# Divisional review

## Fresh Dairy

The Fresh Dairy segment has been at the heart of the business since our foundation in 1977. We are the world's largest vertically integrated dairy producer and the GCC's market leader. Core products within the flagship Fresh Dairy business unit include fresh milk, laban, zabadi (plain yoghurt), labneh, fresh cream, fruit yoghurts and dairy desserts, all of which are available to consumers across the GCC.

Consistent focus on execution and excellence in business fundamentals resulted in favourable performance in 2016. The highest quality products continue to be manufactured and delivered to more than 110,000 retail outlets on a daily basis. Impactful communication campaigns strengthen our brand's appeal while innovation around new products, line extensions and packaging improvements added to consumer satisfaction.

Fresh Dairy continued to deliver strong results with sales growing to SAR 6,088.0 million (+5.3% growth on 2015). Within the category, the flagship products of fresh laban, milk and zabadi have gained market share by nearly 2.0% points across the board.

## Long Life Dairy

The product range within the Long Life Dairy portfolio includes UHT milk, evaporated milk, whipping cream, cooking cream, UHT cream and the newly launched milk powder product. The launch of Almarai milk powder was an important milestone for the Long Life Dairy category. Until 2016, we had not been in the powdered milk category, which represents nearly 30.0% of the GCC's total milk category.

The Long Life Dairy category realised strong growth with sales reaching SAR 1,543.2 million (+14.6% on 2015). The launch of powdered milk, coupled with a strong performance by the export business, helped drive higher growth. Margins increased, mainly due to a worldwide decrease in dairy commodity prices. Long Life products such as labneh and cooking cream have also been high performers and have proved popular with consumers.

## Fruit Juice

The Juice segment occupies an important place in our wider product portfolio. We offer consumers a wide range of mixed and 100% juices, including a range designed specifically for children. The total range of Almarai juices now includes more than 30 flavours. We have revamped and redefined the category with superior and innovative offerings. Our brand also benefits from differentiated value propositions, a rich heritage and a high level of quality. Almarai juices are available across the GCC, while our joint venture, IDJ, has been important for boosting juice sales in Egypt and Jordan.

The Juice category performed very strongly in Egypt, gaining 4 percentage points market share to close the year at more than 20.0% market share. In the GCC, the newly introduced Watermelon and Grape flavours saw us gain 2 percentage points market share across our key markets. The introduction of lower sugar content flavours (our 'Light' range) and the re-launch of our children's range under the Nijoom sub-brand were enthusiastically received by consumers. As a consequence of the macroeconomic environment, the wider category experienced a decline. As a result, sales of SAR 1,952.4 million in 2016 showed growth of 1.5% on the previous year.

## Cheese and Butter

Our Cheese and Butter portfolio is broad-based, spanning three key product segments:

- Processed Cheese, including spreadable cheese (jars), slices, portions (triangles & squares), and Cheddar (tins & blocks)
- Natural Cheese formats comprising Feta, Mozzarella and Halloumi
- Butter, together with ghee

The year was a challenging one, with a higher level of competitor activity sustained from 2015. While GCC markets experienced deep price discounting, sales were supported by improved performance in exports. Due to a weak performance in our core markets, sales revenue of SAR 1,690.6 million increased by just 0.1% on the previous year.

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## Bakery

We have sustained and grown our leadership of the GCC's bakery category by expanding our distribution network and continuously developing new products. Our brands, L'usine and 7Days (a joint venture with Chipita and Olayan Group), offer sweet and savoury baked goods to consumers across the GCC.

The launch of our fifth manufacturing facility at Hail during the second half of 2016 was a key milestone for the segment and provided capacity that had been lost as a result of the fire incident at the Jeddah bakery facility in late 2014.

The strong performance of L'usine was driven mainly by white bread, milk bread and cream cheese sandwiches. Bakery performance was further supported by the launch of the Strudel product, under the 7Days brand. New product launches included cupcakes, brown squares and wraps. These were supported by the increased capacity provided by the new Hail facility, and helped Bakery to become Almarai's leading growth engine in 2016. Overall, Bakery sales grew by 16.3% compared to 2015, reaching SAR 1,890.8 million.

## Poultry

Our Poultry range was first introduced to consumers in 2010, and has since enjoyed impressive sales growth. Alyoum's premium fresh products vary from whole chickens to portion packs and value-added options. Significant investment in the category has enhanced our production capabilities and boosted expansion of

the category. The Alyoum brand focuses on delivering a premium product that is convenient for consumers, with value-added and portion options proving particularly popular. Poultry products are sold in all GCC countries except Oman.

Notwithstanding fierce competition from frozen imports in the first half of 2016, Poultry sales grew by 8.4% to SAR 1,368.4 million, thanks to consumer-trusted branding, attractive packaging and an unmatched distribution and sales reach. Due to difficult market conditions and increasing energy prices, losses in the Poultry segment increased by 37.6% to SAR 294.5 million. Losses were partly mitigated by better supply chain productivity and the improved efficiency of our farms.

## Infant Nutrition

Since acquiring full ownership of IPNC in 2014, Almarai has manufactured and distributed its own Infant Nutrition products under the Nuralac and Nuralac Plus brands. These are developed at our industry-leading Infant Nutrition plant in Al Kharj, Saudi Arabia. Our advanced Infant Nutrition products are available to families across Saudi Arabia and neighbouring markets. The success of the Nuralac and Nuralac Plus brands continued throughout the year, with market share increasing. Our new infant cereal product, Nurababy, and children's supplement, Nuraplus Suregrow, launched in late 2016, are expected to contribute to further market share growth in 2017.

# Vision into Action

Almarai's five year plan is reviewed annually by the Board of Directors. It reaffirms our vision to be the consumer's preferred choice by leading in chosen markets with superior food and beverage products. We are thereby committed to growing our presence across segments and geographies, while driving innovation and identifying new opportunities for growth.

The Almarai Vision into Action statement embodies all aspects of our strategy and incorporates a performance scorecard (the financial targets we

set ourselves) reinforced by our priorities and sustainability commitments. It provides a clear basis for communication to all levels throughout the Company.

The success of Vision into Action against our strategic priorities is measured by a set of Key Performance Indicators (KPIs). These cover our financial, employee, operational and consumer performance. The Board remains confident that its strategy and action plan will deliver against a background of challenging economic and political scenarios in the region.

Quality you can trust	Defend and grow the core business	Turnaround of underperforming assets	Develop world-class capabilities; transform the organisation
Safe products	Category growth driven by consumer insights	<b>Poultry</b>	Enhance organisational structure
Legally compliant products	Selectively extend core categories into higher value offers	Broader availability	Improve leadership development
Superior product quality	Increase market share and growth in certain channels and geographies	Extend brand	Improve employee retention
Consistently meeting consumers' expectations	Optimize margins	Extend channels	Develop world-class trade and consumer marketing
Culture of quality	Increase capacities	Reduce costs	Improve consumer insight gathering
Integrated Quality Management System	Secure importation of feed	<b>Infant Nutrition</b>	Develop world-class sales for new channels
		Close gap on competition	
		Safeguard specialised suppliers	
		Intensify healthcare relations	
		Extend distribution	
		<b>Joint Ventures</b>	
		Grow net sales	
		Transform supply chain	
		Reduce costs	

# CEO review

The year saw a solid performance by Almarai. This was achieved in a changing and challenging environment. We're pleased to report another year of strong growth, delivered by the tireless efforts of our team to meet our stakeholders' expectations.

## Group performance

Against a challenging macroeconomic backdrop of weak oil prices, increased utility, electricity and fuel prices, and the discontinuation of certain allowances for public sector employees, resulting in lower consumer spending power, we successfully protected and improved our margins. We achieved a Net Income of SAR 2,080.5 million, an increase of 8.6% on 2015. This growth was accomplished by a strong focus on managing costs, improving operational efficiency and streamlining our processes. We made genuine progress towards fulfilling Ministerial Council Resolution 66, dated 7th December 2015, by importing 80.0% of our forage requirements. We are now well on track to import 100.0% of our animal feed requirements by 2019. In addition, we invested SAR 4.5 billion, representing more than 30.2% of sales, in new plants, farms and logistics infrastructure to meet future consumer demand, as well as successfully commissioning a new state-of-the-art bakery plant in Hail.

## Consumers at our heart

'Quality you can trust' is a vital part of Almarai's DNA. Our commitment to consumers across the Arab world influences every aspect of our work, from the quality of our range and delivery infrastructure, to the placement and ever-growing availability of our products. Our

manufacturing facilities operate on an environmentally, economically and socially sustainable basis, and we respond directly to our consumers' needs and demands. 2016 saw an excellent example of this approach, with our enormously successful range of cupcakes. Our new bakery in Hail was made operational in record time, with cupcakes delivering exceptional sales volume performance in the second half of the year.

## Investing in people

During the year, we maintained our commitment to developing our people; nurturing and rewarding talent, and providing opportunities for the Kingdom's local workforce. Our Dairy and Food Polytechnic continues to go from strength to strength, recruiting more than 360 Saudi students in 2016. Our Graduate Professional Trainee (GPT) programme also developed positively, growing the number of local candidates employed across divisions. Meanwhile, the Almarai Sales Academy attracts a growing number of Saudi candidates, and our newly introduced Almarai Future Leaders programme will prepare high-potential employees for management roles. The roll-out of Project Horizon, our bespoke succession planning initiative for more senior roles, continued in 2016 and received a strong level of buy-in and support. Outstanding results will only be delivered by outstanding people – and these initiatives are fundamental to attracting and retaining the very best employees.



## Strategic pathway 2017

In the coming year, Almarai will continue building for the future. This will include the commissioning of new plants to meet increasing consumer demand, as well as new farms to increase our production of alfalfa outside Saudi Arabia to comply with the Kingdom's 2019 regulations. As in 2016, we will maintain our efforts to improve our operational efficiency and reduce costs, making Almarai a more agile organisation, better prepared for the challenges we face. We will continue to focus efforts on enhancing the efficiency and productivity of our underperforming assets. This process is already well underway, and we are confident of further improvements in 2017.

In conclusion, I would like to thank our most important stakeholder groups. Firstly, our management and staff deserve high praise for their tireless efforts to deliver excellent results consistently, and I'm proud to highlight another superb team performance. I would also like to thank our experienced and committed Board, for their forward-looking guidance and continuous support. Most of all, I would like to thank our consumers. It is their love for our products that makes Almarai the Middle East's leading food and beverage manufacturer and distributor, and we will continue to place consumers at our heart so we can meet and exceed their expectations in the coming year.

**Georges P. Schorderet**

**Chief Executive Officer**

# CFO review



In 2016 we continued to exploit opportunities for financial optimization, with the aim of adapting to the economic challenges we are facing in the region. Overall leverage of the Company is managed within a maximum limit of 3x Net Debt to EBITDA, while the level of capital investment as per the strategic plan reached a record level of SAR 4.5 billion.

Given our significant capital investment requirements, one of our main objectives was to ensure long-term, reliable, diversified and efficient sources of funding. Another important objective was to build our flexibility to manage the various risks and exposures the Company faces. Both of these objectives were met in 2016, and will be important cornerstones of our financial policy in the coming year.

## The financial environment

The year was characterised by a series of important events, directly impacting both Almarai and the wider food and beverage industry. With liquidity in the Middle East increasingly scarce, particularly in Saudi Arabia, the cost of financing for all types and maturities of instruments increased. At the same time, new taxation

measures aimed at reducing fiscal deficits put pressure on businesses of all sizes, while economic instability in Egypt, particularly in terms of access to hard currency, provided challenges for our joint venture, IDJ.

## Financial highlights

Throughout 2016 Almarai maintained ample, diversified and competitive financing, despite adverse market conditions. We successfully established a long-term revolving dual tranche credit facility both in US Dollars and Saudi Riyals, totalling SAR 2.3 billion. We also successfully implemented an equity injection of USD 55 million for our joint venture activities with IDJ in Egypt.

## Managing risk

In the course of the year, the maturity profile of our existing debt facilities was extended from 3.8 years to 4.4 years, enabling us to benefit from favourable long-term interest rate curves. The proportion of fixed and floating rate increased to a range of 50.0%-60.0% in anticipation of an interest rate increase. Our foreign exchange (FX) exposure, mainly to the Euro, British Pound and Egyptian Pound, was actively managed to deliver strong and positive results of SAR 44.7 million. In countries experiencing high levels of inflation – particularly Argentina and Egypt – there was close and constructive collaboration between local and corporate finance teams to mitigate the impact of currency devaluation on our group cash flow. We continued to develop our commodities hedging programme for corn, soya beans and sugar, with an established risk framework in place to guard against challenges created by volatile prices. Our corporate finance team also engaged in a comprehensive overhaul of our existing insurance policies to ensure optimized coverage aligned with our changing risk profile.

**Paul-Louis Gay**

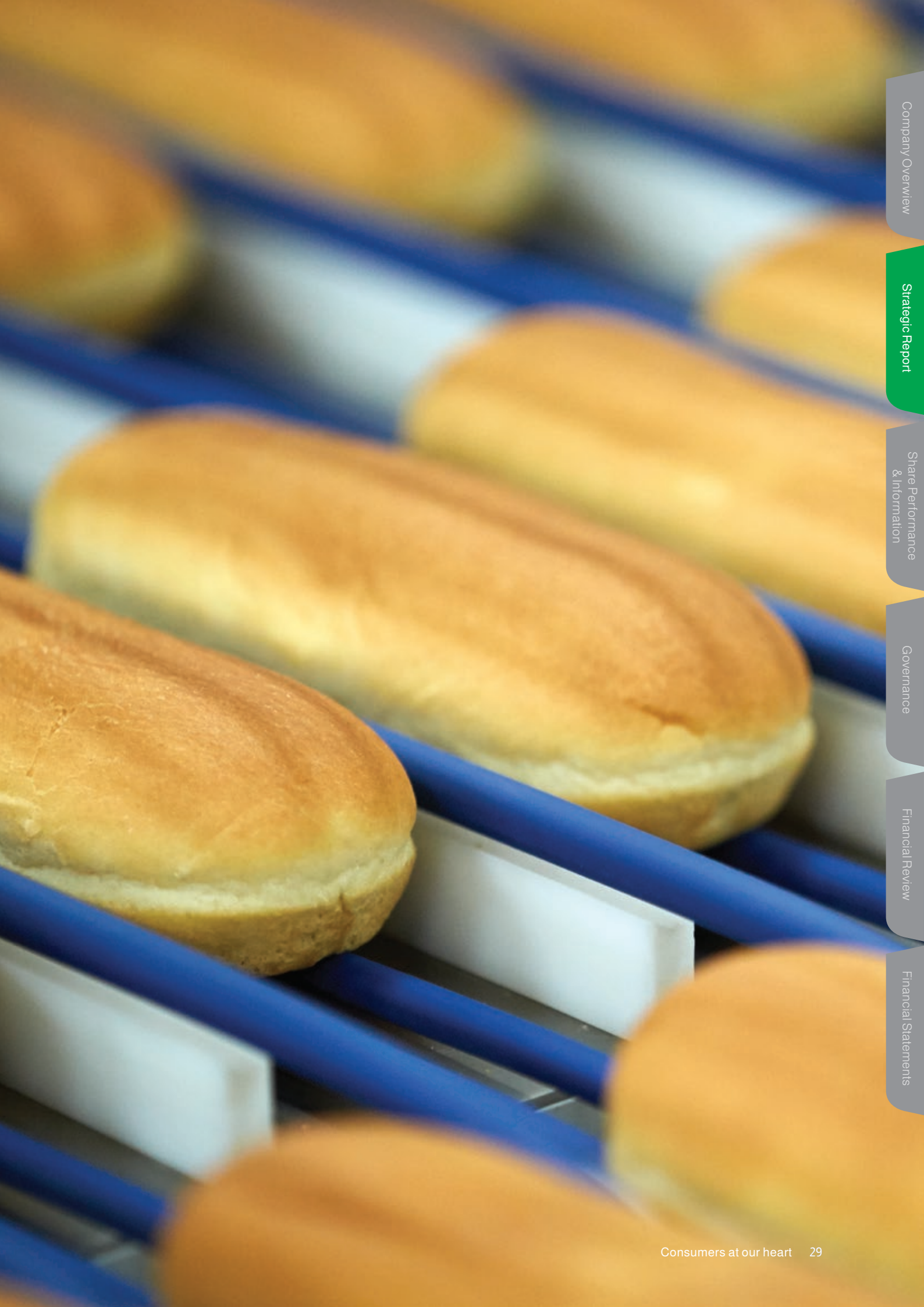
**Chief Financial Officer**



# Five year financial highlights

(SAR million)	2016	2015	2014	2013	2012
<b>Operational Performance</b>					
Sales	14,699	13,795	12,606	11,219	9,883
Gross Profit	5,834	5,283	4,535	3,952	3,551
Operating Income	2,542	2,262	1,998	1,797	1,673
<b>Net Income</b>	<b>2,080</b>	<b>1,916</b>	<b>1,674</b>	<b>1,502</b>	<b>1,441</b>
<b>Balance Sheet</b>					
Net Working Capital	1,364	1,383	2,006	1,535	932
Property, Plant and Equipment	21,138	18,696	16,176	15,028	13,416
Biological Assets	1,292	1,228	1,070	992	901
Intangible Assets	931	1,009	1,350	1,310	1,335
Investments	199	198	325	479	244
Net Debt	10,889	9,344	8,762	8,053	8,237
<b>Total Equity</b>	<b>13,457</b>	<b>12,618</b>	<b>11,631</b>	<b>10,764</b>	<b>8,171</b>
<b>Total Assets</b>	<b>29,023</b>	<b>27,371</b>	<b>23,949</b>	<b>23,171</b>	<b>19,519</b>
<b>Total Liabilities</b>	<b>15,566</b>	<b>14,753</b>	<b>12,318</b>	<b>12,407</b>	<b>11,348</b>
<b>Cash Flow</b>					
Cash Flow Generated from Operating Activities	4,394	4,932	3,199	2,586	2,736
Capital Expenditure	4,451	(4,005)	2,740	(2,799)	(3,138)
Free Cash Flow	(506)	523	84	(716)	(548)
<b>Key Indicators</b>					
EBIT to Sales	17.3%	16.4%	15.8%	16.0%	16.9%
EBITDA to Sales	25.3%	24.2%	23.5%	24.4%	24.2%
Return on Net Operating Assets	11.3%	11.2%	10.7%	11.0%	12.2%
Net Debt to Equity Ratio	80.9%	74.0%	75.3%	74.8%	100.8%
<b>EPS — Basic*</b>	<b>2.54</b>	<b>2.35</b>	<b>2.04</b>	<b>1.87</b>	<b>1.81</b>
<b>EPS — Diluted*</b>	<b>2.52</b>	<b>2.33</b>	<b>2.03</b>	<b>1.86</b>	<b>1.80</b>
<b>DPS (Dividend Per Share)*</b>	<b>0.90</b>	<b>0.86</b>	<b>0.75</b>	<b>0.75</b>	<b>0.63</b>

\*Based on 800 million shares



# Our delivery

Maintaining the efficiency of our operations ensures we deliver against consumer and shareholder expectations. In 2016 we managed our supply chain effectively, with minimal disruption and no major interruptions or power outages at our manufacturing facilities. Our Manufacturing, Sales and Distribution divisions performed exceptionally well during the Holy Month of Ramadan, when we are under considerable pressure to deliver high volumes on time and in perfect condition.

## Strong performance by core categories

Despite challenging economic conditions, our core categories continued to perform strongly, increasing market share and driving growth. Our Dairy products continued to grow their share of market value, with exports also increasing. While the Juice category came under pressure, we successfully maintained a stable market share. Our Bakery category was the highlight of the year, experiencing strong volume growth across the region, opening a new factory in Hail and successfully relaunching our highly popular cupcake category. This product had been absent for two years following

the closure of the Jeddah facility in 2014, due to a fire incident.

## Growing other categories

Our Infant Nutrition business, IPNC, successfully increased its market share. We improved product penetration, particularly for Stage 3 formula, and performed well in the key cities of Riyadh and Jeddah. Our Poultry brand, Alyoum, achieved volume growth of 16.0%, and successfully maintained market share in a challenging environment following the arrival of a high volume of cheap frozen imports to the region. Improvements to poultry farming methods and technology contributed to reduced wastage, while efficiency measures across the value chain further optimized operational costs.

## Product innovation and improvement

The development of innovative products and the renovation of our existing ranges is a vital aspect of our mission to deliver the highest quality, best-loved products. New and improved product highlights in 2016 included:

Category	Product
Dairy liquids	Almarai Milk Powder Can Almarai Milk Powder Pouch Mango Flavoured Laban Nijoom Banana Flavoured Milk Nijoom Vanilla Flavoured Milk
Dairy culinary	Unsalted Spreadable Butter
Juice	100% Grape Juice No Added Sugar Nijoom Mixed Fruit Juice Drink With Added Vitamins Nijoom Apple Juice Drink With Added Vitamins Nijoom Orange Juice Drink With Added Vitamins Watermelon With Pulp Juice Drink
Bakery	Brown Sandwich Squares Milk Sandwich Rolls Caramel Cupcake Chocolate Cupcake Strawberry Cupcake Vanilla Cupcake
Poultry	Marinated Chicken — BBQ Flavour Alyoum Premium Frozen Whole Chicken Marinated Whole Chicken — Chili Flavour in Vacuum Bag Marinated Whole Chicken — Curry Flavour in Vacuum Bag
IPNC	Almarai Nurababy Cereals Cans and Sachets Almarai Nuralac Plus Stage 3 Sachets Almarai Nuralac Plus Suregrow



## Operational improvements

In 2016 we began fine-tuning our forecasting system to better meet market demand. This ongoing initiative will continue into 2017. On the retail floor, we successfully increased the number of Almarai-branded display fridges and coolers in the market, thereby improving product availability and boosting brand visibility. In a challenging economic environment, we successfully managed operating costs by improving the efficiency of our manufacturing and distribution activities. This was achieved partly through automation of our warehouses, production lines and sales, which increased capacity and lowered costs.

Almarai has become increasingly process-driven in its operations, with the Almarai Project Approach (APA) rolled out across the Company. APA streamlines the management and monitoring of projects, ensuring a focus on executing only those that are of the highest strategic and operational importance. By responding to challenging market conditions in an agile and adaptable way, we are able to quickly take corrective actions that protect our business and deliver continued benefits to our bottom line. This was reflected by a strong improvement in our margins during 2016.

## Looking ahead

Our strategy for 2017 will be broadly similar to this year, with a focus on improving efficiencies and adapting our day-to-day operations to a difficult economic environment. Household budgets remain under pressure across the GCC, with population growth slowing and the expatriate population experiencing some contraction. We will continue to focus on products and categories that drive growth, taking a 'fewer, bigger, better' approach to new launches. In 2017 we will be commissioning a new dairy plant in Al Kharij, expanding production capacity for our most important core category and enhancing production resilience to ensure we can continue to reliably meet consumer demand. We will maintain our focus on understanding and addressing consumers' needs to ensure that we continue to develop and deliver the right products to the market. Lastly, we will increase our efforts to grow revenues from the foodservice (catering) sector, where we have identified significant opportunities across categories.

# Investing in leaders

The work of our Human Resources team is driven by Almarai's core philosophy of 'Quality you can trust'. Our philosophy has been a key factor in our success in attracting the right talent, developing the skills of our existing staff and creating long-term relationships with our people. Our employees are fundamental to the delivery of our core values. It is their ability that drives innovation and upholds our high quality standards.

In 2016 we continued to invest in attracting and retaining local Saudi talent and will continue to do so in the year ahead. As at 31st December 2016, Almarai employed more than 44,500 people across the Middle East, with a Saudization percentage of 25.0%, reaching platinum level in eight out of nine of our business segments.

## Almarai Future Leaders

Delivering on our vision requires strong leadership. With the Almarai Future Leaders programme, we have embarked on a journey to identify high potential graduates with the potential for key leadership roles. The programme is an accelerated two-year learning process, in which candidates come to understand our core business, gaining the knowledge and skills required to progress to key management positions. The programme in summary:

- A rotational two-year plan covering all parts of Almarai
- Candidates undertake 30 different leadership courses, establishing a sound understanding of the business and learning key management skills and techniques
- Almarai Future Leaders each have bespoke On-the-Job Learning (OTJL) plans to improve their understanding of specific business areas
- Each candidate has an assigned mentor to help develop their abilities
- Almarai Future Leaders have a clear career pathway towards their goals of becoming leaders within the Company

We aim to further develop the Almarai Future Leaders programme so that high potential graduate employees will be able to build on their existing capabilities and fulfil their professional potential.

## Almarai Academy

The Almarai Academy provides employees with learning and development opportunities that enable them to excel in their roles. It runs a wide range of training programmes that support colleagues in closing specific skill gaps and developing key competencies to boost their career progression. Carefully structured paths are created for employees, with more than 7,000 courses designed to nurture talent and reward it with success.

We harness industry-leading technologies and practices to help our team members fully engage with their career journeys. We also create structured development plans that help employees better understand the organisation and their role within it. Where necessary, we bring in external experts to educate employees on specific competencies, motivating them to achieve more and work towards leadership roles.



## Employee programmes

### Employee Stock Options Programme

Throughout the year we offered selected employees equity ownership opportunities and performance-based incentives that closely align their interests with those of our shareholders. The vesting of the option is dependent on meeting or exceeding annual performance targets in accordance with our five year plan.

### Housing Loans Programme

During 2016 we continued to offer our Saudi employees a housing loan as part of our objective to attract highly qualified local talent. This helps Saudi nationals to own homes at low cost, demonstrating our commitment to providing long-term careers for the Kingdom's workforce. The programme is offered to outstanding employees in accordance with regulatory policies and procedures and is an important part of our efforts to support employment nationalisation in the Kingdom's food and beverage industry.

### E-learning

In 2016 we moved into an exciting phase of our learning and technology journey in support of employee development. We launched the Almarai LMS (Learning Management System), which provides modern e-learning and video learning solutions to our staff, enabling them to advance their careers.

We call our approach 'Just in Time Learning', which means that our people take ownership of their own learning needs, driving a more individual and self-motivated approach to their development. In the coming years, we will harness developments in technology to improve our approach and enable us to reach team members anywhere in the business.

# Action for a sustainable future

Sustainable businesses are more profitable, more productive and better equipped to face future challenges. We implement industry-leading practices to protect the well-being of our consumers and our employees, ensure the health of our farm animals, protect the natural environment and generate significant economic value. This year we initiated a process to systematically embed sustainability across the organisation to benefit all stakeholders, while maximising the value we create for our business and shareholders.

## Our sustainability framework

The first step in this process, completed in 2016, is Almarai's sustainability framework. The framework addresses what sustainability means for Almarai, identifying areas of management that concern our stakeholders and that can be influenced by our business. By carefully balancing these six areas while running our business, taking decisions and communicating with stakeholders, we believe we will build a more inclusive, resilient and successful company.



### 1. Promote responsible consumption

We are committed to increasing awareness among consumers to make better informed choices in regard to the nutritional value of products, food waste reduction and reuse, as well as marketing our products responsibly. This includes:

- Demand forecasting
- Responsible marketing practices that communicate nutritional value and the importance of a healthy lifestyle. We do not market 'fun-for-you' products to children under 12 years old
- Transparent product labelling including nutritional facts
- Communications platforms covering nutritional education and encouraging an active and healthy lifestyle. We display health-related messages on our website and through media and social media channels

### 2. Ensure ethical and sustainable sourcing

We ensure that our product ingredients and other inputs are sourced according to the highest ethical, environmental and social standards. This includes reducing the biodiversity impact of our farming operations and protecting the health and well-being of our farm animals.

### 3. Prioritise quality and safety

Our promise to all stakeholders is to deliver 'Quality you can trust'. We are committed to offering products that are manufactured to the highest food safety standards and contribute to a nutritious and balanced diet. We are also committed to providing a safe working environment for our employees.

- We offer a range of products with reduced fat, salt and sugar content
- We comply with rigorous and internationally recognised food quality and safety standards
- Our five year plan includes a clear set of objectives for the safety of our employees, in addition to other best practice Health, Safety, Security & Environment (HSSE) measures

### 4. Reduce natural resource use and waste

We make continuous efforts to manage the environmental footprint of our business. We strive to reduce our impact on the environment by lowering our greenhouse gas emissions, energy use, water consumption and waste generation throughout the value chain. This includes:



- Packaging reduction
- A new energy strategy aimed at reducing consumption and increasing the use of renewable energy and waste-to-energy production
- Transferring our arable farming operations to reduce water consumption in Saudi Arabia, as per the country’s regulatory framework

### 5. Nurture and reward colleagues

We aim to establish a long-term relationship with our most valuable asset – our employees. We are committed to attracting, developing and retaining a motivated and diverse workforce in Saudi Arabia, and to prioritising the development of local leadership. Therefore:

- We run a number of leadership and professional development initiatives for Saudi employees, including the Almarai Future Leaders programme, the Graduate Professional Trainee programme, the Dairy & Food Polytechnic and the Almarai Sales Academy
- We have implemented a programme for developing talent and planning for succession at a number of management levels within the Company
- We employ an increasing number of women, in line with our objective to provide equal career opportunities in the Saudi market

### 6. Generate significant economic value

A healthy bottom line is essential to the success of any business. We aim to continuously improve efficiencies

and cost savings, profitability, innovation and growth, while at the same time contributing to the socio-economic development of local communities. We achieve this by:

- Automation of warehouses, production lines and sales to increase capacity and lower costs
- Almarai Project Approach (APA) to manage, monitor and prioritise strategic projects
- GCC academic awards including the Almarai Scholarship Excellence Award, the Almarai Scientific Innovation Award and the Almarai Veterinarian Award
- Factory visits for more than 40,000 school children per year

### Sustainability strategy

Having developed our sustainability framework, we have identified follow-up actions that will improve performance for each key pillar. We have also defined short, medium and long-term actions around governance, strategy development, capacity building, performance management and reporting. The ongoing development of our sustainability strategy will enable us to build on our quality foundations and maximise stakeholder value. Relevant KPIs, aligned with international guidelines such as the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB), will help us to measure performance and progress towards our goals. We aim to publicly disclose our performance in a dedicated Sustainability Report from 2018 onwards.



# Care and corporate responsibility

Our commitment to enriching people's lives goes beyond our core business to embrace society more widely. If we invest in our local communities, we will all enjoy long-term benefits – so as a responsible corporate citizen, we play an active role in supporting social causes through a mix of charitable donations and event sponsorships. Our community investment programme spans several fields including health, science and education. We believe it is our duty to make a positive contribution to enhancing the lives of everyone in the communities in which we operate, creating opportunities and inspiring hope.

## Employee health, safety and well-being

As our distribution fleet continues to grow, the Almarai Driving School provides high-level training for all lorry and heavy truck drivers joining the Company. Trainees are equipped with the knowledge and skills required to improve their driving skills, benefiting themselves and other road users. Employee welfare is equally important to us. We apply international occupational health and safety standards across the business, and have introduced policies to stimulate employee engagement, encouraging constructive internal communication. Beyond our day-to-day business, we work hard to promote the health and well-being of families across the region. In 2016 we launched an online campaign to champion breast feeding, having discovered that it is increasingly uncommon among Saudi mothers. Our video campaign ranked no. 1 as most viral in the MENA region and was the second most shared video in the world within a week of launching. It has played a key role in boosting awareness around the issue. The supporting campaign, which communicated the message: 'The best milk for your baby cannot be bought' was shortlisted at the Cannes Lions 2016 advertising awards.

## Ramadan

During the Holy Month of Ramadan, food wastage has become an increasing problem. We communicated a clear message that, however much one eats with friends and family, it is essential to finish your plate. We made it clear that our consumers should honour the blessing of food, and not purchase it in excess. Almarai's campaign was very well received across both social and mainstream media, and we received strong support for our approach from a number of leading newspapers.

## Charitable work

During the year we continued our support for Saudi Arabia's disabled community, participating in events and providing Almarai products. We also maintained our participation in the Qaderoon programme, which helps provide jobs for disabled people. As a food and beverage manufacturer, we have a unique opportunity to help feed those who are in most need. This year we supported orphaned children in remote areas of the Kingdom by providing school breakfasts in partnership with the Insan Charity.

## Recognition

The care we show for our community is most clearly demonstrated by the respect and support we receive in return. Our consumers know they can rely on our philosophy of 'Quality you can trust' – and this is evident across our social media channels, which enjoy an exceptionally strong following. In 2016 we exceeded 4.2 million likes on Facebook, with more than 230,000 and 153,000 followers on Twitter and Instagram respectively.



# Share Performance & Information

In more than ten years as a listed company we have consistently delivered growth for our shareholders.



# Share price and shareholder information

As at 31st December 2016 Almarai had 49,726 shareholders. Corporate investors represent 63.7% of the total share ownership, while individual investors represent 36.3%. There are 39 shareholders owning

one million or more shares in Almarai, representing 89.7% of the issued shares. The following tables provide an overview of Almarai's investors:

## Almarai investors according to nature of investor

Investor Type	Number of Investors	Number of Shares	Percentage of Ownership
Corporate	254	509,957,679	63.7%
Individual	49,472	290,042,321	36.3%
<b>Total</b>	<b>49,726</b>	<b>800,000,000</b>	<b>100%</b>

## Almarai investors according to nationality

Nationality	Number of Investors	Number of Shares	Percentage of Ownership
Saudi	49,384	780,032,246	97.5%
Other nationalities	342	19,967,754	2.5%
<b>Total</b>	<b>49,726</b>	<b>800,000,000</b>	<b>100%</b>

## Almarai investors according to investor type

Investor	Percentage of Ownership	Number of Investors
SAVOLA Group Company	36.5%	1
HH Prince Sultan bin Mohammed bin Saud Al Kabeer	23.7%	1
Private funds	16.5%	5
Governmental and quasi-governmental institutions	4.0%	9
Mutual funds	2.4%	88
Swap agreements	1.4%	37
Companies	1.4%	87
Banks and financial institutions	0.5%	8
Other corporates	1.0%	19
Other individuals	12.6%	49,471
<b>Grand Total</b>	<b>100%</b>	<b>49,726</b>

## Almarai investors according to size of ownership

Number of Shares	Number of Investors	Percentage of Ownership
1 million shares and more	39	89.7%
From 500,000 to less than 1 million	17	1.5%
From 100,000 to less than 500,000	108	3.0%
From 50,000 to less than 100,000	102	0.9%
From 10,000 to less than 50,000	619	1.6%
From 5,000 to less than 10,000	562	0.5%
From 1,000 to less than 5,000	5,461	1.2%
Less than 1,000 shares	42,818	1.6%
<b>Total</b>	<b>49,726</b>	<b>100.0%</b>

## Ownership notification

According to Article (45) of the Listing Rules issued by the Capital Market Authority, during 2016 Almarai received notifications of new ownership percentage of more than 5.0% of the shares issued to the Company. The changes in the number of shares owned by

shareholders owning 5.0% or more occurred as a result of Almarai's capital increase, following approval at the Extraordinary General Assembly meeting held on 3rd April 2016.

The following table outlines ownership of 5.0% or more of the issued shares:

## Ownership of 5.0% and more of the issued shares

Investor	Beginning of the Year		End of the Year	
	Number of Shares	Percentage of Ownership	Number of Shares	Percentage of Ownership
SAVOLA Group Company	219,130,942	36.5%	292,174,589	36.5%
HH Prince Sultan bin Mohammed bin Saud Al Kabeer	172,173,922	28.7%	189,565,229	23.7%
Omran Mohamed Al-Omran and Partners Company	34,226,088	5.7%	-	-
<b>Total</b>	<b>425,530,952</b>	<b>70.9%</b>	<b>481,739,818</b>	<b>60.2%</b>

## Main transactions, investments and other events

### Purchase of agricultural land in California

This transaction forms part of our ongoing efforts to improve and secure the supply of the highest quality alfalfa from outside the Kingdom to support our Dairy business. It is also in line with the Saudi government direction in this regard.

### Appointment of Members of the Board of Directors for the new cycle

The Extraordinary General Assembly meeting, held on 3rd April 2016, elected Members of the Board of Directors from a number of candidates for the new cycle, which started on 7th August 2016 and ends on 6th August 2019.

### Share capital increase to SAR 8.0 billion

The Extraordinary General Assembly meeting on 3rd April 2016 approved a share capital increase from SAR 6.0 billion to SAR 8.0 billion. The aim of the increase is to adjust Almarai's share capital to its Asset Level. The programme aims to meet our capacity expansion needs across the Company (farming, manufacturing, distribution and logistics) and address investments required in product refinement and innovation. We will thereby be in a stronger financial position to achieve our aim of continuous growth and geographic expansion across core business segments. The share capital increase will also support improvements in operational efficiency, better utilisation of available resources and help create employment.

### Approval of the five year plan for 2017-2021

The Board of Directors approved the updated five year plan, which focuses on the continued development of Almarai's businesses across geographies, categories and channels, while controlling operating costs and optimizing usage of available funds. Estimated capital investment for the period 2017-2021 is SAR 14.5 billion. Investments will focus on replacement of existing assets, improved production capacity and capabilities in farming and manufacturing, distribution and transportation facilities, expansion of geographic footprint and enhanced product development and

innovation. The investment programme will be financed by Operating Cash Flow and will take advantage of financing available from banks, the Saudi Industrial Development Fund (SIDF), the Agricultural Development Fund (ADF) and Sukuk programmes.

### Partial and gradual commissioning of new bakery plant in Hail

With all reliability tests and quality checks passed, we initiated the partial and gradual commissioning and commercial operation of our new bakery plant in Hail, Saudi Arabia.

## Capital Expenditure (CAPEX)

CAPEX spend for 2016 was SAR 4.5 billion, in line with our five year Capital Expenditure guidance. Investment was distributed as follows:

- SAR 2.7 billion on manufacturing and farming capacity expansion projects
- Sales depot and logistics expansion accounted for SAR 0.6 billion
- Replacement and other CAPEX including IDJ and US land acquisition accounted for SAR 0.8 billion
- CAPEX spend on Poultry in 2016 was SAR 0.4 billion

CAPEX is a major driver in our growth plans, enabling us to maintain a competitive advantage, develop new products, and deliver sustainable shareholder value and the highest quality products to consumers.

## Treasury Shares

Own equity instruments are purchased (Treasury Shares), for discharging obligations under the Employee Stock Options Programme ("ESOP"). These Treasury Shares are recognised at cost of purchase (including any directly attributable cost) and are presented as a deduction from equity attributable to shareholders. Treasury Shares are utilised to discharge the obligation under the ESOP at cost.

### Share based payment transactions

Employees of the Group receive remuneration in the form of equity settled share based payments under the ESOP, whereby they attain an option to purchase shares of the Company ("Option"). In order to exercise their Option, the employees pay a predetermined exercise price, render services as consideration and comply with the vesting conditions.

The cost of the ESOP, representing the Fair Value of Options at grant date, is recognised as an expense in the Consolidated Statement of Income, together with a corresponding increase in Other Reserves, in Equity, over the period during which the service conditions are fulfilled.

Management has set up an economic hedge by purchasing Treasury Shares at inception of the ESOP. Accordingly, the Other Reserve (representing the cumulative expense arising from the ESOP) is transferred into Retained Earnings upon expiry of the ESOP, whether or not the Options are vested by employees.

The cumulative expense thus recognised at each reporting date, until the ESOP expiry date, reflects the extent to which the ESOP's term has expired and the Group's best estimate of the number of options that will ultimately be vested.

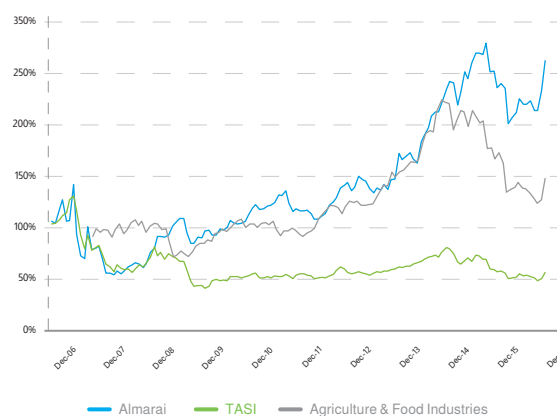
When the terms of the ESOP are modified, the minimum expense recognised is equal to the Fair Value of Options at grant date. However, an additional expense is recognised for any modification that increases the total Fair Value of the Option, or is otherwise beneficial to the employee as measured at the date of the modification.

When the ESOP is terminated, it is treated as if Options vested on the date of termination, and all remaining expense is recognised immediately. However, if a new ESOP is substituted for the terminated ESOP, and designated as a replacement ESOP on the date the new ESOP is granted, the terminated and new ESOPs are treated as if they were a modification of the original ESOP, as described in the previous paragraph.

### Share data

Performance (SAR)		
Share Price 31 Dec 2016	<b>68.49</b>	
Start of Year	1 Year Ago	3 Years Ago
<b>58.68</b>	<b>58.68</b>	<b>57.68</b>
High (29 Dec 2016)	Low (21 Jan 16)	Change
<b>68.50</b>	<b>40.90</b>	<b>16.72%</b>

Almarai share performance against the Tadawul All Shares Index:





# Governance

In nearly 40 years Almarai has built a reputation for corporate excellence, trust and consistent delivery on the expectations of wide-ranging stakeholder groups.

# Board of Directors

## **HH Prince Sultan bin Mohammed bin Saud Al Kabeer, Chairman**

His Highness is founder of Almarai Company, established in 1977 in the dairy industry. His Highness has investments in Yamama Cement Company, established in 1961, and Arabian Shield Insurance Company. He is a founder of the Saudi Yamani Cement Company (Yemen), Faraby Al Khaleej Petrochemical Co., Mobile Telecommunication Company Saudi Arabia (Zain KSA), Jousour Holding Company (part of Swicorp), Arab Company for Agricultural Services (Arasco), Al Salam Bank (Bahrain), Arcapita Bank (Bahrain), Dana Gas (UAE), IBC Co. (Lebanon), Kuwaiti Chinese Holding Co. (Kuwait), Kuwaiti Sudanese Holding Co. (Kuwait), Kuwaiti Jordanian Holding Co. (Kuwait), the First Education Co. (Kuwait) and the Kingdom Schools Co.

In addition to his role at Almarai, His Highness is Chairman of the Arab Union for Cement & Building Materials Co. and the Arabian Shield Cooperative Insurance Co. He is Managing Director of Al Yamama Cement Co., and Owner of Nova Al Jazeera Establishment, the Arab Cubs Establishment and the Technical Projects & Contracting Establishment.

His Highness is a Member of the Board of Trustees of the King Abdul Aziz and His Men for the Care of Talents, the Equestrian Club, the Graduates Association in the Capital Model Institute and the Piety Charity Society. He is Honorary Chairman of the Saudi Heart Association and the Saudi Hypertension Association.

HH Prince Sultan bin Mohammed bin Saud Al Kabeer holds a Bachelor's degree in Economics and Political Science from King Saud University, Saudi Arabia.

## **Dr. Ibrahim bin Hassan Al Madhoun, Director**

In addition to his role on the Board of Directors at Almarai, Dr. Al Madhoun is a Member of the Board of Directors of the Red Sea Housing Services Co., Herfy Food Services Co., Fitaihi Company and Al Obeikan Investment Group. He holds a PhD in Civil Engineering from the University of Arizona, USA.

## **Engr. Mosa bin Omran Al Omran, Director**

Engr. Al Omran is a Board Member of Banque Saudi Fransi and is an active member of the Young Managers Association. He holds a Bachelor's degree in Industrial Engineering from King Saud University, Saudi Arabia, a Master's degree in Business Administration from St. Edward University, USA, and a Diploma in Science and Technical Bread from Pittsburgh Institute, USA.

## **Mr. Abdulrahman bin Abdulaziz Al Muhanna, Director**

Mr. Al Muhanna is a Board Member of Arcapita Bank (Bahrain), Arab Company for Agricultural Services (Arasco) and the Al Jazirah Corporation for Press, Printing and Publishing. He is also a member of the National Committee for Biodiversity. He was appointed and served as Almarai Managing Director from 1997 until June 2015. Mr. Al Muhanna is an Agricultural Economics graduate of King Saud University, Saudi Arabia.

## **Mr. Suliman bin Abdulkader Al Muhaideb, Director**

Mr. Al Muhaideb is Chairman of the Board of Directors of Al Muhaideb Group, Savola Group, Rafal Real Estate Co. (RAFAL) and Al Oula Real Estate Development Co. He is a Member of the Board of Directors of Saudi British Bank (SABB), National Industrialization Co. and the Arabian Company for Water & Energy Development (ACWA Power).

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

His Highness is Chairman of Mobile Telecommunication Company Saudi Arabia (Zain KSA), the Projects and Technical Contracting Co. and the Ashbal Al Arab Corporation. He is also a Board Member of Al Yamama Cement Co., Gulf Farabi Petrochemical Co., Kuwaiti Chinese Holding Co., Tarabot for Investment and Development Co. and Zohoor Alreef. His Highness is a Business Administration graduate of King Saud University, Saudi Arabia.



Left to right: Dr. Ibrahim bin Hassan Al Madhoun, Engr. Mosa bin Omran Al Omran, Mr. Abdulrahman bin Abdulaziz Al Muhanna, Mr. Suliman bin Abdulkader Al Muhaideb, HH Prince Sultan bin Mohammed bin Saud Al Kabeer (Chairman), HH Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer, Mr. Bader bin Abdullah Al Issa, Engr. Rayan bin Mohammed Fayez, Dr. Abdulrahman bin Suliman Al Turaigi

#### **Mr. Bader bin Abdullah Al Issa, Director**

Mr. Al Issa is the CFO of Assila Investments, a Member of the Board of Directors at the Savola Group, Banque Saudi Fransi, and Dur Hospitality. He holds an MBA from Rice University in the United States and is a Chartered Financial Analyst.

#### **Engr. Rayan bin Mohammed Fayez, Director**

Engr. Fayez is CEO of Savola Group and acting CEO of Panda Retail Company and a Member of the Board of Directors of a number of Savola's subsidiary companies, as well as other Saudi Joint Stock Companies, including the Saudi Stock Exchange (Tadawul), Knowledge Economic City and Herfy Food Services Co. Engr. Fayez has more than 15 years' experience in leading managerial positions at global banks and financial institutions. He holds a BSc in Mechanical Engineering from the University of Massachusetts, USA (2001).

#### **Dr. Abdulrahman bin Suliman Al Turaigi, Director**

Dr. Al Turaigi is Chairman of the Board of Directors of Gulf Industrial Development Co. He has extensive professional experience across a range of activities in both government and private sectors. Dr. Al Turaigi holds a doctoral degree in Engineering Management from the University of Missouri, USA.

# Tadawul announcements

Almarai had a busy year, with a number of events and strategic activities announced to shareholders. The most important events, activities and strategic decisions were announced on the official website of the Saudi Stock Exchange (Tadawul), Almarai's corporate website and

on Almarai's Investor Relations application. In total, 25 announcements were made to shareholders. The following table summarises announcements by date, type and subject:

	Date	Announcement Type	Title of Announcement
1	3 January 2016	Notice to shareholders	Almarai Company announces the renewal of insurance contracts with the Arabian Shield Cooperative Insurance Company, a related party
2	10 January 2016	Addendum announcement	Addendum to the announcement by Almarai Company regarding the expected financial impact of cabinet resolutions to increase the price of energy products
3	10 January 2016	Notice to shareholders	Almarai Company announces the purchase of farm land in California, USA for SAR 119.3 million (USD 31.8 million)
4	17 January 2016	Financial results	Almarai Company announces its annual Consolidated Financial Results for the period ended 31 December 2015 (12 months)
5	25 February 2016	Invitation to EGM	Almarai Company invites its shareholders to attend the Extraordinary General Assembly meeting for discussion of a share capital increase
6	15 March 2016	Notice to shareholders	Almarai Company announces the starting date of electronic voting on the agenda of the Extraordinary General Assembly meeting
7	27 March 2016	Invitation to EGM	Almarai Company invites its shareholders to the Extraordinary General Assembly meeting to discuss a share capital increase (first meeting, reminder)
8	4 April 2016	Results of EGM	Almarai Company announces the results of the Extraordinary General Assembly meeting to discuss a share capital increase
9	4 April 2016	Correction announcement	Almarai Company announces a correction in the results of the Extraordinary General Assembly meeting to discuss a share capital increase
10	10 April 2016	Financial results	Almarai Company announces its Interim Consolidated Financial Results for the period ended 31 March 2016 (3 months)
11	17 April 2016	Notice to shareholders	Almarai Company announces its interest in acquiring a controlling stake in National Food Products Company (NFPC) in the United Arab Emirates
12	1 May 2016	Announcement of investment programme	Almarai Company announces deposit amounts returned to eligible shareholders' accounts after the sale of fractional shares following a share capital increase
13	9 June 2016	Notice to shareholders	Almarai Company announces approval by the Board of Directors for its five year business plan for the period 2017-2021
14	17 July 2016	Financial results	Almarai Company announces its Interim Consolidated Financial Results for the period ended 30 June 2016 (6 months)
15	8 August 2016	Notice to shareholders	Almarai Company announces the appointment of the Chairman of the Board of Directors and establishment of Board Committees for a new term
16	1 September 2016	Notice to shareholders	Almarai Company announces its transition plan for implementing International Financial Reporting Standards (IFRS)
17	5 September 2016	Invitation to AGM	Almarai Company invites its shareholders to attend the Ordinary General Assembly meeting
18	19 September 2016	Notice to shareholders	Almarai Company announces the starting date of electronic voting on the agenda of the Ordinary General Assembly meeting
19	20 September 2016	Notice to shareholders	Almarai Company announces the partial and gradual commissioning of its new bakery plant in Hail
20	26 September 2016	Invitation to AGM	Almarai Company invites its shareholders to attend the Ordinary General Assembly meeting (first meeting, reminder)
21	5 October 2016	Results of AGM	Almarai Company announces the results of its Ordinary General Assembly meeting
22	5 October 2016	Notice to shareholders	Almarai announces the resignation of a Member of the Board of Directors and the appointment of another Member
23	9 October 2016	Financial results	Almarai Company announces its Interim Consolidated Financial Results for the period ended 30 September 2016 (9 months)
24	25 October 2016	Notice to shareholders	Almarai Company announces phase two of its transition plan for implementing International Financial Reporting Standards (IFRS)
25	6 December 2016	Cash dividend	Almarai Company's Board of Directors proposes payment of a cash dividend for the Financial Year 2016

# Almarai and its subsidiaries

Almarai operates its business through a variety of subsidiaries, joint ventures, associates and agency relationships. The Company maintains long-term investments and exerts effective control through the full capacity to lead and direct economic performance, financial policies and operational processes. Almarai consolidates its financial operations and results as one business unit, issuing Consolidated Financial Statements at Group level after elimination of all significant inter-group balances and transactions.

Minority interests represent the portion of profit or loss and net assets not dominated or controlled by the Group and are presented separately in the Consolidated Income Statement and Balance Sheet. The following table sets out the subsidiary companies' names, capital, ownership interest, business activity, country of operation and country of incorporation. There are no shares or debt instruments issued to any of these entities.

Name of Subsidiary	Capital	Ownership Interest		Business Activity	Country of Incorporation	Country of Operation	Shares Issued		
		2016						2015	
		Direct (a)	Effective					Direct (a)	Effective
Almarai Investment Company Limited	SAR 1,000,000	100%	100%	100%	100%	Holding company	KSA	KSA	1,000
Almarai Baby Food Company Limited	SAR 200,000,000	100%	100%	100%	100%	Manufacturing company	KSA	KSA	20,000,000
Almarai Agricultural and Livestock Production Company	SAR 1,000,000	100%	100%	100%	100%	Livestock/agricultural company	KSA	KSA	1,000
Almarai Construction Company	SAR 1,000,000	100%	100%	100%	100%	Construction company	KSA	KSA	1,000
Almarai for Maintenance and Operation Company	SAR 1,000,000	100%	100%	100%	100%	Maintenance and operation	KSA	KSA	1,000
Agricultural Input Company Limited (Mudkhalat)	SAR 25,000,000	52%	52%	52%	52%	Agricultural company	KSA	KSA	250
Hail Agricultural Development Company	SAR 300,000,000	100%	100%	100%	100%	Poultry/agricultural company	KSA	KSA	30,000,000
Hail Agricultural and Livestock Production Company	SAR 1,000,000	100%	100%	100%	100%	Poultry/agricultural company	KSA	KSA	1,000
International Baking Services Company Limited	SAR 500,000	100%	100%	100%	100%	Dormant	KSA	KSA	500
International Pediatric Nutrition Company	SAR 41,000,000	100%	100%	100%	100%	Dormant	KSA	KSA	410,000
Modern Food Industries Company Limited	SAR 70,000,000	60%	60%	60%	60%	Bakery company	KSA	KSA	70,000
Nourlac Company Limited	SAR 3,000,000	100%	100%	100%	100%	Trading company	KSA	KSA	3,000
Western Bakeries Company Limited	SAR 200,000,000	100%	100%	100%	100%	Bakery company	KSA	KSA	200,000
Agro Terra S.A.	ARS 475,875	100%	100%	100%	100%	Dormant	Argentina	Argentina	475,875
Fondomonte South America S.A.	ARS 618,871,597	100%	100%	100%	100%	Agricultural company	Argentina	Argentina	618,871,597
Almarai Company Bahrain S.P.C.	BHD 100,000	100%	100%	100%	100%	Trading company	Bahrain	Bahrain	2,000
Almarai Investment Holding Company W.L.L.	BHD 250,000	99%	99%	99%	99%	Holding company	Bahrain	Bahrain	2,500
IDJ Bahrain Holding Company W.L.L.	BHD 250,000	100%	52%	100%	52%	Holding company	Bahrain	Bahrain	2,500
International Dairy and Juice Limited	USD 7,583,334	52%	52%	52%	52%	Holding company	British Virgin Islands	British Virgin Islands	7,583,334
International Dairy and Juice (Egypt) Limited	EGP 1,101,750,000	100%	52%	100%	52%	Holding company	Egypt	Egypt	110,175,000
International Company for Agricultural Industries Projects (Beyti) (SAE)	EGP 1,453,250,000	100%	52%	100%	52%	Manufacturing and trading company	Egypt	Egypt	145,325,000
Markley Holdings Limited	-	100%	100%	100%	100%	Dormant	Jersey	Jersey	-
Al Muthedoon for Dairy Production	JOD 500,000	100%	52%	100%	52%	Dormant	Jordan	Jordan	500,000
Al Atheer Agricultural Company	JOD 750,000	100%	52%	100%	52%	Livestock/agricultural company	Jordan	Jordan	750,000
Al Namouthiya for Plastic Production	JOD 250,000	100%	52%	100%	52%	Dormant	Jordan	Jordan	250,000
Al Rawabi for Juice and UHT Milk Manufacturing	JOD 500,000	100%	52%	100%	52%	Manufacturing company	Jordan	Jordan	500,000
Teeba Investment for Developed Food Processing	JOD 49,675,352	100%	52%	100%	52%	Manufacturing company	Jordan	Jordan	49,675,352
Arabian Planets for Trading and Marketing L.L.C.	OMR 150,000	90%	90%	90%	90%	Trading company	Oman	Oman	150,000
Alyoum for Food Products Company L.L.C.	OMR 20,000	100%	100%	100%	100%	Trading company	Oman	Oman	20,000
Fondomonte Inversiones S.L.	EUR 22,611,103	100%	100%	100%	100%	Holding company	Spain	Spain	22,611,103
Hail Development Company Limited	SDG 100,000	100%	100%	100%	100%	Agricultural company	Sudan	Sudan	100
Almarai Emirates Company L.L.C.	AED 300,000 (unpaid)	100%	100%	100%	100%	Trading company	UAE	UAE	300
International Dairy and Juice (Dubai) Limited	USD 22,042,183	100%	52%	100%	52%	Holding company	UAE	UAE	22,042,183
Fondomonte Holding North America L.L.C.	USD 500,000	100%	100%	100%	100%	Holding company	USA	USA	50,000
Fondomonte Arizona L.L.C.	USD 500,000	100%	100%	100%	100%	Agricultural company	USA	USA	50,000
Fondomonte California L.L.C.	-	100%	100%	100%	100%	Agricultural company	USA	USA	-

a) Direct ownership means directly owned by the Company or any of its subsidiaries

# Future expected developments

## The strategic plan

In 2016, the Board of Directors, as per its role in strategic planning at Almarai, reviewed recent global and regional economic developments and their potential impact on the five year period from 2017 to 2021. The implications of the Saudi government's National Transformation Plan 2020 and Vision 2030 were also studied and reviewed.

On 8th June 2016, the Board of Directors approved Almarai's five year plan to reinforce its position as the consumer's preferred choice for superior, nutritious food and beverage products in the Arab world.

The main components of this strategic path are:

### 1. Defend and grow the core businesses

- Category growth driven by consumer insights
- Selectively extend core categories into higher value offers
- Increase market share and growth in certain channels and geographies
- Optimize margins, prioritising pricing and operational efficiencies
- Increase capacities to fulfil demand and improve capital efficiencies
- Secure importation of feed from outside Saudi Arabia, as per government directive

### 2. Turnaround not-yet-performing assets

- Poultry
  - Grow sales by providing a broader availability of diversified products
  - Grow Alyoum brand
  - Extend channels
  - Reduce costs across the value chain
- Infant Nutrition
  - Close gap on competition
  - Safeguard specialised suppliers
  - Enhance relations with healthcare professionals
  - Extend distribution (particularly in Saudi Arabia)

- Increase profitability of joint ventures
  - Grow Beyti sales in Egypt by extending range and expanding distribution
  - Transform Beyti supply chain to meet demand and improve efficiency
  - Execute the turnaround of Teeba in Jordan, leveraging the support of Almarai

### 3. Develop world-class capabilities and transform the organisation

- Transform organisational structure to sharpen accountability, speed-up execution and drive performance
- Upgrade leadership development programmes
- Build world-class marketing capabilities
- Partner with third-parties to secure the best consumer and shopper insights
- Build world-class sales capabilities for new channels

Almarai will continue to execute its defined strategies and action plan, building on the strength in its core businesses and growing returns in its Poultry and Infant Nutrition categories, as well as the Dairy and Juice categories in Egypt and Jordan (managed through the JV, IDJ). The Board is confident that Almarai will deliver against these ambitious objectives.

An important characteristic of the plan is a focus on operating cost controls and the optimized use of available funds. As a result, the capital investment foreseen during the period 2017-2021 is estimated to reach SAR 14.5 billion and will be focused on replacement of existing assets; improvement of the production capacities and capabilities in farms and manufacturing facilities; distribution and transportation facilities; expansion of the Company's geographic footprint; enhancement of innovation and product development capabilities.

Almarai's investment programme will be financed by Operating Cash Flow, as well as taking advantage of the finance resources available from banks, the SIDF, the ADF and Sukuk programmes.

The plan will also create, between now and the end of 2021, 4,500 jobs for Saudi nationals, out of which 20.0% will be females, further confirming the important economic and social role of Almarai within Saudi Arabia's food and beverage industry.

The approval of the five year plan stems from Almarai and its Board of Directors' belief in the importance of local investment in the food processing sector and related distribution industry, as well as global investment in sourcing animal feed to achieve food security.

## 2016: A turning point for the future

The year was one of profound change, both for the global macro-economic environment and that of Saudi Arabia. Changes to monetary policy in the USA in the latter part of the year marked the end of a long cycle of low interest rates. In the course of the year, the price of both dairy commodities and feed-stock, which had been at historically low levels for a long time, started to increase.

A sustained period of low oil prices resulted in the announcement of important budgetary measures in the Kingdom, leading to significant increases in Operating Costs and a reduction in direct and indirect subsidies. These measures have had a direct negative effect on the Company's cost of operations, as well as reducing the net disposable income of most consumers. These are unfavourable factors that Almarai expects will continue to be felt in 2017 and 2018.

These external developments have created the necessity for Almarai to manage its costs very closely and to continue to assess the use and allocation of capital.

A number of significant events of interest to shareholders will be announced in the course of the year, as described by the below table:

## Important events in 2017

Series	Date	Announcement Subject
1	During the first half of the year	The Extraordinary General Assembly meeting will be held to approve amendments to Almarai's by-laws, the Board of Directors' report and the Financial Statements for 2016, as well as other subjects
2	During the first half of the year	Maturity and distribution of profits to shareholders for the financial year 2016
3	During the second half of the year	Opening of a Central Production Plant (CPP3) in Al Kharij, Saudi Arabia

Series	Date	Announcement of Financial Results*
1	23-30 April 2017	Announcement of the Interim Consolidated Financial Results for Q1 2017
2	23-30 July 2017	Announcement of the Interim Consolidated Financial Results for Q2 2017
3	22-29 October 2017	Announcement of the Interim Consolidated Financial Results for Q3 2017

\*Announcement dates for Financial Results are preliminary and subject to change

# Preparation of the Financial Statements

The Interim Consolidated Financial Statements are issued with a review report and the Annual Consolidated Financial Statements are issued with an audit report by external auditors. These Financial Statements are prepared in accordance with the accounting standards issued by the Saudi Organization of Certified Public Accountants (SOCPA). Any accounting treatment not covered by SOCPA standards shall be referred to the accounting treatment applied by International Financial Reporting Standards (IFRS), in accordance with the requirements of SOCPA.

KPMG Al Fozan & Partners has continued in its role as Almarai's external auditor after the Audit Committee made its recommendation to the Board of Directors as the preferred candidate to audit the Company's accounts for the fiscal year 2016. This includes all Annual Consolidated Financial Statements and Interim Consolidated Financial Statements of Almarai Company. The Board of Directors requested the approval of the nomination of KPMG Al Fozan & Partners and its fees during the General Assembly meeting in April 2016, at which time the appointment was approved.

After auditing the Consolidated Financial Statements for the year ended 2016, KPMG Al Fozan & Partners issued an unqualified audit report expressing their opinion that the Consolidated Financial Statements as a whole present a fair view in all material aspects and comply with the regulatory requirements for companies.

The Board of Directors of the Saudi Certified Accountants Association, in their seventh meeting of the seventh term, held on 18th July 2013, approved the implementation of the International Financial Reporting Standards (IFRS) after being certified by SOCPA, such that the nearest date for IFRS implementation by entities listed on the Saudi Stock Exchange is 1st January 2017.

In 2015 Almarai's Board of Directors passed a resolution to approve the implementation plan for IFRS. This implementation plan not only allowed Almarai to apply IFRS to its Consolidated Financial Statements but also enabled a controlled and smooth transition to IFRS, on time and without significant constraints.

The implementation plan comprises the following phases:

- Gap analysis
- Impact analysis
- Design and implementation of conversion
- User acceptance testing
- Preparation of the first IFRS-compliant statutory Financial Statements

Almarai has satisfactorily achieved its target phases to ensure the issuance of IFRS-compliant statutory Interim Financial Statements by 31st March 2017.

## Dividend policy

As per Article (44) of Almarai's by-laws, after deducting all general expenses and other costs the Company's annual net profits shall be allocated as follows:

- 10.0% of the annual net profits shall be allocated to form a statutory reserve. Such allocation may be discontinued by the Ordinary General Assembly when this reserve totals 50.0% of the Company's capital
- A specified percentage of preferred shares shall be distributed to shareholders owning such shares
- The Ordinary General Assembly may, upon the recommendation of the Board of Directors, allocate an equal percentage of the net profits to create other reserves
- Out of the balance of the net profits, if any, an initial payment of not less than 5.0% of the paid up capital shall be distributed to shareholders
- Not more than 5.0% of the remaining balance, if any, shall be allocated as remuneration to Members of the Board of Directors
- The remaining balance shall be distributed to shareholders as an additional share of the profits

The Company, after complying with the regulations laid down by the competent authorities, may distribute semi-

annual and quarterly dividends. As per Article (45) of Almarai's by-laws, profits distributed to shareholders are paid at the location and time determined by the Board of Directors in compliance with Ministry of Commerce & Industry regulations.

Almarai has achieved a 37.9% pay-out ratio for the five year period from 2011 to 2015. Despite the fact that Almarai expects, as per its current distribution practice, to distribute annual cash dividends, there are no guarantees for the distribution of dividends on an ongoing basis. There are no guarantees for the value and percentage of dividends each year. Cash dividends are approved or recommended according to factors including profits achieved, cash flows, new capital investments, and future prospects of outgoing funds, taking into account the importance of maintaining a strong financial policy to meet any emergency events. The Board of Directors strives to maintain consistency of cash flow each year by reducing the impact of any

change in free cash flow which may be attributed to the achievement of profits or losses in specific financial years, while maintaining a medium-term target distribution rate of dividend ratio. Almarai has distributed to its shareholders approximately SAR 12,559.0 million since it was listed on the Saudi Stock Exchange, in the form of cash dividends and bonus shares. Cash dividends amounted to approximately SAR 5,459.0 million, representing 43.5% of total dividends and bonus shares, while bonus shares from a capital increase reached SAR 7,100.0 million, representing 56.5% of total dividends and bonus shares. This excludes the capital increase resulting from the acquisition of Western Bakeries and International Bakeries Services at a nominal value of SAR 90.0 million and the 100.0% acquisition of Hail Agricultural Development Company (HADCO) at a nominal value of SAR 60.0 million. The following tables outline Almarai's dividend and bonus share distributions.

## Dividends Paid Compared to Net Income

Year	Net Income (SAR million)	Dividend	Percentage	Capital (Million Shares)	Amount (SAR)
2005	386.1	-	-	75.0	-
2006	464.7	200.0	43.0%	100.0	2.00
2007	667.3	272.5	40.8%	109.0	2.50
2008	910.3	381.5	41.9%	109.0	3.50
2009	1,096.7	460.0	41.9%	115.0	4.00
2010	1,285.4	517.5	40.3%	230.0	2.25
2011	1,139.5	517.5	45.4%	230.0	2.25
2012	1,440.6	500.0	34.7%	400.0	1.25
2013	1,502.2	600.0	39.9%	600.0	1.00
2014	1,674.3	600.0	35.8%	600.0	1.00
2015	1,915.7	690.0	36.0%	600.0	1.15
2016*	2,080.5	720.0	34.6%	800.0	0.90
<b>Total</b>	<b>14,563.3</b>	<b>5,459.0</b>			

\*Cash dividend, as recommended by the Board of Directors, to the Ordinary General Assembly Meeting (AGM) in 2017

## Dividend Dates

Year	Announcement Date	Due Date	Distribution Date	Distribution Method	Amount (SAR)
2006	21 January 2007	27 March 2007	10 April 2007	Account transfer	2.00
2007	21 January 2008	24 March 2008	7 April 2008	Account transfer	2.50
2008	19 January 2009	23 March 2009	7 April 2009	Account transfer	3.50
2009	20 January 2010	11 April 2010	26 April 2010	Account transfer	4.00
2010	6 December 2010	3 April 2011	11 April 2011	Account transfer	2.25
2011	7 December 2011	2 April 2012	11 April 2012	Account transfer	2.25
2012	19 January 2013	2 April 2013	10 April 2013	Account transfer	1.25
2013	29 December 2013	2 April 2014	9 April 2014	Account transfer	1.00
2014	28 December 2014	5 April 2015	12 April 2015	Account transfer	1.00
2015	14 December 2015	3 April 2016	12 April 2016	Account transfer	1.15
2016	6 December 2016	General Assembly	After General Assembly	Account transfer	0.90

## Distribution in the Form of Granting Bonus Shares

Year	Share Capital (SAR million)	Nominal Value of Bonus	Distribution Date	Distribution Method	Number of Bonus Shares
2005	750.0	250.0	1,000.0	33.3%	One bonus share for every 3 outstanding shares
2010	1,150.0	1,150.0	2,300.0	100.0%	One bonus share for every 1 outstanding share
2012	2,300.0	1,700.0	4,000.0	73.9%	One bonus share for every 1.353 outstanding shares
2013	4,000.0	2,000.0	6,000.0	50.0%	One bonus share for every 2 outstanding shares
2016	6,000.0	2,000.0	8,000.0	33.3%	One bonus share for every 3 outstanding shares
<b>Total</b>		<b>7,100.0</b>			

## Dates of Bonus Shares and Other Capital Changes

Year	Announcement Date	Issue Type	Due Date	Previous Capital (SAR million)	New Capital (SAR million)
2005	18 October 2005	Bonus shares	25 December 2005	750.0	1,000.0
2007	19 February 2007	Acquisition (WB and IBS)	27 March 2007	1,000.0	1,090.0
2009	9 May 2009	Acquisition (HADCO)	7 October 2009	1,090.0	1,150.0
2010	5 October 2010	Bonus shares	5 December 2010	1,150.0	2,300.0
2012	7 December 2011	Bonus shares	2 April 2012	2,300.0	4,000.0
2013	29 May 2013	Bonus shares	9 September 2013	4,000.0	6,000.0
2016	14 December 2015	Bonus shares	3 April 2016	6,000.0	8,000.0

At the Extraordinary General Assembly on 3rd April 2016, Almarai's shareholders approved a dividend distribution of SAR 690.0 million at SAR 1.15 per share for 2015. The dividend was transferred to shareholders' bank accounts as per the registered records of the Depository Centre at the end of trading on the day of the General Assembly (12th April 2016). There were neither arrangements nor agreements under which any of the shareholders waived their rights to profits.

With regard to cash dividends for 2016 the Board of Directors proposes to the General Assembly a dividend of SAR 720.0 million, representing 34.6% of the

Consolidated Net Profits achieved during the year, at SAR 0.90 per share. To be eligible for the cash dividend payment, shareholders' records must be registered at the Depository Centre at the end of trading on the day of the General Assembly. The following regulation regarding the payment of the dividend should be noted: for foreign non-resident investors the dividend paid by the Company is subject to a withholding tax of 5.0% upon transfer to the non-resident investor, or credited to the account according to the provisions of Article (68) of the Income Tax Law and Article (63) of the Implementing Regulations.

## Statutory payments, penalties and sanctions

### Statutory payments

Almarai is committed to paying certain fees and expenses to Saudi government departments as per

applicable terms and regulations. These inherent expenses are charged to the results of the Company's operations. The following table details statutory charges incurred in 2016, with a brief description and related reason.

### Statutory Charges in Saudi Arabia in 2016\* (SAR million)

Statutory Organisation	2016	2015	Description	Reason
Saudi Customs	138.6	132.9	Amounts paid or charged as customs fees on imports and exports	Government requirement
General Authority of Zakat and Income Tax	67.6	61.3	Amounts charged as Zakat expenses according to the provisions and rules of Zakat	Government requirement
General Organisation for Social Insurance	109.1	103.7	Amounts paid or charged as social insurance expenses, in accordance with Saudi Labour Law	Government requirement
Other Statutory Organisations	98.2	92.3	Amounts paid or charged according to various other laws	Other government requirements
<b>Total</b>	<b>413.5</b>	<b>390.2</b>		

\*Outside the Kingdom the amounts are not material

### Penalties and sanctions

One fine of SAR 200,000.0 was imposed by the Ministry of Commerce and Investment. Almarai was not exposed to any further penalties, sanctions or precautions imposed by any supervisory, regulatory or judicial unit.

# Corporate Governance Code

The purpose of this code is to set out Almarai's approach to corporate governance. Almarai is committed to maintaining high standards of corporate governance and considers good corporate governance as an essential tool for maximising long-term shareholder value, and is consistent with its commitment to quality in all of its processes and products. The rules set out in the Company's Corporate Governance Code are mandatory for all Directors and staff of Almarai, and can only be amended by a resolution of the Board of Directors.

Corporate governance is defined as 'the system by which business corporations are directed and controlled'. The corporate governance structure specifies the distribution of authority and responsibilities among different participants in the Company, such as the Board, managers, shareholders and others, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the Company's objectives are set and the means of attaining those objectives and monitoring performance. The Board of Directors is responsible for Almarai's Corporate Governance Code.

The shareholders' role in governance is to appoint the Directors and auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the Board include setting the Company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. The Board's actions are subject to laws, regulations and accountability to the shareholders in the General Assembly meeting. Almarai's Corporate Governance Code has been prepared according to international principles of corporate governance and local regulatory requirements. It should be viewed as setting the framework of requirements for corporate governance within the Company. It should not be seen as a substitute for sound judgement and honourable arms-length dealings by Directors and officers of the Company and should be viewed within the context of the broader legislative framework of Saudi Arabia.

In particular, the stipulations of the following, the requirements of which have not all been incorporated in this code, need to be borne in mind when considering corporate governance issues:

- The requirements of the Capital Market Authority (CMA) and of Tadawul
- The Companies Law of Saudi Arabia and associated ministerial directives of the Ministry of Commerce & Industry (MCI)
- Almarai's own by-laws

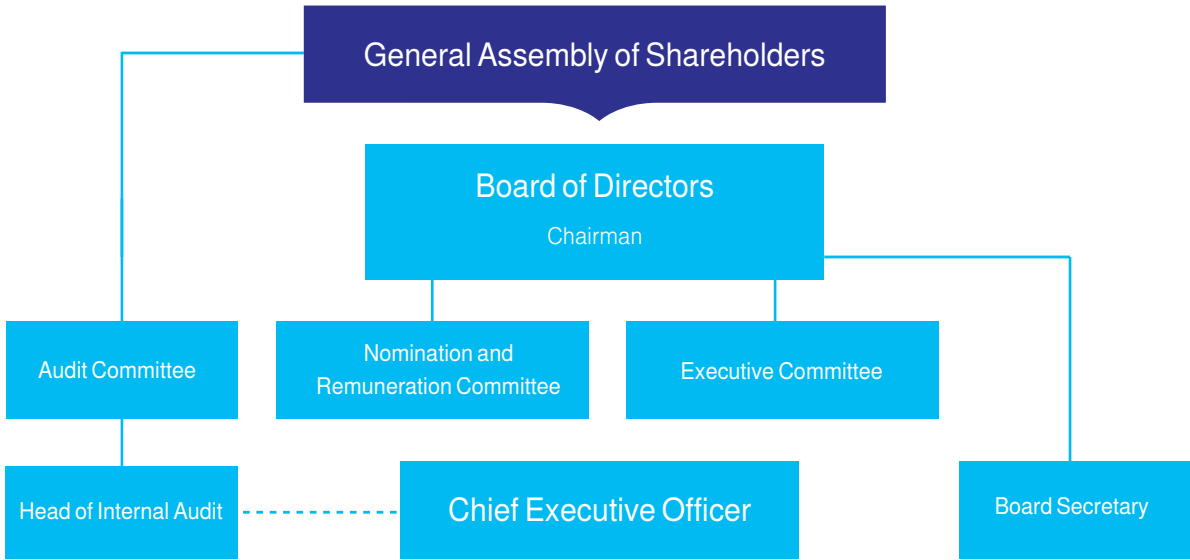
The Board of Directors will approve amendments to the corporate governance framework from time to time to comply with changing legal and business requirements, consistent with ensuring sound management and governance practices.

Almarai's Corporate Governance Code incorporates the entire corporate governance code issued by the CMA, except paragraph 'D' (Article 6), which stipulates that 'Investors who are judicial persons and who act on behalf of others – e.g. investment funds – shall disclose in their annual reports their voting policies, actual voting and ways of dealing with any material conflicts of interest that may affect the practice of the fundamental rights in relation to their investments.' The reason for not including this clause in the Company's governance policy is that Almarai does not have the legal identity to bind investors or persons with legal status who are acting on behalf of others – such as investment funds – to disclose their voting policy.

# Rights of shareholders and the General Assembly

Almarai’s Articles of Association and Corporate Governance ensure that shareholders enjoy all rights related to shares; in particular the right of receiving a share of approved dividend payments, the right to receive a share of the Company’s assets upon liquidation, the right to attend General Assembly meetings and participate in their deliberations and voting, the right of share disposal, the right to oversee the work of the Board of Directors and file responsibility litigation against Board Members, and the right to inquire and request information that does not compromise the interests of the Company and does not conflict with the Terms and Executive Regulations of the Capital Market Authority. Almarai allows maximum participation by shareholders at General Assembly meetings and is keen to ensure that the choice of time and venue enables full participation. The Company has adopted an electronic voting system to make it easier for shareholders to exercise their right of voting if they are unable to attend in person.

Almarai’s Articles of Association and Corporate Governance also provide provisions related to the General Assembly, which include procedures and precautions necessary to ensure that all shareholders are exercising their regular rights. The General Assembly is the highest power in the Company, with sole authorities including the appointment and termination of Board Members, approval of the Consolidated Financial Statements, appointment of the external auditor and determination of his fees, approval of the set-up, duties and internal regulations of the Audit Committee and the remuneration of its members, approval of dividend distribution as recommended by the Board of Directors, increase or decrease of the capital of the Company and amendment of the Articles of Association. Almarai provides sufficient access for its shareholders to read the minutes of the General Assembly meeting, and provides the Capital Market Authority with a copy of the minutes within ten (10) days of the meeting.



# Board of Directors formation and functions

Almarai's General Assembly provides for a Board of Directors comprising nine (9) Members. The General Assembly's rules regarding the appointment, resignation, term of office, powers, remuneration and the principal requirements are summarised below.

The Board of Directors is the supreme management body within the Company and is appointed by the shareholders at the General Assembly in order to represent and protect the Company's interests. The Board is responsible for leading and controlling the Company and discharges this responsibility by approving the implementation of Company strategies and objectives. The Board empowers the management of the Company to run the business within defined parameters and monitors the performance of the Company. While the Board delegates authority to the Company's management, under the direction of the Chief Executive Officer (CEO), to attend to the routine running of the business, the Board retains ultimate fiduciary responsibility to shareholders to ensure the proper operation of the Company. The Board is appointed by the shareholders with primary responsibility for operating the Company in their long-term best interests. The Board also has a responsibility to provide clear directions and boundaries for the Company's Executive Management to operate within. This involves setting out a clear vision and strategy for the Company and defining the delegations that will be allowed to management and the policies and boundaries within which they are permitted to operate. This process is achieved by:

Approving the strategic plans and main objectives of the Company and supervising their implementation. This includes:

- Laying down a comprehensive strategy for the Company, the main work plans, and policy related to risk management, and reviewing and updating such policy
- Determining the most appropriate capital structure of the Company, its strategies

and financial objectives and approving its annual budgets

- Supervising the main capital expenses of the Company and acquisition/disposal of assets
- Deciding the performance objectives to be achieved, supervising the implementation thereof and overseeing the overall performance of the Company
- Reviewing and approving the organisational and functional structures of the Company on a periodic basis

Laying down rules for internal control systems and supervising those systems. This includes:

- Developing a written policy to regulate conflict of interest and remedy any possible cases of conflict by Members of the Board of Directors, Executive Management and shareholders. This includes misuse of the Company's assets and facilities and arbitrary disposition resulting from dealings with related parties
- Ensuring the integrity of financial and accounting procedures including procedures related to the preparation of the financial reports
- Ensuring the implementation of control procedures appropriate for risk management by forecasting the risks that the Company could encounter and disclosing them transparently
- Annually reviewing the effectiveness of internal control systems

Drafting a Corporate Governance Code for the Company that does not contradict the provisions of existing laws and regulations, supervising and monitoring, in general, the effectiveness of the code and amending it whenever necessary.

Laying down specific and explicit policies, standards and procedures for the Members of the Board of Directors and implementing them after they have been approved by the General Assembly.

Outlining a written policy that regulates the relationship with stakeholders with a view to protecting their respective rights. Such a policy must cover the following:

- Mechanisms for indemnifying the stakeholders in the event that their rights are contravened under the law and their respective contracts
- Mechanisms for the settlement of complaints or disputes that might arise between the Company and stakeholders
- Suitable mechanisms for maintaining good relationships with customers and suppliers and protecting the confidentiality of information related to them
- A code of conduct for the Company's executives and employees compatible with proper professional and ethical standards and regulating their relationship with stakeholders
- The Board of Directors lays down procedures for supervising this code and ensuring its compliance
- The Company's social contributions

Deciding on policies and procedures to ensure the Company's compliance with laws and regulations and the Company's obligation to disclose material information to shareholders, creditors and other stakeholders.

Preparing the Financial Statements and the Annual Report on the activities and financial status of the Company for the last financial year, including the proposed method for dividend payment.

Recommending to the General Assembly of Shareholders the appointment, dismissal and remuneration of external auditors.

Almarai's Corporate Governance Code stipulates that the Board should include a minimum of 1 in 3 independent Directors. Executives may be Directors upon satisfaction of the relevant legal requirements.

# Members of the Board of Directors

The Extraordinary General Assembly elected Members of the Board of Directors on 4th April 2016. The Board of Directors was elected via accumulated voting, for a three year term effective 7th August 2016. The following tables include Directors' names, positions, membership

status in other joint stock companies, and attendance of the four Board meetings held during 2016, noting that these meetings were planned and the Chairman did not receive any request by two or more of the Board Members to hold emergency meetings during 2016.

## Board of Directors

Member Name	Position	Membership Status	Listed/ Unlisted	Membership of Joint Stock Companies
HH Prince Sultan bin Mohammed bin Saud Al Kabeer	Chairman of the Board	Non-Executive	Listed	Yamamah Cement Co., Arabian Shield Cooperative Insurance Company
			Unlisted	-
HH Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer	Board Member	Non-Executive	Listed	Yamamah Cement Co., Mobile Telecommunication Company Saudi Arabia (Zain KSA)
			Unlisted	Gulf Farabi Petrochemical Co.
Mr. Abdulrahman bin Abdulaziz Al Muhanna	Board Member	Non-Executive	Listed	-
			Unlisted	Al Jazirah Corporation for Press, Printing and Publishing, Saudi Kuwaiti Finance House, Arab Company for Agricultural Services (Arasco)
Mr. Suliman bin Abdulkader Al Muhaideb (a representative of Savola Group)	Board Member	Non-Executive	Listed	The Saudi British Bank, National Industrialization Co., Savola Group
			Unlisted	Al Muhaideb Group, Al-Oula Real Estate Development Company, ACWA Power, Rafal Real Estate Co.
Engr. Rayan bin Mohammed Fayez (a representative of Savola Group)	Board Member	Non-Executive	Listed	Knowledge Economic City, Herfy Food Services Co.
			Unlisted	Saudi Stock Exchange (TADAWUL), J.P. Morgan Saudia, Hassana Investment Company, Panda Retail Company, Savola Foods Company, Kinan Company
Mr. Bader bin Abdullah Al Issa (a representative of Savola Group)	Board Member	Non-Executive	Listed	Savola Group, Banque Saudi Fransi, Dur Hospitality Co.
			Unlisted	Saudi Fransi Capital, Savola Packaging Systems, Kinan Company, Al Aqeeq Real Estate Development Co., Sukoon International Co.
Dr. Abdulrahman bin Suliman Al Turaigi	Board Member	Independent	Listed	-
			Unlisted	-
Engr. Mosa bin Omran Al Omran	Board Member	Independent	Listed	Banque Saudi Fransi
			Unlisted	-
Dr. Ibrahim bin Hassan Al Madhoun	Board Member	Independent	Listed	Herfy Food Services Co., Red Sea Housing Services Company, Fitaihi Holding Group
			Unlisted	Al-Obeikan Investment Group

## Meetings of the Board of Directors During 2016

Member Name	Meetings					Attendance Rate
	Previous Period			New Period		
	First 8 Feb	Second 4 Apr	Third 8 Jun	Fourth 5 Oct	Fifth 6 Dec	
HH Prince Sultan bin Mohammed bin Saud Al Kabeer	Attended	Attended	Attended	Attended	Attended	100%
HH Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer	Attended	Attended	Attended	Attended	Attended	100%
Mr. Abdulrahman bin Abdulaziz Al Muhanna	Attended	Attended	Attended	Attended	Attended	100%
Mr. Suliman bin Abdulkader Al Muhaideb (a representative of Savola Group)	Attended	Attended	Attended	Attended	Attended	100%
HE Engr. Abdullah bin Mohammed Noor Rihaimi * (a representative of Savola Group)	Attended	Attended	Attended	Attended	Was not a Member	100%
Mr. Ibrahim bin Mohammed Al Issa ** (a representative of Savola Group)	-	Attended	Attended	Was not a Member		67%
Engr. Nasser bin Mohammed Al Muttawa **	Attended	-	Attended	Was not a Member		67%
Engr. Mosa bin Omran Al Omran	Attended	Attended	Attended	Attended	Attended	100%
Dr. Ibrahim bin Hassan Al Madhoun	Attended	Attended	Attended	Attended	Attended	100%
Mr. Bader bin Abdullah Al Issa*** (a representative of Savola Group)	Was not a Member			Attended	Attended	100%
Dr. Abdulrahman bin Suliman Al Turaigi***	Was not a Member			Attended	Attended	100%
Engr. Rayan bin Mohammed Fayez**** (a representative of Savola Group)	Was not a Member				Attended	100%

\* Resigned with effect from 5<sup>th</sup> October 2016

\*\* Membership ended on 6<sup>th</sup> August 2016

\*\*\* Membership began on 7<sup>th</sup> August 2016

\*\*\*\* Was appointed with effect from 5<sup>th</sup> October 2016. The appointment is not final and will be presented to the first General Assembly meeting for approval

# Ownership of Board of Directors Members, spouses and minors

The following tables illustrate shares held by Members of the Board of Directors, their spouses and minors, and any changes that occurred during 2016. Some of the changes in the number of shares are due to the capital increase, in which case ownership percentage

remains the same. None of them have any interest in debt instruments issued by Almarai and there were no arrangements or agreements by which any of the Board Members waived any salary or compensation.

## Ownership of Board of Directors Members

Member Name	Note	Opening Balance	Changes Before Capital Increase	Shares		Closing Balance	Percentage Change
				Changes Due to Capital Increase	Changes After Capital Increase		
HH Prince Sultan bin Mohammed bin Saud Al Kabeer	Personal ownership	172,173,922	-	57,391,307	(40,000,000)	189,565,229	10%
HH Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer	Personal ownership	5,217,391	-	1,739,130	-	6,956,521	33%
Mr. Abdulrahman bin Abdulaziz Al Muhanna	Personal ownership	1,041,000	1,807,531	904,128	(1,107,831)	2,644,828	154%
Mr. Suliman bin Abdulkader Al Muhaideb (a representative of the Savola Group)	Personal ownership	5,217	-	1,739	-	6,956	33%
	Savola Group ownership	219,130,942	-	73,043,647	-	292,174,589	33%
Engr. Rayan bin Mohammed Fayez* (a representative of the Savola Group)	Personal ownership	-	-	-	-	-	-
	Savola Group ownership	219,130,942	-	73,043,647	-	292,174,589	33%
Mr. Bader bin Abdullah Al Issa** (a representative of the Savola Group)	Personal ownership	1,333	-	-	-	1,333	-
	Savola Group ownership	219,130,942	-	73,043,647	-	292,174,589	33%
Engr. Mosa bin Omran Al Omran	Personal ownership	5,244,192	(2,100,000)	1,048,064	-	4,192,256	-20%
Dr. Ibrahim bin Hassan Al Madhoun	Personal ownership	6,000	-	2,000	-	8,000	33%
Dr. Abdulrahman bin Suliman Al Turaigi**	Personal ownership	833	-	-	200	1,033	24%

\* Ownership as per appointment date 5<sup>th</sup> October 2016

\*\* Ownership as per election of new Members of the Board of Directors 7<sup>th</sup> August 2016

## Ownership of Board of Directors' Spouses and Minors

Member Name	Shares					Closing Balance	Percentage Change
	Opening Balance	Changes Before Capital Increase	Changes Due to Capital Increase	Changes After Capital Increase	Changes After Capital Increase		
Wife of HH Prince Sultan bin Mohammed bin Saud Al Kabeer	3,774,273	-	1,258,091	-	-	5,032,364	33%
Wife of Abdulrahman bin Abdulaziz Al Muhanna	15,000	-	5,000	(20,000)	-	-	-100%
Abdulaziz Abdulrahman bin Abdulaziz Al Muhanna	7,500	-	2,500	(10,000)	-	-	-100%
Wife of Mosa bin Omran Al Omran	276,520	-	92,173	-	-	368,693	33%

## Ownership of Senior Managers, spouses and minors

The following table illustrates Senior Managers' and their spouses' and minors' interests in Almarai shares, as well as any changes that occurred in 2016. Some of the changes in the number of shares are due to the capital increase, in which case ownership percentage

remains the same. None of them have any interest in debt instruments issued by Almarai and there were no arrangements or agreements by which any of the Senior Managers waived any salary or compensation.

### Ownership of Senior Managers

Senior Manager Name	Shares					Closing Balance	Percentage Change
	Starting Balance	Changes Before Capital Increase	Changes Due to Capital Increase	Changes After Capital Increase	Changes After Capital Increase		
Georges Schorderet	40,000	5,000	15,000	-	-	60,000	50%
Abdullah Abdulkarim	-	-	-	-	-	-	-
Paul-Louis Gay	-	-	-	-	-	-	-
Jack Castelein	-	-	-	-	-	-	-
Abdullah Al Bader	156	-	52	-	-	208	33%
Andrew Mackie	15,377	10,623	8,666	(10,000)	-	24,666	60%
Faisal Alfahadi	-	-	-	-	-	-	-
Hussam Abdulqader	-	-	-	-	-	-	-
Larus Asgeirsson	-	-	-	-	-	-	-
Majed Nofal	-	-	-	-	-	-	-
Malcolm Jordan	-	-	-	-	-	-	-
Mark Bacon	-	-	-	-	-	-	-
Omar Salim	-	-	-	-	-	-	-
Richard Salisbury	9,250	-	3,083	(12,333)	-	-	-100%
Sjur Fitje	-	-	-	-	-	-	-
Thamer Almuheid*	-	-	-	-	-	-	-

\*Ownership from date of appointment

# Details of paid compensation and remuneration

Remuneration of the Board of Directors is determined according to the recommendation of the Nomination and Remuneration Committee, taking into consideration both statutory provisions and the need to attract the best Directors for membership of the Board to ensure the effective performance of the Company. Remunerations

are in line with official rules and regulations, and within the limits of the Companies Law and other supplementary regulations. Board Members receive attendance and travel allowances, in accordance with the regulations outlined by the relevant authorities in the Kingdom.

## Paid to Directors During 2016

	Fixed Remuneration (SAR)						Total
	Specific Amount	Allowance for Attending Board Meetings	Allowance for Attending Committee Meetings	In-kind Benefits	Remuneration for Technical, Managerial and Consultative Work	Remuneration of the Chairman, Managing Director and Secretary (if a member)	
<b>Non-Executive and Independent Directors</b>							
HH Prince Sultan bin Mohammed bin Saud Al Kabeer	60,000	15,000	-	-	-	500,000	575,000
HH Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer	200,000	15,000	15,000	-	-	-	230,000
Mr. Abdulrahman bin Abdulaziz Al Muhanna	260,000	15,000	15,000	-	3,000,000	-	3,290,000
Mr. Suliman bin Abdulkader Al Muhaideb (a representative of Savola Group)	-	15,000	-	-	-	-	15,000
HE Engr. Abdullah bin Mohammed Noor Rihaimi* (a representative of Savola Group)	200,000	31,000	28,810	-	-	-	259,810
Mr. Ibrahim bin Mohammed Al Issa** (a representative of Savola Group)	-	16,000	-	-	-	-	16,000
Engr. Nasser bin Mohammed Al Muttawa**	-	6,000	-	-	-	-	6,000
Mr. Bader bin Abdullah Al Issa*** (a representative of Savola Group)	-	6,000	-	-	-	-	6,000
Dr. Abdulrahman bin Suliman Al Turaigi***	-	38,000	35,810	-	-	100,000	173,810
Engr. Rayan bin Mohammed Fayez**** (a representative of Savola Group)	-	7,000	7,000	-	-	-	14,000
Engr. Mosa bin Omran Al Omran	260,000	38,000	35,810	-	-	-	333,810
Dr. Ibrahim bin Hassan Al Madhoun	300,000	38,000	71,620	-	-	-	409,620
<b>Executive Directors</b>							
None	-	-	-	-	-	-	-

\* Resigned with effect from 5th October 2016

\*\* Membership ended on 6th August 2016

\*\*\* Membership began on 7th August 2016

\*\*\*\* Was appointed with effect from 5th October 2016. The appointment is not final and will be presented to the first General Assembly meeting for approval

## Variable Remuneration (SAR)

Percentage of Profits	Periodic Remuneration (as per prior approval of 2015 General Assembly meeting)	Short-term Incentive Plans	Long-term Incentive Plans	Granted Shares	Total	End-of-Service Award	Aggregate Amount
-	200,000	-	-	-	200,000	-	775,000
-	200,000	-	-	-	200,000	-	430,000
-	200,000	-	-	-	200,000	-	3,490,000
-	200,000	-	-	-	200,000	-	215,000
-	200,000	-	-	-	200,000	-	459,810
-	200,000	-	-	-	200,000	-	216,000
-	200,000	-	-	-	200,000	-	206,000
-	-	-	-	-	-	-	6,000
-	-	-	-	-	-	-	173,810
-	-	-	-	-	-	-	14,000
-	200,000	-	-	-	200,000	-	533,810
-	200,000	-	-	-	200,000	-	609,620
-	-	-	-	-	-	-	-

The most Senior Executives, including the Chief Executive Officer and the Chief Financial Officer, receive remuneration according to employment contracts signed with them. The following table illustrates details of remuneration and compensation paid to Senior Executives.

(SAR '000)	2016	2015
Salaries and compensation	6,397	9,839
Allowances	600	908
Annual and periodic bonuses	8,056	16,671
Incentive schemes	-	-
Compensation or benefits	2,736	10,196
<b>Total</b>	<b>17,789</b>	<b>37,614</b>

## Board of Directors Committees

The Board may at any time establish, by formal resolution, other subcommittees and specify the authority, objectives and reporting lines of such committees. On an annual basis the Board will review and either ratify or modify the authorities of its subcommittees, to ensure that their delegations remain appropriate. During 2016, there were no new

sub-committees formed. During its General Assembly on 4th October 2016, the Company's shareholders approved the constitution, duties and internal regulations of the Audit Committee, as well as the remuneration of its members, in accordance with Article (101) of the Companies Law.

## Executive Committee

Almarai's by-laws (Article 26) allow the Board the option to establish an Executive Committee, if it so chooses. Article 26 states: 'The Board of Directors may appoint from among its Members an Executive Committee. The Board of Directors shall appoint a chairman from among the members of the Committee and shall specify the number of members of the Committee and the required quorum for its meetings. In accordance with the directions and guidelines prescribed by the Board from time to time, the Committee may exercise all of the powers authorised by the Board. The Executive Committee may not revoke or alter any of the resolutions adopted, or rules laid down, by the Board of Directors.' The Executive Committee can be subjected to Article 13 of the Corporate Governance Code, which stipulates that the composition of Board committees is based on the Company's needs and circumstances, to allow the Board of Directors to perform its duties effectively. The committees are formed in accordance with general procedures established by the Board of Directors, including: defining the tasks of the committee, the

duration of its work and the prerogatives given. The Board has the obligation to periodically follow up on these committees to check on the progress of the work entrusted to them. The Company's Board of Directors decides upon the composition of the Executive Committee and its tasks and responsibilities, which include the following:

- Participate in the development of new strategic plans and evaluate proposals from Executive Management for such plans, including possible mergers or acquisitions and make recommendations to the Board
- Review Company performance at each Executive Committee meeting and assess performance against targets, analyse and make enquiries about underlying factors, trends and major developments and advise management accordingly
- Review Company performance on a monthly basis against agreed objectives and budgets,



Left to right: Mr. Georges P. Schorderet, Dr. Ibrahim bin Hassan Al Madhoun, Engr. Mosa bin Omran Al Omran, Mr. Abdulrahman bin Abdulaziz Al Muhanna, HH Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer, Engr. Rayan bin Mohammed Fayez, Mr. Christopher Ledwidge

- based on an agreed set of reports to be supplied monthly by Company management and alert management and other Executive Committee members of any significant developments observed. If necessary, request the Company's management to convene an additional Committee meeting
- Review, evaluate and make recommendations to the Board on the approval of annual budgets
  - Review and evaluate new project CAPEX proposals, approving those within the delegation of the Committee, initially set as approval of project CAPEX up to SAR 20.0 million and capped at a maximum approval of SAR 150.0 million in any one financial year after approval of the annual (Operational and CAPEX) budget. In the case of all project CAPEX outside this delegation, the Committee will review and evaluate the CAPEX and make a recommendation to the Board on acceptability
  - Review post-implementation analyses supplied by management for all major CAPEX (greater than SAR 2.0 million) and advise the Board on the outcome and any learning points to emerge
  - Provide advice to the Board on the setting of dividends, taking into account any recommendations made by the Audit Committee in this regard
  - Review policies and procedures developed by Executive Management but do not approve

- anything requiring Board approval
- Approve the appointment of persons reporting directly to the CEO, based on the recommendations of the CEO, providing that he should not take office until approved by the Committee
- Make recommendations to the Board on any changes to sponsors or agency structures
- Review and approve requests for corporate guarantees, up to the Committee's limit of authority
- Periodically review the Company's corporate governance policies and Code of Conduct, and make recommendations to the Board for any modifications considered desirable
- Carry out specific requests from the Board of Directors
- Review the implementation of decisions taken by the Board as well as by the Executive Committee itself
- Review matters or intended actions which might have a significant impact on the Company's public image

During 2016 the Executive Committee held four meetings. The below table illustrates the names, positions, and attendance of the Committee members.

## Executive Committee Meetings During 2016

Member Name	Position	Meetings					Attendance Rate	
		Previous Period			New Period			
		First 7 Feb	Second 3 Apr	Third 8 Jun	Fourth 3 Oct	Fifth 5 Dec		
Mr. Abdulrahman bin Abdulaziz Al Muhanna	Chairman	Attended	Attended	Attended	Attended	Attended	100%	
HH Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer	Member	Attended	Attended	Attended	Attended	Attended	100%	
HH Prince Saud bin Sultan bin Mohammed bin Saud Al Kabeer	Member	Attended	-	Attended	-	Attended	60%	
Engr. Mosa bin Omran Al Omran	Member	Attended	Attended	Attended	Attended	Attended	100%	
HE Engr. Abdullah bin Mohammed Noor Rihaimi*	Member	Attended	Attended	Attended	Attended	Was not a member	100%	
Engr. Rayan bin Mohammed Fayez**	Member	Was not a member					Attended	100%
Dr. Ibrahim bin Hassan Al Madhoun	Member	Attended	Attended	Attended	Attended	Attended	100%	
Mr. Georges P. Schorderet	Member	Attended	Attended	Attended	Attended	Attended	100%	
Mr. Christopher Ledwidge	Member	Attended	Attended	Attended	Attended	Attended	100%	

\*Resigned from the Board and Executive Committee with effect from 5th October 2016

\*\*Appointed as Board and Executive Committee Member with effect from 5th October 2016

# Nomination and Remuneration Committee

The Nomination and Remuneration Committee was formed on 24th March 2008. The Committee has the role of making recommendations to the Board of Directors on nominations to the Board, developing clear policies for the remuneration of the Board of Directors and Senior Executives of the Company and its subsidiaries, reviewing the structure of the Board of Directors, identifying weaknesses and strengths of Members of the Board, ensuring the independence of independent Members (annually) and ensuring the absence of conflicts of interest if Members also belong to the Board of Directors of another company. The Committee's role includes the following tasks:

- Review the composition, tenure, performance and membership of the Board of Directors and of Board subcommittees
- Make recommendations on new appointments to the Board in order to ensure that the Board comprises individuals best able to discharge the responsibilities of Directors with regard to the law and the highest standards of governance
- Review and make recommendations to the Board on the remuneration of Directors, inclusive of Directors' fees, salaries, benefits, incentive payments, pensions, severance entitlements and all other forms of compensation
- Review and recommend to the Board, for approval, the overall direction of Almarai's strategies and policies in respect of remuneration and benefits, recognition of executive employment performance, succession planning and executive development
- Review and make recommendations to the Board on the compensation packages of Senior Management, including the CEO of Almarai and executives reporting directly to the CEO
- Assess the necessary and desirable competencies of Board Members and evaluate the Board's performance. This should include a review, on an annual basis, of the current composition of the Board taking into consideration the independence, age, skill, experience and availability of service to the Company of its Members and of anticipated needs. The Committee will identify and review with the Board the appropriate skills and characteristics required of the Directors
- Specifically ensure that all nominees for appointment as a Director are free of any prior conviction for fraudulent or criminal acts



Left to right: Engr. Mosa bin Omran Al Omran, Mr. Abdulrahman bin Abdulaziz Al Muhanna, HH Prince Sultan bin Mohammed bin Saud Al Kabeer (Chairman of the Board), Mr. Bader bin Abdullah Al Issa, Mr. Georges P. Schorderet

- Review and make recommendations to the Board on the appointment and removal of Directors, taking into account the Company's Director nomination procedures and the remuneration of Directors
- Ensure adequate orientation and training for new Directors about the affairs and business of the Company to allow them to properly discharge their duties
- Review and make recommendations to the Board on remuneration including short and long-term incentives for the CEO and associated performance targets
- Review and approve recommendations from the CEO on the remuneration of Senior Executives reporting to the CEO
- Review performance targets for Senior Executives reporting to the CEO
- Review human resource and remuneration policies and practices for the Company, as brought forward by the CEO and where appropriate recommend adoption by the Board
- Review management succession planning for the Company in general but specifically with regard to the Board, CEO and Senior Executives reporting to the CEO
- Review and approve recommendations from the CEO on the appointment and termination of Senior Executive positions reporting to the CEO, with the exception of the CFO and Company Secretary, whose appointment or termination must be approved by the Board, and the Head of Internal Audit, whose termination must be approved by the Audit Committee
- Annually confirm the continuing independence of independent Members of the Board
- Annually confirm that Directors do not have a conflict of interest by virtue of directorships that they hold in other companies
- Review the structure of the Board of Directors and recommend changes
- Determine the points of strength and weakness in the Board of Directors and recommend remedies that are compatible with the Company's interest
- Draw clear policies regarding the indemnities and remunerations of Board Members and Senior Executives; in laying down such policies, standards related to performance shall be followed

During 2016 the Nomination and Remuneration Committee held four meetings. The following table illustrates the names, positions, and attendance of Committee members:

## Nomination and Remuneration Committee Meetings During 2016

Member Name	Position	Meetings				Attendance Rate
		First 3 Feb	Second 4 Oct	Third 5 Oct	Fourth 6 Dec	
HH Prince Sultan bin Mohammed bin Saud Al Kabeer	Chairman	Attended	Attended	Attended	Attended	100%
Mr. Abdulrahman bin Abdulaziz Al Muhanna	Member	Attended	Attended	Attended	Attended	100%
Engr. Mosa bin Omran Al Omran	Member	Attended	Attended	Attended	Attended	100%
Mr. Georges P. Schorderet	Member	Attended	Attended	Attended	Attended	100%
Mr. Bader bin Abdullah Al Issa*	Member	Was not a member	Attended	Attended	Attended	100%

\* Appointed as Board and Nomination and Remuneration Committee Member with effect from 7th August 2016

# Audit Committee

The constitution, duties and internal regulations of the Audit Committee, as well as the remuneration of its members were approved by the General Assembly on 4th October 2016, in accordance with Article (101) of the Companies Law.

The Audit Committee will have full oversight on the management of risk at Almarai and its subsidiaries. The Committee's main role is to provide oversight of the financial reporting process, the audit process, the system of internal controls, risk management systems, compliance with laws and regulations and recommendation on the appointment of the external and internal auditors along with overseeing their roles and effectiveness. In addition, the Audit Committee is also responsible for overseeing the Company's business and verifying the validity and integrity of reports. The Committee's role includes:

- Review Almarai's interim and annual Financial Statements before presenting them to the Board of Directors, advising the Board on the acceptability thereof
- Oversee and review the scope of work, reports and activities of the external auditors, and comment on their report where appropriate
- Oversee and review internal control systems within the Company and prepare a written report on the adequacy of these systems. The Board of Directors should submit sufficient copies of the report at the Company's Head Office, at least ten days before the General Assembly, for access by shareholders. The report should be read at the General Assembly meeting
- Supervise the work of the Internal Audit department to ensure its effectiveness in performing the tasks entrusted to it
- Review and approve the annual audit plan of the Internal Audit department, review summary reports of their audits and monitor management's responses and remediation plans
- Oversee and review effectiveness of risk management within the Company
- Make recommendations to the Board of Directors on the appointment of the external

auditors, including determination of fees, ensuring independence, and reviewing the scope of work and terms of contract

- Oversee and review the auditors' plans, ensuring that all items are within the scope of the audit, and approving any out of scope work
- Review the external auditors' report and comments on the Financial Statements, following up any actions taken to address them
- Review the Company's accounting policies and make any recommendations necessary to the Board
- Review regulatory reports and announcements on reporting, ensuring the Company takes the necessary actions to meet prescribed criteria

In general, the Committee has authority to investigate any activity within its terms of reference or any matters specifically requested. The Committee has unrestricted access to all records and staff of Almarai (including Internal Audit) and the external auditors. The Committee is authorised to obtain outside legal or other independent professional advice, as necessary, to assist the Committee. The Committee shall consider at each meeting whether any failures of risk management, internal control or compliance matters (that are brought to the Committee's attention) are significant and should be immediately reported to the Board. Any suspected serious frauds and irregularities shall be immediately reported by the management to the Head of Internal Audit or the Audit Committee, depending upon their severity.

To ensure the independence of the work of the Audit Committee, the Head of Internal Audit and the head of the external auditors communicate directly with the Committee, without any intermediary. The Committee is formed according to the following rules:

- Members of the Audit Committee are appointed by the General Assembly upon the proposal of the Board of Directors
- The Committee should not include any executive board members



Left to right: Dr. Ibrahim bin Hassan Al Madhoun , Mr. Sulaiman bin Nasser Alhatlan, Mr. Farraj bin Mansour Abo Thenian , Dr. Abdulrahman bin Suliman Al Turaigi , Dr. Muhammad bin Hassan Ikhwan

- The Committee may include members who are or are not shareholders
- The Committee will comprise a minimum of three (3) members and not exceed five (5) members
- A chairman will be appointed by members at the first meeting
- Committee members should be selected to ensure a range of different backgrounds, skills and experiences and a sound understanding of the industry in which Almarai operates. At least one member should have sound accounting or finance experience
- Members are appointed for a term up to a maximum of three years and are eligible for re-appointment subject to the composition requirements of the Committee
- The Committee can appoint a secretary from among its members or a Company employee

As per Article 103 of the Companies Law, the Audit Committee may ask the Board of Directors to convene the General Assembly of Shareholders, if the Audit Committee is unable to fulfil its obligations through the Board of Directors or if the Company sustained substantial losses or damages.

During 2016 the Audit Committee held five meetings. The following table illustrates the names, positions and attendance of the Committee members:

## Audit Committee Meetings During 2016

Member Name	Position	Meetings					Attendance Rate
		Previous Period			New Period		
		First 7 Feb	Second 4 Mar	Third 29 May	Fourth 5 Oct	Fifth 5 Dec	
Dr. Abdulrahman bin Suliman Al Turaigi	Chairman	Attended	Attended	Attended	Attended	Attended	100%
Dr. Muhammad bin Hassan Ikhwan	Member	Attended	Attended	Attended	Attended	Attended	100%
Dr. Ibrahim bin Hassan Al Madhoun	Member	Attended	Attended	Attended	Attended	Attended	100%
Mr. Farraj bin Mansour Abo Thenian	Member	Attended	Attended	-	Attended	Attended	80%
Mr. Sulaiman bin Nasser Alhatlan*	Member	Attended	-	Attended	-	Attended	60%

\*Specialist in accounting and auditing

# Results of annual internal audit procedures

The basic functions of the Board of Directors in internal audit matters include:

- Ensuring integrity of the financial and accounting systems including systems related to the preparation of financial reports
- Ensuring the application of transparent control systems for risk management by selecting the general perception of risks that Almarai and its subsidiaries may face
- Annual audit of the effectiveness of internal control procedures within Almarai and its subsidiaries

The Board of Directors is committed to ensuring that the Internal Audit department – functionally linked to the Audit Committee – is one of the necessary tools to control, improve, and supervise performance in order to improve working practices and corporate governance. Accordingly, the basic functions of Internal Audit are specified as:

- Assisting the Board of Directors (through the Audit Committee) in protecting and securing the interests of Almarai and its subsidiaries
- Informing the CEO and the Audit Committee of audit results and comments, reviewing topics that Internal Audit believes are of potential interest to the Company, and providing copies of relevant reports to both the Audit Committee and the CEO
- Agreement with the CEO and the Audit Committee on the annual audit scope, to provide reasonable assurance on the coverage of key risks to Almarai and its subsidiaries
- Keeping the Audit Committee informed of risk management procedures and developments within Almarai and its subsidiaries
- Assisting Almarai's management in the commercial and quality assessment of operations to guarantee their effectiveness and efficacy
- Investigating specific issues brought by Almarai's management or the Audit Committee
- Creating an independent communication channel with Almarai and subsidiary employees to raise their concerns on issues regarding

privacy (Almarai whistle-blowing facility as per the Corporate Governance Code)

There are different levels of responsibility and reporting lines for the efficient running of risk management systems at Almarai, as described in the 'Risk and business continuity' chapter of this report. The Audit Committee directly supervises Internal Audit, while Internal Audit continuously examines the efficiency and effectiveness of Almarai's internal control systems.

Accordingly, the Board of Directors, based on the reports and recommendations of the Audit Committee, and in line with its business plan, confirms the following in respect to 2016:

- That no matters were brought to the Board's attention that would lead the Board to believe that there was a fundamental lack of integrity in financial and accounting systems, such that it would require disclosure
- That the control systems are effectively functioning and facilitating the mitigation of potential risks that Almarai and its subsidiaries may face; and that no matters relating to the functioning of internal controls were brought to the Board's attention that were material and would require disclosure
- That all necessary arrangements and corrective actions have been taken on all concerns and recommendations raised by Internal Audit to the Audit Committee

# Related party transactions

Almarai's written policy on conflict of interest addresses potential conflict situations for Directors, Executives and major shareholders (owning more than 5% of the Company's share capital). The General Assembly is notified of any potential conflict of interest requiring approval.

During the normal course of its operations in 2016, Almarai carried out the following significant transactions with related parties on an 'arm's length basis':

## Related Party Transactions 2016

Nature of Transaction (SAR'000)	Transaction Amount		Balance at 31 December	
	2016	2015	2016	2015
<b>Sales to</b>				
Panda Retail Company	612,686	566,733	112,475	96,339
	612,686	566,733	112,475	96,339
<b>Purchases from</b>				
Savola Packaging Systems Company Limited	-	28,197	-	-
United Sugar Company	106,991	108,380	(8,702)	(7,661)
Afia International Company	76	41	(76)	-
Al Nafoura Catering	309	121	(43)	-
Al Kabeer Farms - Forage	53,530	39,663	(20,216)	(8,899)
Arab Company for Agricultural Services (ARASCO)	6,349	6,385	1,131	1,507
	167,255	182,787	(27,906)	(15,053)
<b>Services from</b>				
Arabian Shield Cooperative Insurance Company	113,704	96,561	981	(48,865)
Todhia Farm (rent)	813	813	-	-
Abdul Aziz Al Muhanna (land rent)	173	173	-	-
Mobile Telecommunication Company Saudi Arabia	303	13	-	-
Al Jazirah Corporation for Press, Printing and Publishing	357	436	(52)	(120)
	115,350	97,996	929	(48,985)
<b>Payment of Sukuk finance charges</b>				
Yamama Cement Company	1,179	920	(433)	(235)
Saudi British Bank	10,664	6,645	(4,221)	(2,376)
Banque Saudi Fransi	11,180	7,083	(4,442)	(2,547)
Arabian Shield Cooperative Insurance Company	73	30	(33)	-
	23,096	14,678	(9,129)	(5,158)
<b>Bank financing</b>				
Saudi British Bank	31,136	25,812	692,569	1,175,494
J.P. Morgan Saudi Arabia Limited	1,046	-	375,250	-
Banque Saudi Fransi	19,093	19,714	415,000	781,667
	51,275	45,526	1,482,819	1,957,161
<b>Services to</b>				
Al Kabeer Farms	864	864	-	-
United Farmers Holding Company	131	955	1,735	1,603
	995	1,819	1,735	1,603
<b>Dividend received</b>				
Purebreed Company	500	-	-	-
	500	-	-	-

The following significant related party transactions during 2016 require approval from the General Assembly:

## Dealings During 2016

Member	Nature of Dealing	Amount (SAR '000)	Period	Conditions
<b>Chairman/HH Prince Sultan bin Mohammed bin Saud Al Kabeer</b>				
Al Kabeer Farms - Forage	Management contract	864	One year	Commercial conditions prevailing in the market
Al Kabeer Farms - Forage	Feed procurement	53,530	One year	Commercial conditions prevailing in the market
Rental Todhia Farm - Dairy	Lease contract	813	One year	Commercial conditions prevailing in the market
Al Nafoura Catering	Catering services	309	One year	Commercial conditions prevailing in the market
Arabian Shield Cooperative Insurance Company	Insurance	113,704	2016	Commercial conditions prevailing in the market
Arabian Shield Cooperative Insurance Company	Insurance	108,598	2017	Commercial conditions prevailing in the market
Arabian Shield Cooperative Insurance Company	Investment in instruments	3,000	2012-2019	Commercial conditions prevailing in the market
Arabian Shield Cooperative Insurance Company	Payment of Sukuk finance charges	73	2016	Commercial conditions prevailing in the market
<b>Chairman/HH Prince Sultan bin Mohammed bin Saud Al Kabeer and HH Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer</b>				
Yamama Cement Company	Investment in instruments	50,000	2013-2018	Commercial conditions prevailing in the market
Yamama Cement Company	Payment of Sukuk finance charges	1,179	2016	Commercial conditions prevailing in the market
<b>HH Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer</b>				
Mobile Telecommunication Company Saudi Arabia	Telecommunication services	303	2016	Commercial conditions prevailing in the market
<b>Mr. Abdulrahman bin Abdulaziz Al Muhanna</b>				
Rent of land for distribution centre in Sharjah	Lease contract	173	2001-2021	Commercial conditions prevailing in the market
Al Jazirah Corporation for Press, Printing and Publishing	Publication services	357	One year	Commercial conditions prevailing in the market
Arab Company for Agricultural Services (ARASCO)	Feed procurement	6,349	One year	Commercial conditions prevailing in the market
<b>Savola Group</b>				
Panda Retail Company	Product sales	612,686	One year	Commercial conditions prevailing in the market
United Sugar Company	Sugar purchasing	106,991	One year	Commercial conditions prevailing in the market
Afia International Company	Soya bean oil purchasing	76	One year	Commercial conditions prevailing in the market
<b>Engr. Rayan bin Mohammed Fayez</b>				
J.P. Morgan Saudi Arabia Limited	Financial services	1,046	Since 5 October 2016	Commercial conditions prevailing in the market
J.P. Morgan Saudi Arabia Limited	Bank financing	375,250	2017	Commercial conditions prevailing in the market

Member	Nature of Dealing	Amount (SAR '000)	Period	Conditions
<b>Mr. Suliman bin Abdulkader Al Muhaideb</b>				
Saudi British Bank	Bank services	31,136	One year	Commercial conditions prevailing in the market
Saudi British Bank	Investment in instruments	100,000	2015-2022	Commercial conditions prevailing in the market
Saudi British Bank	Investment in instruments	150,000	2013-2018	Commercial conditions prevailing in the market
Saudi British Bank	Investment in instruments	150,000	2013-2020	Commercial conditions prevailing in the market
Saudi British Bank	Investment in instruments	50,000	2012-2019	Commercial conditions prevailing in the market
Saudi British Bank	Bank financing	692,569	2016-2027	Commercial conditions prevailing in the market
Saudi British Bank	Payment of Sukuk finance charges	10,664	2016	Commercial conditions prevailing in the market
<b>Engr. Mosa bin Omran Al Omran and Mr. Bader bin Abdullah Al Issa</b>				
Banque Saudi Fransi	Bank services	19,093	One year	Commercial conditions prevailing in the market
Banque Saudi Fransi	Investment in instruments	100,000	2015-2022	Commercial conditions prevailing in the market
Banque Saudi Fransi	Investment in instruments	200,000	2013-2018	Commercial conditions prevailing in the market
Banque Saudi Fransi	Investment in instruments	100,000	2013-2020	Commercial conditions prevailing in the market
Banque Saudi Fransi	Investment in instruments	90,000	2012-2019	Commercial conditions prevailing in the market
Banque Saudi Fransi	Bank financing	415,000	2016-2019	Commercial conditions prevailing in the market
Banque Saudi Fransi	Payment of Sukuk finance charges	11,180	2016	Commercial conditions prevailing in the market

# Risk and business continuity

Almarai recognises that risk is an inherent part of doing business. Risk management is an important contributor to the creation and protection of value – and is therefore a pivotal part of the Company’s governance and operational management. Managing risk appropriately and consistently across the business is critical to the current and future success of Almarai.

In 2016, in recognition of an increasingly complex business environment and in keeping with international best practice, the Company enhanced its established risk management practices and formed an Enterprise Risk Management (ERM) Department. The ERM Department independently provides consistent guidance on implementing the ERM policy as well as oversight and monitoring of risk practices across the business through reviews, challenges and reporting.

Almarai defines risk as “the possibility of an event occurring that will have an impact on its essential business processes and activities or the compliance, reporting or strategic objectives of the Company.” Risks are evaluated via a combination of the consequences of an event and the likelihood of its occurrence.

As a publicly listed company and producer of the highest quality food and beverage products, Almarai operates in a highly regulated environment, which is increasingly complex and demanding. The Company therefore has to comply with a number of regulatory requirements and legal obligations for the management of business risks. The key regulators of Almarai’s activities are the Capital Market Authority (CMA) and other governmental bodies such as the Ministry of Commerce & Industry (MCI) and the Saudi Food and Drug Authority (SFDA). Almarai is also subject to a number of other GCC and regional legislative requirements.

## ERM policy

Almarai manages risk in a way that supports the development of short, medium and long-term value and returns for stakeholders. This is achieved through the development, implementation and maintenance of a robust ERM capability to:

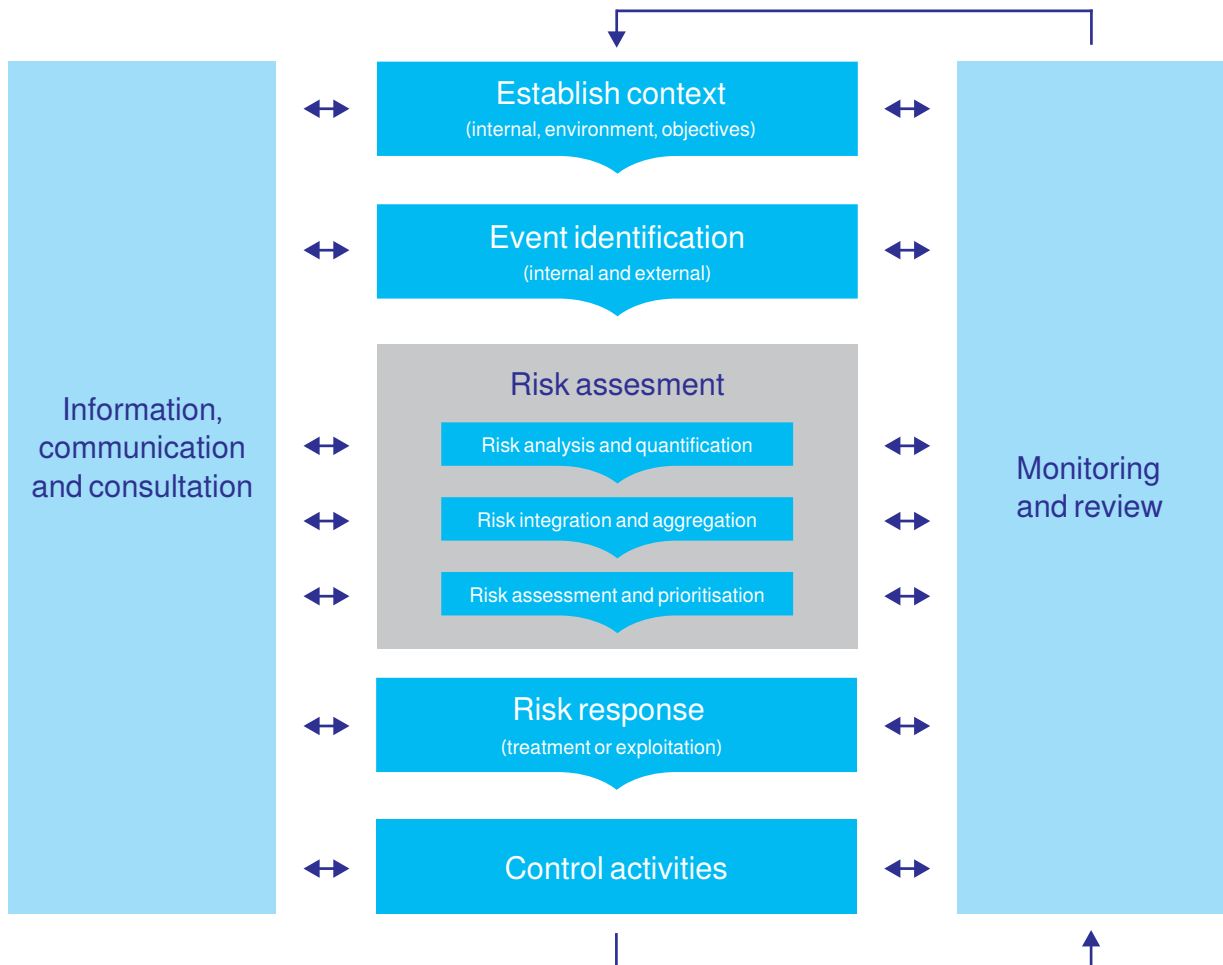
- Establish and maintain clearly defined roles, responsibilities and ownership for ERM consistent with the three lines of defence model described below
- Establish and maintain a robust risk governance framework
- Apply the Company’s ERM policy consistently across all business activities
- Perform and conduct ERM activities in a transparent manner
- Include risk information as an integral part of the decision making process
- Adopt, implement and maintain compliance with recognised best industry practice and international standards in ERM and related disciplines, so as to manage risk and leverage opportunities for the business
- Achieve and maintain compliance with the legal, contractual and regulatory requirements for risk management in the geographies and market sectors in which Almarai operates

## Approach

Almarai has developed a methodology to manage potential business risks. This is aligned with recognised industry standards and best practices based on the COSO<sup>1</sup> Enterprise Risk Model – Integrated Framework and ISO<sup>2</sup> 31000:2009, Risk management – Principles and guidelines.

The methodology is reviewed regularly and, where necessary, adapted to ensure it evolves with the Company’s business needs, thereby allowing Almarai to manage risks effectively and efficiently, supporting the achievement of short and long-term objectives. The Almarai Risk Management process (below) is aligned to the COSO model components and process defined in ISO 31000:2009. This cyclical process is supported by the ERM Department through the provision of education, training and guidance to business management teams and the use of an ancillary toolset for recording, analysing and reporting on risks.

## Almarai Risk Management process



All types of risk are managed through the same process and are an integral part of Almarai's business model.

### Risk categories

The Company has adopted the risk categories and classifications defined in the COSO Enterprise Risk Model and uses these to group risk exposures. All categories of risk may give rise to reputational damage. The four main risk category groups within Almarai are:

<sup>1</sup>Committee of Sponsoring Organizations of the Treadway Commission

<sup>2</sup>International Organization for Standardization

Risk category	Risk examples
<b>Strategic</b>	Adverse strategic decisions, improper implementation of strategic decisions, a lack of responsiveness to industry changes or exposure to economic, market or demographic considerations that affect Almarai's market position, risk of sustainability in relation to the environment, people, society and resilience for the long-term future of the Company.
<b>Operations</b>	Inadequate or failed internal processes, people and systems, external events that affect operations, exposure to changes in personnel, including an inability to attract and retain high quality and appropriate people, inadequate succession planning, business infrastructure, market share and resilience, funds inappropriately used, financial performance not managed to expectations or financial results inappropriately accounted for, inadequate cash flow to meet financial obligations or a failure to provide expected returns from investments.
<b>Reporting</b>	Reliability, integrity and accuracy of internal and external financial and non-financial reporting to stakeholders, which would encompass reliability, timeliness, transparency and other requirements from regulators, standard setters or Almarai's policies, including ensuring financial results are appropriately disclosed.
<b>Compliance</b>	Violation of, non-conformance with, or inability to comply with applicable rules, regulations, laws, prescribed practices, internal policies and procedures, or ethical standards. Inappropriate or inadequate internal policies or corporate governance. Legal protection of commercial interests, protection of rights and obligations not clearly defined or understood or the protection of intellectual property.

In addition to the above high-level risk category groups, Almarai is exposed to – and therefore considers – the following additional specific risks.

Business risks	Market risks	Economic and regulatory risks
Product risk	Water supply and fodder	Economic and political risk
Unexpected business interruption	Outbreak of disease – dairy or poultry	Regulatory risk
Protection of intellectual property	Potential competitor pricing pressure	Labour force regulation
Expansion strategy	Foreign currency and commission risk	Pricing regulatory framework
Dependence on suppliers and supplying countries	Commodity prices	Subsidy mechanism
Agency and distributorship arrangements	Market share	Investment risk
Project and programme risk	Competitive environment	Environmental risks

## Managing risk

Aligned with industry-recognised and adopted best practice, Almarai operates a three lines of defence model to ensure company-wide accountability for governance, management and reporting of risks and the control environment.

### First line of defence

Primary responsibility for risk management rests with individual business area executives and their management teams. Business management own their risks and are responsible for identifying, analysing, monitoring, controlling and reporting risks for their business area. Risk management coordination is facilitated in each business area through a nominated risk champion within that business area's management team.

A number of processes and controls exist to ensure the Company makes well informed and controlled decisions on the level of risk to assume, and that the returns expected for a given risk outweigh the cost of assuming that risk.

### Second line of defence

Development and oversight of ERM across Almarai is undertaken by the ERM Department. This includes:

- Policy, framework and governance development
- General advice, guidance and training on ERM
- Collation and analysis of business risks
- Identification of holistic and systemic risks
- Risk horizon scanning for emerging risks
- Assessing the effectiveness and maturity of risk management
- Development and implementation of supporting risk management tools

The ERM Department also provides a coordination function for the governance, monitoring and reporting of significant risks to Executive Management and the Board. The department is supported by specialist areas, such as Quality, Health Safety & Security, Business Continuity, Information Security, Legal and Finance, which develop corporate policy and provide advice, guidance and monitoring on the implementation of these policies in the business areas.

### Third line of defence

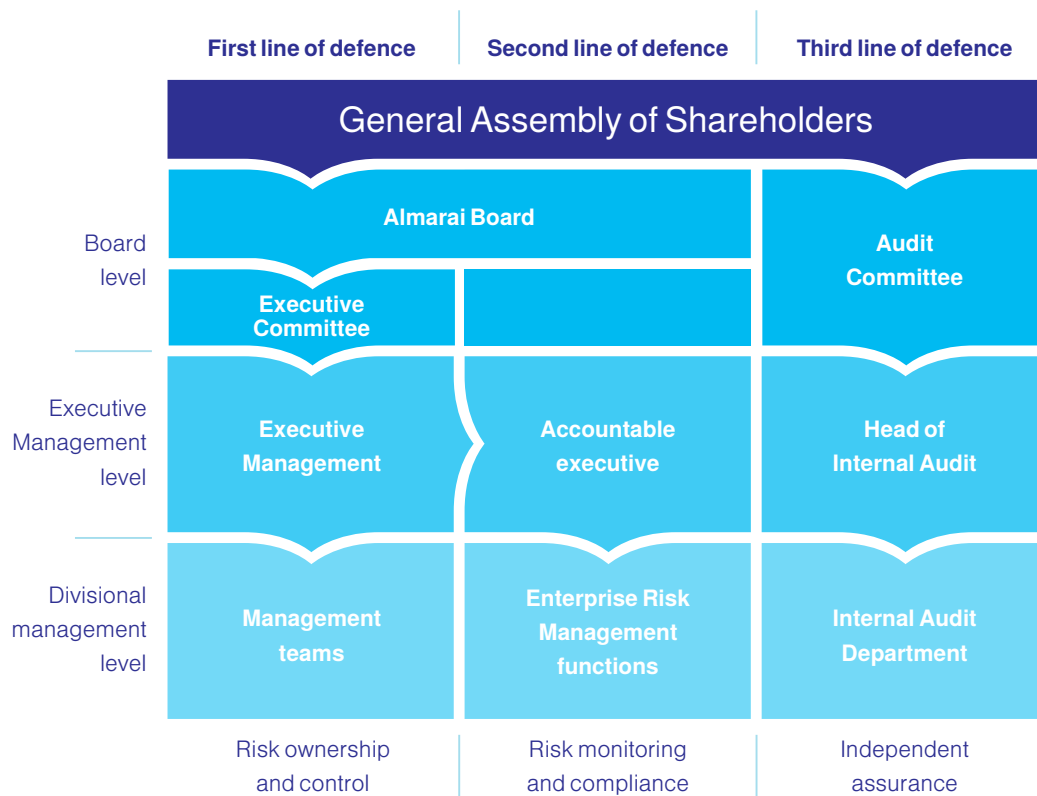
Independent assurance on ERM, risk management, control and governance processes is provided to the Board by the Internal Audit Department via the Audit Committee.

The Audit Committee provides oversight and direction in accordance with their respective responsibilities (as described by CMA Corporate Governance regulations, Almarai's by-laws and the Company's Corporate Governance Code).

### Business continuity

Resilience and business continuity remain essential in managing the response to risk across the organisation. Investment in these areas enables Almarai to protect its activities, responding quickly and efficiently when incidents occur to ensure the Company continues to deliver the highest quality services and products to consumers.

## Almarai three lines of defence model



Almarai has integrated resilience and business continuity into its processes, controls and infrastructure, to provide a robust and reliable business environment. The technical infrastructure includes a back-up data centre and testing of the Company's ability to resume critical technical infrastructure occurs annually within the Business Systems Development department (BSD).

aspects of its business in 2016. The commissioning of a new bakery plant in Hail provides extra capacity and resilience for bakery production. Meanwhile, the continued provision of standby power following the large scale outage in the Al Kharj valley in November 2015 has continued to protect the Company from major electrical infrastructure disruptions.

As part of a continued commitment to resilience and business continuity, Almarai enhanced two key

### Almarai crisis management structure



Almarai has a major incident and crisis management structure, which can be activated if an abnormal or unstable event threatens the Company's strategic objectives, reputation or ongoing viability. The approach to these types of incidents is based on industry standards and best practice. It incorporates a three-tiered response system to ensure rapid decision-making and action.

Planning and preparation for major incidents and potential crises was further improved during 2016 with reviews and updates to the Company's crisis management plans. There was a particular focus at a corporate level and within the Infant Nutrition area of the business, where the greatest level of direction and response is required should a major incident occur.

Continued conflict with Yemen in Saudi Arabia's southern regions ensured that Almarai successfully reviewed, updated and tested emergency plans for local offices. These sustained activities in the southern 'Asir and Najran regions have reinforced the Company's commitment to staff and consumers. Despite the disturbances in these regions, Almarai's Head Office and local sales teams worked tirelessly with local communities to ensure deliveries continued as usual.

Meeting and exceeding the requirements of consumers and delivering 'Quality you can trust' remain Almarai's highest priorities. Capital investment and a commitment to resilience and business continuity are essential to ensuring these continue following a business disruption.

# Disclosure and transparency policy

Almarai seeks to provide accurate, regularly updated information to all its stakeholders and other interested parties. This policy reflects current activities and will be updated as and when those activities change. The Company publishes and regularly updates information about corporate structure and operations, partners, investments, other commercial activity and performance related information. As a publicly listed company, Almarai recognises its obligation to respond appropriately to legitimate questions from consumers, customers, government, the media and other stakeholders.

Information disclosed by Almarai under this policy is available on various websites including the Company's website ([www.almarai.com](http://www.almarai.com)) and the Saudi Stock Exchange (Tadawul) website ([www.tadawul.com.sa](http://www.tadawul.com.sa)).

The following information is updated and published annually, or as required by the law and relevant rules and regulations. This is not an exhaustive list - other useful information is also disclosed as required:

- Board Members
- Board Committee membership
- Board Reports
- Quarterly Reports and Financial Statements
- Annual Reports and Financial Statements
- Accounting Policies
- Related Party Transactions
- Review of Principal Activities
- Auditors' Report

In the following circumstances, Almarai will not routinely publish information:

- Where disclosure would, or would be likely to, prejudice the commercial interests of Almarai, its business partners or other third parties, and where the public interest in disclosure does not outweigh the public interest in maintaining the exemption
- When information has been given to Almarai in confidence, and where disclosure could give rise to an action for breach of confidence

- Personal information about Almarai employees, Board Members or other individuals where to do so may be in breach of data protection principles
- Where disclosure would, or would be likely to, prejudice the investigation, prevention or detection of crime, or the administration of justice
- When information is subject to legal privilege

## Historic information

The information Almarai publishes on its website is mainly current information, though some historic information is available, for example previous Annual Reports.

## Contact Almarai

Related or interested parties are invited to communicate with the Investor Relations department by email: [investor.relations@almarai.com](mailto:investor.relations@almarai.com)

Interested parties may also contact the Company through the following telephone numbers: 800 124 6688 in Saudi Arabia; or 00 966 (11) 453 6688 from abroad. Interested parties may also contact Almarai by email: [info@almarai.com](mailto:info@almarai.com)

For more information, visit the Company's website [www.almarai.com](http://www.almarai.com)

# Board of Directors certification

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The Board of Directors has taken care to ensure the professional performance of the Company during 2016, and certifies the following:

- There are no equity shares or debt instruments belonging to subsidiaries
- There were no convertible debt instruments or any securities or contractual rights of initial public offering or similar rights issued or granted by Almarai during 2016, and there was no compensation obtained by Almarai in return
- There were no rights of conversion or initial public offering under convertible debt instruments or any securities or contractual rights of initial public offering or similar rights issued or granted by Almarai during 2016
- No redemption, purchase, or cancellation by Almarai or any of its subsidiaries of any redemption of debt instruments occurred during 2016
- There were no substantial operational conflicts of interest during 2016, other than those that have been disclosed
- We did not receive a request from the external auditors to call a meeting of the General Assembly during 2016
- We did not receive a request from shareholders owning 5.0% or more of the Company's share capital to call a meeting of the General Assembly during 2016
- There was no procedure that might lead to the obstruction of shareholders' rights of voting
- There were no significant events affecting the integrity of the financial position of the Company after the Financial Year 2016 requiring disclosure, other than information that is available and declared
- The Company did not provide loans or credit facilities to any Member of the Board of Directors
- Proper books of account have been maintained
- The system of internal control is sound and has been effectively implemented
- There are no significant doubts concerning Almarai's ability to continue as a going concern

# Recommendations to the General Assembly

After reviewing the most important operational and financial activities for the Financial Year 2016, we are pleased to attach the Consolidated Financial Statements with the Auditors' Report. We recommend that the General Assembly approve the Board of Directors' Report, the Consolidated Financial Statements, and the Auditors' Report. The place and time of the General Assembly meeting and any other items on the agenda will be announced at a later date.

Almarai Board of Directors  
February 2017



# Financial Review

Almarai delivered another strong financial performance, with increases in sales, Net Operating Income and Gross Profit Margin.



# Financial review

## Financial performance

Almarai achieved sales of SAR 14.7 billion in 2016, representing an increase of 6.6% on the previous year. This was a strong performance considering the weakening economic environment in the region. Net Operating Income increased by 12.4% to SAR 2.5 billion (13.2% in 2015). As a result of tightly controlling direct costs, the Gross Profit Margin increased by 10.4% on 2015. Following the expansion of our manufacturing and distribution facilities throughout the GCC, Selling & Distribution Expenses have increased by 9.3%. General and Administration Expenses grew by 6.6% on 2015, which is in line with the Company's overall sales growth.

Almarai delivered a sustainable EBITDA of SAR 3.7 billion, representing an improvement of 11.5% on the previous year, and 25.3% of sales (24.2% in 2015). Net Income growth was 8.6% (14.4% in 2015), representing 14.2% of sales (13.9% in 2015).

## Segmental results

Sales grew across all major product categories. Dairy and Juice sales grew by 5.0%, Poultry by 8.4%, with Bakery achieving the strongest growth at 16.3%. Profit for the Dairy and Juice segment grew by 6.8% compared to 2015, led by Long Life Dairy (14.6% sales growth), Fresh Dairy (5.3% sales growth), Juice (1.5% sales growth), and Cheese and Butter (0.1% sales growth). Net Income in the Bakery segment increased by 62.0% compared to previous year, mainly due to increased capacity created by the new Hail processing plant.

Losses in the Poultry business increased by 37.6% on the previous year, dominated in 2016 by low cost imported frozen chicken and strong foreign competition in the Saudi market. Losses in Other Activities increased by 14.6% compared to 2015.

## Geographic sales

Saudi Arabia experienced the strongest growth in sales (SAR 494.7 million or 5.6% compared to 8.5% in 2015), followed by other GCC countries (SAR 216.3 million or 5.9% versus 10.3% compared to the previous year) and other countries (SAR 193.1 million or 14.4% compared to 13.5% in 2015). The main year-on-year sales growth was identified in the UAE, Egypt, Qatar and Saudi Arabia.

## Cash Flow and Balance Sheet

Cash Flow from Operating Activities reached SAR 4.4 billion, representing 29.3% or a decline of 10.9% on the previous year. This was affected by an insurance claim receipt of SAR 790.0 million resulting from the 2014 Jeddah fire incident. On a normalised like-for-like basis, Cash Flow from Operating Activities would have increased by 6.1% on the previous year, driven by higher profitability and cash generation. Total Capital Expenditure, including Biological Assets, reached SAR 4.9 billion. Almarai's main investments were related to the expansion of global farming, manufacturing, and distribution facilities, as per the strategic investment plan.

Throughout 2016, Almarai maintained ample, diversified and competitive financing, despite adverse market conditions. The fixed/floating interest rate (SIBOR 6 month) increased from 0.95% to 2.16%. Almarai successfully secured SAR 2.8 billion in 10 year facilities from banks and SAR 0.2 billion for 12 years from the Agricultural Development Fund (ADF). The Company signed its first export credit financing facility of SAR 0.1 billion for 12 years and successfully implemented an equity injection of USD 55 million for joint venture activities with IDJ in Egypt. Overall leverage of the Company reached 2.7x Net Debt to EBITDA.

## Managing risk

In the course of the year, the maturity profile of the existing debt facilities was extended from 3.8 years to 4.4 years, enabling the Company to benefit from favourable long-term interest rate curves. In anticipation of an interest rate increase, interest exposure was actively managed to deliver strong and positive results. In countries experiencing high levels of inflation – particularly Argentina and Egypt – there was close and constructive collaboration between local and corporate finance teams to mitigate the impact of currency devaluation on Group Cash Flow. The Company continued to develop its commodities hedging programme for corn, soya beans and sugar, with an established risk framework in place to guard against challenges created by volatile prices. The corporate finance team also engaged in a comprehensive overhaul of existing insurance policies to ensure optimized coverage aligned with Almarai's changing risk profile.

In 2016 the Company continued to exploit opportunities for financial optimization, with the aim of adapting to the economic challenges faced by the region. Overall leverage of the Company is managed within a maximum limit of 3x Net Debt to EBITDA, while the capital investment as per the strategic plan reached a record level of SAR 4.5 billion.

Given Almarai's significant capital investment requirements, one of the Company's main objectives was to ensure long-term, reliable, diversified and efficient sources of funding. Another important objective was to build flexibility to manage the various risks and exposures the Company faces. Both of these objectives were met in 2016, and will be important cornerstones of financial policy in the coming year.

## Existing financing

Almarai has a good credit standing with various government and non-government financial and lending institutions, as well as fixed income investors. The recognition enjoyed by Almarai is based on the predictability of the Company's positive Operating Cash Flows and its clear strategy for sustainable growth.

Existing financing amounted to SAR 11,435.5 million at the end of 2016, in the form of Murabaha banking facilities compliant with Islamic Shariah, government funding, and Sukuk from fixed income investors. All contractual terms and guarantees used for these financing agreements are executed with normal commercial conditions, including the mortgage of assets and production lines amounting to SAR 1,219.5 million, to the benefit of government financial institutions. Financing facilities granted by banks and other financial institutions are guaranteed by secured promissory notes issued by the Group. The following table illustrates the financing agreements in place at the end of December 2016:

## Financing at End of Year 2016 (SAR million)

Source of Financing	Amount of Core Funding	Financing Period	Payment Method	Start of Year	Additions During the Year	Paid During the Year	End of Year	Maturity Date
Banks and Financial Institutions (Islamic Banking Facilities)	11,876.2	1 to 10 years	Quarterly, semi-annual and annual	5,638.4	1,992.5	(1,834.6)	5,796.3	2017 to 2027
Banking Facilities of Foreign Subsidiaries	385.1	1 to 7 years	Quarterly, semi-annual and annual	170.8	214.3	-	385.1	2017 to 2023
Saudi Industrial Development Fund	1,570.5	1 to 9 years	Semi-annual	1,455.6	29.3	(286.4)	1,198.5	2017 to 2023
Agricultural Development Fund	190.5	12 years	Annual	-	173.6	-	173.6	2017 to 2027
Sukuk - First Tranche	1,000.0	7 years	Lump sum	1,000.0	-	-	1,000.0	Mar 2019
Sukuk - Second Tranche - 1	787.0	7 years	Lump sum	787.0	-	-	787.0	Mar 2020
Sukuk - Second Tranche - 2	513.0	5 years	Lump sum	513.0	-	-	513.0	Mar 2018
Sukuk - Third Tranche	1,600.0	7 years	Lump sum	1,600.0	-	-	1,600.0	Sep 2022
<b>Total</b>	<b>17,922.2</b>			<b>11,164.8</b>	<b>2,409.7</b>	<b>(2,121.0)</b>	<b>11,453.5</b>	

## Classification of Funding (SAR million)

Classification	2016	2015
Short-Term Loans	146.9	153.4
Current Portion of Long-Term Loans	1,171.9	1,668.0
Long-Term Loans	10,134.7	9,343.4
<b>Total</b>	<b>11,453.5</b>	<b>11,164.8</b>

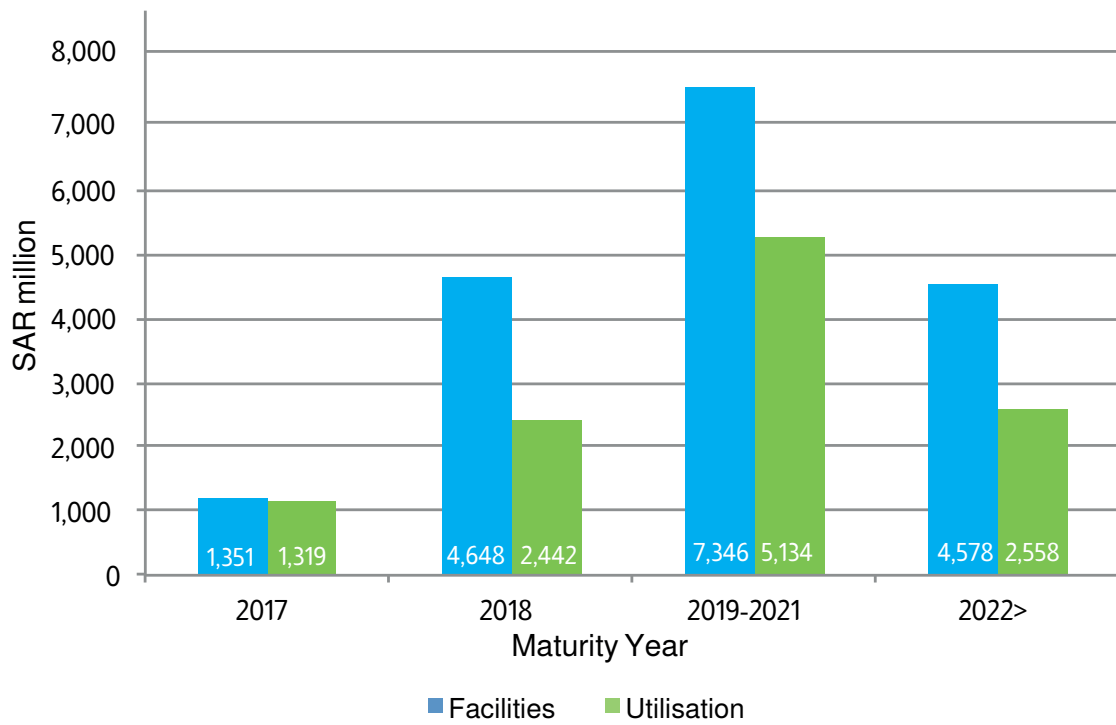
## Maturity of Funding (SAR million)

Maturity	2016	2015
Less than one year	1,318.8	1,821.4
One to two years	2,442.2	1,423.4
Two to five years	5,134.5	5,833.6
More than five years	2,558.0	2,086.4
<b>Total</b>	<b>11,453.5</b>	<b>11,164.8</b>

## Potential financing

Due to the growing need to finance Almarai's future investments, our Treasury department manages any excess cash and constantly provides the necessary financing solutions for all operational needs, as well as investment proposals for cost-efficient financing facilities. The volume of non-used Murabaha banking facilities and available government financing amounted to SAR 6,050.8 million at the end of 2016. An additional SAR 351.1 million of SIDF facilities with a maturity of more than five years have been secured by the Group. The following chart shows available funding and levels of utilisation in 2016 and for future years:

## Facilities and Utilisation





# Financial Statements

Almarai Company's Auditors' Report and  
Consolidated Financial Statements for the  
Year Ended 31st December 2016





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## INDEPENDENT AUDITORS' REPORT

### **The Shareholders** **Almarai – Joint Stock Company** **Riyadh, Kingdom of Saudi Arabia**

We have audited the accompanying consolidated financial statements of **Almarai – Joint Stock Company** (the “Company”) and its subsidiaries (collectively the “Group”) which comprise the consolidated balance sheet as at 31 December 2016 and the related consolidated statements of income, cash flows and changes in equity for the year then ended and the attached notes 1 through 32 which form an integral part of the consolidated financial statements.

### *Management’s responsibility for the consolidated financial statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and in compliance with the Regulations for Companies and the Company’s By-laws, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. Management has provided us with all the information and explanations that we require relating to our audit of these consolidated financial statements.

### *Auditors’ responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



# Consolidated Balance Sheet as at 31 December 2016

	Notes*	2016 SAR '000	2015 SAR '000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	4	729,700	2,038,776
Receivables and Prepayments	5	1,401,793	1,277,110
Inventories	6	3,168,687	2,835,663
Derivative Financial Instruments	25	4,680	3,438
<b>Total Current Assets</b>		<b>5,304,860</b>	<b>6,154,987</b>
<b>Non Current Assets</b>			
Investments	7	199,484	198,414
Property, Plant and Equipment	8	21,138,370	18,696,071
Biological Assets	9	1,292,302	1,227,815
Intangible Assets - Goodwill	10	930,725	1,009,077
Derivative Financial Instruments	25	10,257	11,089
Prepayments	5	132,867	72,426
Deferred Tax Asset	21	13,875	1,156
<b>Total Non Current Assets</b>		<b>23,717,880</b>	<b>21,216,048</b>
<b>TOTAL ASSETS</b>		<b>29,022,740</b>	<b>27,371,035</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Bank Overdraft		165,620	217,647
Short Term Loans	11	146,911	153,380
Current Portion of Long Term Loans	11	1,171,885	1,668,030
Payables and Accruals	12	3,206,804	2,730,153
Derivative Financial Instruments	25	102,100	37,426
<b>Total Current Liabilities</b>		<b>4,793,320</b>	<b>4,806,636</b>
<b>Non Current Liabilities</b>			
Long Term Loans	11	10,134,730	9,343,435
End of Service Benefits		540,143	472,186
Deferred Tax Liability	21	56,492	67,123
Derivative Financial Instruments	25	41,212	63,427
<b>Total Non Current Liabilities</b>		<b>10,772,577</b>	<b>9,946,171</b>
<b>TOTAL LIABILITIES</b>		<b>15,565,897</b>	<b>14,752,807</b>
<b>EQUITY</b>			
Share Capital	13	8,000,000	6,000,000
Statutory Reserve		1,630,190	1,422,141
Other Reserves		(711,996)	(392,636)
Treasury Shares		(378,994)	(330,699)
Retained Earnings		2,796,393	3,659,639
<b>Equity Attributable to Shareholders</b>		<b>11,335,593</b>	<b>10,358,445</b>
Perpetual Sukuk	14	1,700,000	1,700,000
<b>Equity Attributable to Equity Holders</b>		<b>13,035,593</b>	<b>12,058,445</b>
Non Controlling Interest		421,250	559,783
<b>TOTAL EQUITY</b>		<b>13,456,843</b>	<b>12,618,228</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>29,022,740</b>	<b>27,371,035</b>

\*The accompanying notes from 1 to 32 form an integral part of these Consolidated Financial Statements

# Consolidated Statement of Income for the Year Ended 31 December 2016

	Notes*	2016 SAR '000	2015 SAR '000
Sales	16	14,698,662	13,794,616
Cost of Sales	17	(8,865,050)	(8,511,353)
<b>Gross Profit</b>		<b>5,833,612</b>	<b>5,283,263</b>
Selling and Distribution Expenses	18	(2,855,658)	(2,612,198)
General and Administration Expenses	19	(436,078)	(409,013)
Operating Income		<b>2,541,876</b>	<b>2,262,052</b>
Share of Results of Associates and Joint Ventures	7	13,323	(37,297)
Other Expense, net	20	(91,398)	(130,721)
Exchange Gain		44,676	46,150
Finance Cost		(351,336)	(275,788)
<b>Income before Zakat and Foreign Income Tax</b>		<b>2,157,141</b>	<b>1,864,396</b>
Zakat and Foreign Income Tax	21	(74,345)	(65,735)
<b>Income before Non Controlling Interest</b>		<b>2,082,796</b>	<b>1,798,661</b>
Non Controlling Interest		(2,311)	117,030
<b>Net Income for the Year</b>		<b>2,080,485</b>	<b>1,915,691</b>
<b>Earnings per Share (SAR), based on Income before Zakat and Foreign Income Tax</b>	22		
- Basic		2.64	2.28
- Diluted		2.61	2.27
<b>Earnings per Share (SAR), based on Net Income for the Year</b>	22		
- Basic		2.54	2.35
- Diluted		2.52	2.33

\*The accompanying notes from 1 to 32 form an integral part of these Consolidated Financial Statements

# Consolidated Statement of Cash Flows for the Year Ended 31 December 2016

	Notes*	2016 SAR '000	2015 SAR '000
<b>OPERATING ACTIVITIES</b>			
Net Income for the Year		2,080,485	1,915,691
Adjustments for:			
Depreciation of Property, Plant and Equipment	8	1,431,753	1,349,886
Depreciation of Biological Assets	9	363,132	237,949
Exchange Gain		(44,676)	(46,150)
Finance Cost		351,336	275,788
Zakat and Foreign Income Tax Accrued	21	74,345	65,735
Share of Results of Associates and Joint Ventures	7	(13,323)	37,297
Other Expenses, net	20	91,398	130,721
Provision for End of Service Benefits		128,512	100,297
Share Based Payment		35,079	15,448
Non Controlling Interest		2,311	(117,030)
		4,500,352	3,965,632
Changes in:			
Trade Receivables		(162,216)	(49,115)
Prepayments and Other Receivables		15,021	562,765
Inventories		(412,893)	(78,829)
Payables and Accruals		523,949	580,706
Cash Generated from Operations		4,464,213	4,981,159
End of Service Benefits Paid		(60,461)	(35,884)
Zakat and Foreign Income Tax Paid	21	(10,161)	(13,334)
<b>Net Cash Generated from Operating Activities</b>		<b>4,393,591</b>	<b>4,931,941</b>
<b>INVESTING ACTIVITIES</b>			
Investment in Associates and Joint Ventures	7	-	(18,213)
Additions to Property, Plant and Equipment	8	(4,450,819)	(4,005,199)
Proceeds from the Sale of Property, Plant and Equipment	23	133,971	37,279
Additions to Biological Assets	9	(93,789)	(104,804)
Appreciation of Biological Assets	9	(618,673)	(514,954)
Proceeds from the Sale of Biological Assets	23	200,486	196,940
Dividend received from Associates	7	500	-
Prepayment		(71,794)	-
<b>Net Cash Used in Investing Activities</b>		<b>(4,900,118)</b>	<b>(4,408,951)</b>
<b>FINANCING ACTIVITIES</b>			
Change in Loans, net		349,526	1,755,249
Bank Overdraft, net		7,427	82,161
Dividends Paid		(687,721)	(598,542)
Finance Cost Paid		(360,596)	(265,496)
Purchase of Treasury Shares		(75,414)	(260,530)
Settlement of Treasury Shares		27,119	76,217
Payment of Profit on Perpetual Sukuk		(59,321)	(50,232)
Transactions with Non Controlling Interests		86,864	(7,123)
<b>Net Cash (Used in) / Generated from Financing Activities</b>		<b>(712,116)</b>	<b>731,704</b>
<b>Currency Translation Impact on Cash and Cash Equivalents</b>		<b>(90,433)</b>	<b>(12,705)</b>
<b>Net (Decrease) / Increase in Cash and Cash Equivalents</b>		<b>(1,309,076)</b>	<b>1,241,989</b>
Cash and Cash Equivalents at 1 January		2,038,776	796,787
<b>Cash and Cash Equivalents at 31 December</b>	4	<b>729,700</b>	<b>2,038,776</b>

\*The accompanying notes from 1 to 32 form an integral part of these Consolidated Financial Statements

# Consolidated Statement of Changes in Equity for the Year Ended 31 December 2016

	Share Capital	Statutory Reserve	Other Reserves	Treasury Shares	Retained Earnings	Equity Attributable to Shareholders	Perpetual Sukuk	Equity Attributable to Equity Holders	Non Controlling Interest	Total Equity
	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000
<b>Balance at 1 January 2015</b>	6,000,000	1,230,572	(466,898)	(146,386)	2,569,564	9,186,852	1,700,000	10,886,852	744,080	11,630,932
Net Income for the Year	-	-	-	-	1,915,691	1,915,691	-	1,915,691	(117,030)	1,798,661
Dividend Declared	-	-	-	-	(600,000)	(600,000)	-	(600,000)	-	(600,000)
Net Movement in Fair Value of Available for Sale Investments	-	-	155,737	-	-	155,737	-	155,737	-	155,737
Share of Other Comprehensive Income of Associate	-	-	(49,455)	-	-	(49,455)	-	(49,455)	-	(49,455)
Net Movement on Cash Flow Hedges	-	-	70,519	-	-	70,519	-	70,519	-	70,519
Transfer for the Year	-	191,569	-	-	(191,569)	-	-	-	-	-
Currency Translation Adjustment	-	-	(101,802)	-	-	(101,802)	-	(101,802)	(60,144)	(161,946)
Share Based Payment Transactions	-	-	15,448	-	-	15,448	-	15,448	-	15,448
Profit on Perpetual Sukuk	-	-	50,064	-	(50,064)	-	-	-	-	-
Payment of Profit on Perpetual Sukuk	-	-	(50,232)	-	-	(50,232)	-	(50,232)	-	(50,232)
Settlement of Treasury Shares under Employee Share Option Scheme	-	-	(16,017)	76,217	16,017	76,217	-	76,217	-	76,217
Purchase of Treasury Shares	-	-	-	(260,530)	-	(260,530)	-	(260,530)	-	(260,530)
Transaction with Non Controlling Interests	-	-	-	-	-	-	-	-	(7,123)	(7,123)
<b>Balance at 31 December 2015</b>	6,000,000	1,422,141	(392,636)	(330,699)	3,659,639	10,358,445	1,700,000	12,058,445	559,783	12,618,228
Net Income for the Year	-	-	-	-	2,080,485	2,080,485	-	2,080,485	2,311	2,082,796
Dividend Declared	-	-	-	-	(690,000)	(690,000)	-	(690,000)	-	(690,000)
Bonus Shares Issued	2,000,000	-	-	-	(2,000,000)	-	-	-	-	-
Net Movement in Fair Value of Available for Sale Investments	-	-	(1,365)	-	-	(1,365)	-	(1,365)	-	(1,365)
Share of Other Comprehensive Income of Associate	-	-	(10,388)	-	-	(10,388)	-	(10,388)	-	(10,388)
Net Movement on Cash Flow Hedges	-	-	(42,049)	-	-	(42,049)	-	(42,049)	-	(42,049)
Transfer for the Year	-	208,049	-	-	(208,049)	-	-	-	-	-
Currency Translation Adjustment	-	-	(286,998)	-	-	(286,998)	-	(286,998)	(227,708)	(514,706)
Share Based Payment Transactions	-	-	35,079	-	-	35,079	-	35,079	-	35,079
Profit on Perpetual Sukuk	-	-	65,394	-	(65,394)	-	-	-	-	-
Payment of Profit on Perpetual Sukuk	-	-	(59,321)	-	-	(59,321)	-	(59,321)	-	(59,321)
Settlement of Treasury Shares under Employee Share Option Scheme	-	-	(19,712)	27,119	19,712	27,119	-	27,119	-	27,119
Purchase of Treasury Shares	-	-	-	(75,414)	-	(75,414)	-	(75,414)	-	(75,414)
Transaction with Non Controlling Interests	-	-	-	-	-	-	-	-	86,864	86,864
<b>Balance at 31 December 2016</b>	8,000,000	1,630,190	(711,996)	(378,994)	2,796,393	11,335,593	1,700,000	13,035,593	421,250	13,456,843

The accompanying notes from 1 to 32 form an integral part of these Consolidated Financial statements.

# Notes to the Consolidated Financial Statements for the Year Ended 31 December 2016

## 1. The Company, its Subsidiaries and its Business Description

Almarai Company (the “Company”) is a Saudi Joint Stock Company, which was converted from a limited liability company to a joint stock company on 2 Rajab 1426 A.H. (8 August 2005). The Company initially commenced trading on 19 Dul Hijjah 1411 A.H. (1 July 1991) and operates under Commercial Registration No. 1010084223. Prior to the consolidation of activities in 1991, the core business was trading between 1977 and 1991 under the Almarai brand name.

The Company’s Head Office is located at Exit 7, North Ring Road, Al Izdihar District, P.O. Box 8524, Riyadh 11492, Kingdom of Saudi Arabia (“Saudi Arabia”).

The Company and its subsidiaries (together, the “Group”) are a major integrated consumer food and beverage Group in the Middle East with leading market shares in Saudi Arabia, other Gulf Cooperation Council (“GCC”) countries, Egypt and Jordan.

Dairy, Fruit Juices and related Food Business is operated under the “Almarai”, “Beyti” and “Teeba” brand names. All raw milk production, dairy and fruit juice product processing and related food product manufacturing activities are undertaken in Saudi Arabia, United Arab Emirates (“UAE”), Egypt and Jordan.

International Dairy and Juice Limited (“IDJ”), a joint venture with PepsiCo, operates its Dairy, Fruit Juices and related Food Business in Egypt and Jordan through following subsidiaries:

### Jordan

Teeba Investment for Developed Food Processing

### Egypt

International Company for Agricultural Industries Projects (Beyti) (SAE)

Bakery products are manufactured and traded by Western Bakeries Company Limited and Modern Food Industries Company Limited, a joint venture with Chipita, under the brand names “L’usine” and “7 Days” respectively.

Poultry products are manufactured and traded by Hail Agricultural Development Company under the “Alyoum” brand name.

Infant Nutrition products are manufactured by Almarai Baby Food Company Limited and traded by International Pediatric Nutrition Company under “Nuralac” and “Evolac” brands.

In territories where the Group has operations, final consumer products are distributed from manufacturing facilities to local distribution centres by the Group’s long haul distribution fleet. The distribution centres in GCC countries are managed through subsidiaries (UAE, Oman and Bahrain) and Agency Agreements (Kuwait and Qatar) as follows:

### UAE

Almarai Emirates Company L.L.C

### Oman

Arabian Planets for Trading and Marketing L.L.C.

### Bahrain

Almarai Company Bahrain S.P.C

### Kuwait

Al Kharafi Brothers Dairy Products Company Limited

### Qatar

Khalid for Foodstuff and Trading Company

In other territories, where permissible, Dairy and Juice products are exported through IDJ, all other products are exported through other subsidiaries.

The Group owns and operates arable farms in Argentina and in United States of America, collectively referred to as “Fondomonte”, through following key subsidiaries:

### USA

Fondomonte Holdings North America L.L.C

### Argentina

Fondomonte South America S.A

The Group’s non GCC business operations under IDJ and Fondomonte are managed through Almarai Investment Holding Company W.L.L., a company incorporated in the Kingdom of Bahrain.

## 1. The Company, its Subsidiaries and its Business Description cont.

Details of the subsidiary companies are as follows:

Name of Subsidiary	Country of Incorporation	Business Activity
Almarai Investment Company Limited	Saudi Arabia	Holding Company
Almarai Baby Food Company Limited	Saudi Arabia	Manufacturing Company
Almarai Agricultural And Livestock Production Company	Saudi Arabia	Livestock / Agricultural Company
Almarai Construction Company	Saudi Arabia	Construction Company
Almarai for Maintenance and Operation Company	Saudi Arabia	Maintenance and Operation
Agricultural Input Company Limited (Mudkhalat)	Saudi Arabia	Agricultural Company
Hail Agricultural Development Company	Saudi Arabia	Poultry / Agricultural Company
Hail Agricultural And Livestock Production Company	Saudi Arabia	Poultry / Agricultural Company
International Baking Services Company Limited	Saudi Arabia	Dormant
International Pediatric Nutrition Company	Saudi Arabia	Dormant
Modern Food Industries Company Limited	Saudi Arabia	Bakery Company
Nourlac Company Limited	Saudi Arabia	Trading Company
Western Bakeries Company Limited	Saudi Arabia	Bakery Company
Agro Terra S.A.	Argentina	Dormant
Fondomonte South America S.A.	Argentina	Agricultural Company
Almarai Company Bahrain S.P.C.	Bahrain	Trading Company
Almarai Investment Holding Company W.L.L.	Bahrain	Holding Company
IDJ Bahrain Holding Company W.L.L.	Bahrain	Holding Company
International Dairy and Juice Limited	British Virgin Islands	Holding Company
International Dairy and Juice (Egypt) Limited	Egypt	Holding Company
International Company for Agricultural Industries Projects (Beyti) (SAE)	Egypt	Manufacturing and Trading Company
Markley Holdings Limited	Jersey	Dormant
Al Muthedoon for Dairy Production	Jordan	Dormant
Al Atheer Agricultural Company	Jordan	Livestock / Agricultural Company
Al Namouthjya for Plastic Production	Jordan	Dormant
Al Rawabi for juice and UHT milk Manufacturing	Jordan	Manufacturing Company
Teeba Investment for Developed Food Processing	Jordan	Manufacturing Company
Arabian Planets for Trading and Marketing L.L.C.	Oman	Trading Company
Alyoum for Food Products Company L.L.C.	Oman	Trading Company
Fondomonte Inversiones S.L.	Spain	Holding Company
Hail Development Company Limited	Sudan	Agricultural Company
Almarai Emirates Company L.L.C.	United Arab Emirates	Trading Company
International Dairy and Juice (Dubai) Limited	United Arab Emirates	Holding Company
Fondomonte Holding North America L.L.C.	United States of America	Holding Company
Fondomonte Arizona L.L.C.	United States of America	Agricultural Company
Fondomonte California L.L.C.	United States of America	Agricultural Company

(a) Direct ownership means directly owned by the Company or any of its subsidiaries

Functional Currency	Ownership Interest				Share Capital	Number of Shares Issued
	2016		2015			
	Direct (a)	Effective	Direct (a)	Effective		
SAR	100%	100%	100%	100%	SAR 1,000,000	1,000
SAR	100%	100%	100%	100%	SAR 200,000,000	20,000,000
SAR	100%	100%	100%	100%	SAR 1,000,000	1,000
SAR	100%	100%	100%	100%	SAR 1,000,000	1,000
SAR	100%	100%	100%	100%	SAR 1,000,000	1,000
SAR	52%	52%	52%	52%	SAR 25,000,000	250
SAR	100%	100%	100%	100%	SAR 300,000,000	30,000,000
SAR	100%	100%	100%	100%	SAR 1,000,000	1,000
SAR	100%	100%	100%	100%	SAR 500,000	500
SAR	100%	100%	100%	100%	SAR 41,000,000	410,000
SAR	60%	60%	60%	60%	SAR 70,000,000	70,000
SAR	100%	100%	100%	100%	SAR 3,000,000	3,000
SAR	100%	100%	100%	100%	SAR 200,000,000	200,000
ARS	100%	100%	100%	100%	ARS 475,875	475,875
ARS	100%	100%	100%	100%	ARS 618,871,597	618,871,597
BHD	100%	100%	100%	100%	BHD 100,000	2,000
BHD	99%	99%	99%	99%	BHD 250,000	2,500
BHD	100%	52%	100%	52%	BHD 250,000	2,500
USD	52%	52%	52%	52%	USD 7,583,334	7,583,334
EGP	100%	52%	100%	52%	EGP 1,101,750,000	110,175,000
EGP	100%	52%	100%	52%	EGP 1,453,250,000	145,325,000
GBP	100%	100%	100%	100%	-	-
JOD	100%	52%	100%	52%	JOD 500,000	500,000
JOD	100%	52%	100%	52%	JOD 750,000	750,000
JOD	100%	52%	100%	52%	JOD 250,000	250,000
JOD	100%	52%	100%	52%	JOD 500,000	500,000
JOD	100%	52%	100%	52%	JOD 49,675,352	49,675,352
OMR	90%	90%	90%	90%	OMR 150,000	150,000
OMR	100%	100%	100%	100%	OMR 20,000	20,000
EUR	100%	100%	100%	100%	EUR 22,611,103	22,611,103
SDG	100%	100%	100%	100%	SDG 100,000	100
AED	100%	100%	100%	100%	AED 300,000 (Unpaid)	300
USD	100%	52%	100%	52%	USD 22,042,183	22,042,183
USD	100%	100%	100%	100%	USD 500,000	50,000
USD	100%	100%	100%	100%	USD 500,000	50,000
USD	100%	100%	100%	100%	-	-

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

(a) These Consolidated Financial Statements have been prepared on the accrual basis under the historical cost convention (except for derivative financial instruments and available for sale investments that are measured at fair value) and in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia as issued by the Saudi Organisation for Certified Public Accountants (SOCPA).

(b) These Consolidated Financial Statements include assets, liabilities and the results of the operations of the Company and its subsidiaries, as set out in note (1). The Company and its subsidiaries are collectively referred to as the Group. A subsidiary company is that in which the Group has the power to govern the financial and operating policies to obtain economic benefit generally accompanying a direct or indirect shareholding of more than one half of the subsidiary's net assets or its voting rights. A subsidiary company is consolidated from the date on which the Group obtains control until the date on which control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at fair value of the assets given or liabilities incurred or assumed at the date of acquisition. The excess of the cost of acquisition and fair value of Non-Controlling Interest ("NCI") over the fair value of the identifiable net assets acquired is recorded as goodwill in the Consolidated Balance Sheet. Intercompany transactions, balances and unrealised gains and losses on transactions between group companies are eliminated. Accounting policies of subsidiaries are aligned, where necessary, to ensure consistency with the policies adopted by the Company. The Company and its subsidiaries have same reporting periods. NCI represents 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.

(c) The preparation of Consolidated Financial Statements, in conformity with accounting standards

generally accepted in the Kingdom of 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.

(d) These Consolidated Financial Statements are presented in Saudi Riyal ("SAR"), which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

## 3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these Consolidated Financial Statements. When necessary, comparatives have been reclassified to conform to current period presentation, which are not material to overall results of the Group.

### A. Cash and Cash Equivalents

Cash and cash equivalents consist of cash at bank, cash in hand and short-term deposits that are readily convertible into known amounts of cash and have an original maturity of three months or less.

### B. Trade Receivables

Trade receivables are carried at the original invoiced amount less any allowance made for impairment and expected sales returns. Allowance for impairment is made for the receivables when there is objective evidence that the Group will not be able to collect the amounts due according to the original terms of receivables. Allowance for sales returns is calculated based on the forecasted return of expired products in line with the Group's product replacement policy. Bad debts are written off as incurred.

## C. Inventory Valuation

Inventory is stated at the lower of cost and net realisable value. Cost is determined using weighted average method. Cost includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories, cost includes an appropriate share of manufacturing overheads based on normal operating capacity. Net realisable value comprises estimated selling price less further production costs to completion and appropriate Selling and Distribution Costs. Allowance is made, where necessary, for obsolete, slow moving and defective stocks.

## D. Insurance Recoveries

Insurance recoveries are recognised as an asset when it is virtually certain that an inflow of economic benefits will arise to the Group with the corresponding impact to Consolidated Statement of Income of the year in which the recoveries become virtually certain.

## E. Investments

### a. Investment in Associates and Joint Ventures

Associates are those entities in which the Group exercise significant influence, but not control, over the financial and operating policies, generally accompanying a shareholding between 20% and 50% of the voting rights. Joint Ventures are those entities over whose activities the Group has joint control, established by contractual arrangements and requiring unanimous consent for strategic financial and operating decisions. The investments in associates and joint ventures are accounted for under the equity method of accounting. These Investments are initially recognised at cost and subsequently adjusted by the post investment changes

in the Group's share in net assets of the investee less any impairment in value. When the Group's share of losses arising from these investments equals or exceeds its interest in the investee, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the investee.

### b. Available for Sale Investments

Available for Sale Investments that are actively traded in organised financial markets, are measured and carried in the Consolidated Balance Sheet at fair value which is determined by reference to quoted market bid prices at the close of business at the Consolidated Balance Sheet date. The unrealised gains or losses are recognised directly in equity. When the investment is disposed 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 investment, cost is taken as the most appropriate, objective and reliable measure of fair value of the investment.

The management exercises judgment to calculate the impairment loss of available for sale investments. This includes the assessment of objective evidence which causes other than temporary decline in the value of investments. In case of equity instruments any significant and prolonged decline in the fair value of equity investment below its cost is considered as objective evidence for such impairment. The determination of what is 'significant' and 'prolonged' is based on management's judgment. The management also considers impairment testing to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing

cash flows. This decline in the value is recognised in the Consolidated Statement of Income as impairment loss in investments. The previously recognised impairment loss in respect of equity investments is not reversed through the Consolidated Statement of Income.

## F. Property, Plant and Equipment

Property, Plant and Equipment are measured at cost, less accumulated depreciation and accumulated impairment loss. Cost includes expenditure that is directly attributable to the acquisition of the asset. Finance costs on borrowings to finance the construction of the qualifying assets are capitalized during the period of time that is required to substantially complete and prepare the qualifying asset for its intended use.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of Property, Plant and Equipment and amount can be measured reliably. All other expenditures are recognised as an expense when incurred.

The cost less estimated residual value is depreciated on straight-line basis over the following estimated useful lives of the assets:

Buildings	5 – 33 years
Plant, Machinery and Equipment	1 – 20 years
Motor Vehicles	6 – 10 years

Land and Capital Work in Progress are not depreciated.

Capital Work in Progress at year end includes certain assets that have been acquired but are not ready for their intended use. These assets are transferred to relevant assets categories and are depreciated once they are available for their intended use.

The assets' residual values, useful lives and impairment indicators are reviewed at each financial year end and adjusted prospectively, if considered necessary

## G. Biological Assets

Biological assets acquired are stated at cost of purchase and biological assets reared internally are stated at the cost of rearing or growing to the point of commercial production (termed as appreciation), less accumulated depreciation and accumulated

impairment loss. The costs of immature biological assets are determined by the cost of rearing or growing to their respective age. Immature biological assets are not depreciated. The dairy herd is depreciated over four lactation cycles and other biological assets are depreciated on a straight line basis to their estimated residual values over periods ranging from 36 weeks to 70 years as summarized below:

Dairy Herd	4 Lactation cycles
Plantations	22 – 70 years
Poultry Flock	36 weeks

## H. Impairment of Non-Current Assets

Non-Current Assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, which is the higher of an asset's fair value less cost to sell and value in use, the assets are written down to their recoverable amount. Impairment losses are recognised immediately as an expense in the Consolidated Statement of Income.

Non-Current Assets, other than intangible assets, that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognised for the assets in prior years. A reversal of an impairment loss is recognised as income immediately in the Consolidated Statement of Income. Impairment losses recognised on intangible assets are not reversed.

## I. Intangible Assets - Goodwill

Goodwill represents the excess of the cost of acquisition and fair value of NCI over the fair value of the identifiable net assets acquired. 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.

## J. Trade Payables

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

## K. Provisions

A provision is recognised if, as a result of past events, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefit, will be required to settle the obligation.

## L. Zakat and Foreign Income Tax

Zakat is provided for in accordance with General Authority of Zakat and Income Tax (“GAZT”) regulations. Income tax for foreign entities is provided for in accordance with the relevant income tax regulations of the countries of incorporation. Adjustments arising from final Zakat and Foreign income tax assessments are recorded in the period in which such assessments are made.

## M. Deferred Tax

Deferred tax is accounted for in foreign subsidiaries, where applicable using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on laws that have been enacted in the respective countries at the reporting date. Deferred tax assets are recognised for all deductible temporary differences and carry-forward of unused tax assets and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilised. The carrying amount of deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

## N. Derivative Financial Instruments and Hedging

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

Commission rate swap agreements are entered into to hedge the exposure to commission rate changes on the Group’s borrowings.

Forward purchase commodity contracts are entered into to hedge exposure to changes in the 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 classified as cash flow hedges and effective portion of the fair value gains / losses arising on revaluation of hedging instruments are recognised directly in equity under Other Reserves. 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.

## O. End of Service Benefits

End of service benefits are payable to all employees employed under the terms and conditions of the Labour Laws applicable on the Company and its subsidiaries, 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.

## P. Statutory Reserve

In accordance with Company’s by-laws and the Regulations for Companies in Kingdom of Saudi Arabia, the Company is required to recognise a reserve comprising of 10% of its Net Income for the year. As per the by-laws the Company will cease the contribution when such reserve will reach 50% of its Share Capital.

## Q. Sukuk

The Group classifies Sukuk issued as financial liabilities or equity, in accordance with the substance of the contractual terms of the Sukuk. Sukuk having fixed maturity dates and fixed dates for payment of profit distribution are classified as a liability.

Sukuk having no fixed maturity date (Perpetual Sukuk) and no fixed date for payment of profit distribution are classified as equity. Distributions thereon are recognised directly in Equity under Other Reserves.

## R. Treasury Shares

Own equity instruments are purchased (Treasury Shares), for discharging obligations under the Employee Stock Options Programme ("ESOP"). These treasury shares are recognised at cost of purchase (including any directly attributable cost) and are presented as a deduction from equity attributable to shareholders. Treasury Shares are utilised to discharge the obligation under ESOP at cost.

## S. Share Based Payment Transactions

Employees of the Group receive remuneration in the form of equity settled share based payments under the ESOP, whereby employees attain an option to purchase shares of the Company ("Option"). In order to exercise their Option, the employees pay a predetermined exercise price, render services as consideration and comply with the vesting conditions.

The cost of ESOP, representing the Fair Value of Options at grant date, is recognised as an expense in the Consolidated Statement of Income, together with a corresponding increase in Other Reserves, in Equity, over the period during which the service conditions are fulfilled.

Management has set up an economic hedge by purchasing Treasury Shares at inception of the ESOP. Accordingly, the Other Reserve (representing the cumulative expense arising from ESOP) is transferred into Retained Earnings upon expiry of the ESOP, whether or not the Options vest to the employees.

The cumulative expense thus recognised at each reporting date, until the ESOP expiry date, reflects the extent to which the ESOP's term has expired and the

Group's best estimate of the number of options that will ultimately vest.

When the terms of ESOP are modified, the minimum expense recognised is equal to the Fair Value of Options at grant date. However, an additional expense is recognised for any modification that increases the total fair value of the Option, or is otherwise beneficial to the employee as measured at the date of the modification.

When ESOP is terminated, it is treated as if Options vested on the date of termination, and all remaining expense is recognised immediately. However, if a new ESOP is substituted for the terminated ESOP, and designated as a replacement ESOP on the date the new ESOP is granted, the terminated and new ESOPs are treated as if they were a modification of the original ESOP, as described in the previous paragraph.

## T. Currency Translation

### a. Foreign currency transactions

Transaction denominated in foreign currencies are translated at standard exchange rates which are periodically set to reflect average market rates or forward rates if the transactions were so covered. Balance sheet items denominated in foreign currencies are translated as following:

Monetary items are translated at exchange rates prevailing at the balance sheet date or at the forward purchase rates if so covered. The resulting exchange differences are recognised in the Statement of Income.

Non-monetary items are translated at exchange rates prevailing at the transaction date. This does not result in any exchange differences.

### b. Foreign Operations

Assets and liabilities of subsidiaries and share of net assets of joint ventures and associates, where functional currency is other than SAR, are translated at current exchange rates prevailing at the balance sheet date. Components of equity of subsidiaries, other than Retained Earnings, are translated at exchange rates prevailing at the date of occurrence of each component.

Statement of Income of subsidiaries and share of results of joint ventures and associates are translated at average exchange rates.

Currency Translation Adjustments (“CTA”) arising from translation of foreign operations are recognised in the Statement of Changes in Equity. However, in case of a non-wholly owned subsidiary, the relevant proportion of CTA is allocated to NCI within equity. The functional currency and ownership percentage for each foreign subsidiary is disclosed in Note 1.

## U. 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.

Revenue from the sale of wheat guaranteed to be sold to the Government is recognised upon completion of harvest but the profit on any undelivered quantities is deferred until delivered to the Government.

## V. Government Grants

Government grants are recognised when it is a virtually certain that the grants will be received from the state authority. When the grant relates to a cost item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

## W. 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 Kingdom of 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 the payments made in respect of long term agreements with customers and distributors to Selling and Distribution Expenses.

## X. Cost Reimbursement

The reimbursement of cost incurred in respect of the management of Arable Farms is recognised as a deduction under General and Administration Expenses.

## Y. Operating Leases

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

## Z. Borrowing Costs

Borrowing costs that are directly attributable to the construction of a qualifying asset are capitalized up to a stage when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed; otherwise, such costs are charged to the Consolidated Statement of Income.

## AA. Segmental Reporting

A segment is a distinguishable component of the Group that is engaged either in selling / providing products or services (a business segment) or in selling / 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.

## 4. Cash and Cash Equivalents

	2016	2015
	SAR '000	SAR '000
Cash in Hand	191,498	154,295
Cash at Bank - Current Accounts	538,202	506,381
Bank Deposits - Short Term	-	1,378,100
<b>Total</b>	<b>729,700</b>	<b>2,038,776</b>

The average rate on bank deposits were nil (2015:1.4%) with an average maturity of two months.

## 5. Receivables and Prepayments

	2016	2015
	SAR '000	SAR '000
<b>Trade Receivables</b>		
- Third Parties	827,378	739,987
- Related Parties (Refer note 28)	112,475	96,339
	939,853	836,326
Less: Allowance for impairment of trade receivables (Refer 5(a) below)	(32,340)	(37,010)
Less: Allowance for sales returns (Refer 5(c) below)	(11,314)	(22,855)
Net Trade Receivables	896,199	776,461
Prepayments (Refer 5(d) below)	342,718	313,429
Other Receivables	162,876	187,220
Total	1,401,793	1,277,110

(a) Movement in allowance for impairment of trade receivables is as follows:

	2016	2015
	SAR '000	SAR '000
<b>Allowance for Impairment of Trade Receivables</b>		
Balance at 1 January	37,010	49,665
Allowance released during the Year	(4,670)	(12,655)
Balance at 31 December	32,340	37,010

	2016	2015
	SAR '000	SAR '000
<b>Trade Receivables</b>		
Up to 3 months	907,513	799,316
More than 3 months	32,340	37,010
Total	939,853	836,326

(b) Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Group to obtain collateral over receivables.

(c) The allowance for sales returns is calculated based on the forecasted return of expired products in line with the Group's product return policy.

(d) This represents prepayments for the subsidiaries in Argentina and USA relating to operating lease

agreements for agricultural land for term ranging from 4 to 40 years. The subsidiaries have made prepayments of lease rentals, of which the long term portion amounting to SAR 132.9 million (2015: SAR 72.4 million) has been classified under Non-Current Assets.

## 6. Inventories

	2016	2015
	SAR '000	SAR '000
<b>Raw Materials</b>	2,412,682	2,114,218
Finished Goods	415,322	374,066
Spares	469,459	434,908
Work in Progress	259,454	247,115
Less: Allowance for Impairment of Inventories	(388,230)	(334,644)
Total	3,168,687	2,835,663

## 7. Investments

The investments in associates, joint ventures and available for sale investments comprise of the following:

	2016	2015	2016	2015
			SAR '000	SAR '000
<b>Investments in Associates and Joint Ventures (Refer note a)</b>				
United Farmers Holding Company	33.0%	33.0%	58,296	58,504
Pure Breed Company	24.7%	24.7%	38,112	35,469
Almarai Company W.L.L.	50.0%	50.0%	204	204
			96,612	94,177
<b>Available for Sale Investments (Refer note b)</b>				
Mobile Telecommunication Company Saudi Arabia - ("Zain")	2.1%	2.1%	102,872	104,237
			102,872	104,237
Total			199,484	198,414

a) The investment in associates and joint ventures comprises the following:

	2016	2015
	SAR '000	SAR '000
<b>United Farmers Holding Company</b>		
Opening Balance	58,504	133,181
Loan provided	-	14,563
Share of Other Comprehensive Income	(10,388)	(49,455)
Share of Results for the year	10,180	(39,785)
Closing Balance	58,296	58,504

	2016	2015
	SAR '000	SAR '000
<b>Pure Breed Company</b>		
Opening Balance	35,469	29,331
Additions	-	3,650
Share of Results for the year	3,143	2,488
Dividends received	(500)	-
Closing Balance	38,112	35,469

	2016	2015
	SAR '000	SAR '000
<b>Almarai Company W.L.L.</b>		
Opening Balance	204	204
Closing Balance	204	204

(b) The equity investment of 12.4 million shares in Zain is measured at fair value based on quoted market price available on the Saudi Stock Exchange (Tadawul). The fair valuation resulted in unrealised loss of SAR 1.4 million for the year ended 31 December 2016 which is presented within Other Reserves in equity.

The Company has pledged Zain shares to Banque Saudi Fransi ("BSF") to secure the BSF loan to Zain KSA.

## 8. Property, Plant and Equipment

	Land and Buildings	Plant, Machinery & Equipment	Motor Vehicles	Capital Work in Progress <sup>(a)</sup>	Total 2016	Total 2015
	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000
<b>Cost</b>						
At the beginning of the year	9,266,711	10,416,436	2,401,457	4,006,773	26,091,377	22,503,844
Additions during the year	-	-	-	4,504,753	4,504,753	4,041,057
Transfers during the year	1,126,955	1,731,095	345,933	(3,203,983)	-	-
Disposals during the year	(142,449)	(148,065)	(152,699)	-	(443,213)	(304,759)
Impairment (Refer b below)	-	(301,685)	-	-	(301,685)	-
Currency Translation Difference	(119,534)	(229,998)	(47,342)	(105,017)	(501,891)	(148,765)
<b>At the end of the year</b>	<b>10,131,683</b>	<b>11,467,783</b>	<b>2,547,349</b>	<b>5,202,526</b>	<b>29,349,341</b>	<b>26,091,377</b>
<b>Accumulated Depreciation</b>						
At the beginning of the year	1,436,372	4,894,978	1,063,956	-	7,395,306	6,327,490
Depreciation for the year	276,514	902,267	252,972	-	1,431,753	1,349,886
Disposals during the year	(32,150)	(130,457)	(126,862)	-	(289,469)	(262,784)
Impairment (Refer b below)	-	(196,888)	-	-	(196,888)	-
Currency Translation Difference	(11,627)	(104,400)	(13,704)	-	(129,731)	(19,286)
<b>At the end of the year</b>	<b>1,669,109</b>	<b>5,365,500</b>	<b>1,176,362</b>	<b>-</b>	<b>8,210,971</b>	<b>7,395,306</b>
<b>Net Book Value</b>						
<b>At 31 December 2016</b>	<b>8,462,574</b>	<b>6,102,283</b>	<b>1,370,987</b>	<b>5,202,526</b>	<b>21,138,370</b>	
<b>At 31 December 2015</b>	<b>7,830,339</b>	<b>5,521,458</b>	<b>1,337,501</b>	<b>4,006,773</b>		<b>18,696,071</b>

(a) Capital Work-in-Progress includes SAR 53.9 million of borrowing costs capitalised during the year (2015: SAR 35.9 million)

(b) Subsequent to fire incident at Jeddah, the Group has identified additional assets that are impaired. Total net book value of these assets is SAR 104.8 million (refer note 20)

## 9. Biological Assets

	Mature Dairy	Immature Dairy	Mature Poultry	Immature Poultry	Mature Plantations	Immature Plantations	Total 2016	Total 2015
	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000
<b>Cost</b>								
At the beginning of the year	1,086,796	449,797	86,648	15,699	47,107	2,619	1,688,666	1,471,567
Additions during the year	-	-	-	93,131	-	658	93,789	104,804
Appreciation	-	618,673	-	-	-	-	618,673	514,954
Transfers during the year	484,571	(484,571)	89,895	(89,895)	1,176	(1,176)	-	-
Disposals during the year	(304,997)	(123,468)	(112,983)	-	-	-	(541,448)	(402,684)
Currency Translation Difference	(15)	(20)	-	-	-	-	(35)	25
<b>At the end of the year</b>	<b>1,266,355</b>	<b>460,411</b>	<b>63,560</b>	<b>18,935</b>	<b>48,283</b>	<b>2,101</b>	<b>1,859,645</b>	<b>1,688,666</b>
<b>Accumulated Depreciation</b>								
At the beginning of the year	411,228	-	41,206	-	8,417	-	460,851	401,655
Depreciation for the year	252,918	-	89,123	-	21,091	-	363,132	237,949
Disposals during the year	(153,232)	-	(103,397)	-	-	-	(256,629)	(178,739)
Currency Translation Difference	(11)	-	-	-	-	-	(11)	(14)
<b>At the end of the year</b>	<b>510,903</b>	<b>-</b>	<b>26,932</b>	<b>-</b>	<b>29,508</b>	<b>-</b>	<b>567,343</b>	<b>460,851</b>
<b>Net Book Value</b>								
<b>At 31 December 2016</b>	<b>755,452</b>	<b>460,411</b>	<b>36,628</b>	<b>18,935</b>	<b>18,775</b>	<b>2,101</b>	<b>1,292,302</b>	<b>-</b>
<b>At 31 December 2015</b>	<b>675,568</b>	<b>449,797</b>	<b>45,442</b>	<b>15,699</b>	<b>38,690</b>	<b>2,619</b>	<b>-</b>	<b>1,227,815</b>

## 10. Intangible Assets – Goodwill

The goodwill arose from the acquisition of WB in 2007, HADCO in 2009 and IDJ in 2012.

	2016	2015
	SAR '000	SAR '000
Western Bakeries Company Limited (WB)	548,636	548,636
Hail Agricultural Development Company (HADCO)	244,832	244,832
International Dairy and Juice Limited (IDJ)	137,257	215,609
<b>Total</b>	<b>930,725</b>	<b>1,009,077</b>

Western Bakeries Company Limited forms part of the Bakery Products reporting segment, HADCO represents part of both the Arable and Horticulture reporting segment and the Poultry reporting segment while IDJ falls under the Dairy and Juice reporting segment.

Goodwill is subject to annual impairment testing. Assets are tested for impairment by comparing the carrying amount of each cash-generating unit (CGU) 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 varies between 7.0% and 22.0% for each CGU and the residual value at the end of the forecast period has been calculated by applying an earnings multiple to the Net Income for 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 and historical 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 used to extrapolate cash flows beyond the budget period of 5 years, as well as the earnings multiple applied to the Net Income for the final year of the forecast period.

## Sensitivity to Changes in Assumptions – Western Bakeries Company Limited

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

### (a) Sales Growth Assumption

The sales growth in the forecast period has been estimated to be a compound annual growth rate of 11.3%. If all other assumptions kept the same; a reduction of this growth rate to 172.2% would give a value in use equal to the current carrying amount.

### (b) Cost of Sales

The Cost of Sales in the forecast period has been estimated at an average of 39.0% of sales. If all other assumptions kept the same; an increase in the rate to an average of 169.2% would give a value in use equal to the current carrying amount.

### (c) Terminal Value Multiple

The multiple applied to Net Income for the final year of the forecast period to determine the terminal value is 219. If all other assumptions kept the same; a reduction of this multiple to 2.7 would give a value in use equal to the current carrying amount.

## Sensitivity to Changes in Assumptions – HADCO

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

### (a) Sales Growth Assumption

The sales growth in the forecast period has been estimated to be a compound annual growth rate of 16.1%. If all other assumptions kept the same; a reduction of this growth rate to 6.7% would give a value in use equal to the current carrying amount.

### (b) Cost of Sales

The cost of sales in the forecast period has been estimated at an average of 34.3% of sales. If all other assumptions kept the same; an increase in the rate to an average of 105.0% would give a value in use equal to the current carrying amount.

### (c) Terminal Value Multiple

The multiple applied to Net Income for the final year of the forecast period to determine the terminal value is 20.7. If all other assumptions kept the same; a reduction of this multiple to 10.7 would give a value in use equal to the current carrying amount.

## Sensitivity to Changes in Assumptions – IDJ

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

### (a) Sales Growth Assumption

The sales growth in the forecast period has been estimated to be a compound annual growth rate of 13.9%. If all other assumptions kept the same; a reduction of this growth rate to 7.7% would give a value in use equal to the current carrying amount.

### (b) Cost of Sales

The cost of sales in the forecast period has been estimated at an average of 59.9% of sales. If all other

assumptions kept the same, an increase in the rate to an average of 95.0% would give a value in use equal to the current carrying amount.

### (c) Terminal Value Multiple

The multiple applied to Net income for the final year of the forecast period to determine the terminal value is 17.0. If all other assumptions kept the same, a reduction of this multiple to 1.9 would give a value in use equal to the current carrying amount.

## 11. Term Loans

	Notes	2016 SAR '000	2015 SAR '000
Islamic Banking Facilities (Murabaha)	(a)	5,784,821	5,638,441
Saudi Industrial Development Fund	(b)	1,219,508	1,455,613
Banking Facilities of Foreign Subsidiaries	(c)	385,106	170,791
Agricultural Development Fund	(d)	164,091	-
		7,553,526	7,264,845
Sukuk	(e)	3,900,000	3,900,000
		11,453,526	11,164,845
Short Term Loans		146,911	153,380
Current Portion of Long Term Loans		1,171,885	1,668,030
Long Term Loans		10,134,730	9,343,435
Total		11,453,526	11,164,845

(a) The borrowings under Islamic banking facilities (Murabaha) are secured by promissory notes given by the Group. The Islamic banking facilities (Murabaha) with a maturity period of less than two years are predominantly of a revolving nature. During 2016 the group obtained SAR 5,143.9 million additional Islamic banking facilities (Murabaha) with maturities more than five years. As at 31 December 2016 SAR 6,050.8 million Islamic banking facilities (Murabaha) were unutilized and available for drawdown (2015: SAR 2,739.9 million).

(b) The borrowings of the Group from the Saudi Industrial Development Fund (SIDF) are secured by a mortgage on specific assets amounting to SAR 1,219.5 million as at 31 December 2016 (SAR 1,455.6 million as at 31 December 2015). As at 31 December 2016 the Group had SAR 351.0 million of unutilized SIDF facilities available for drawdown with maturities predominantly greater than five years (2015: SAR 380.3 million).

(c) These banking facilities represent borrowings of foreign subsidiaries from foreign banking institutions.

(d) During 2016, the Group obtained a loan from Agriculture Development Fund (ADF) which is secured by a mortgage on specific land amounting to SAR 164.1 million as at 31 December 2016 (2015: Nil). As at 31 December 2016 the Group had SAR 26.3 million of unutilized ADF facilities available for drawdown with maturities predominantly greater than five years (2015: Nil).

(e) On 14 Rabi Thani 1433 A.H. (7 March 2012), the Company issued its first Sukuk – Series I amounting to SAR 1,000.0 million at a par value of SAR 1.0 million each without discount or premium. The Sukuk issuance bears a return based on Saudi Arabia Interbank Offered Rate (SIBOR) plus a pre-determined margin payable semi-annually in arrears. The Sukuk is due for maturity at par on its expiry date of 30 Jumada Thani 1440 A.H. (7 March 2019).

On 19 Jumada Awal 1434 A.H. (31 March 2013), the Company issued its second Sukuk - Series II amounting to SAR 787.0 million at a par value of SAR 1.0 million each without discount or premium. The Sukuk issuance bears a return based on SIBOR plus a pre-determined margin payable semi-annually in arrears. The Sukuk is due for maturity at par on its expiry date of 7 Shabaan 1441 A.H. (31 March 2020).

On 19 Jumada Awal 1434 A.H. (31 March 2013), the Company issued its second Sukuk – Series III amounting to SAR 513.0 million at a par value of SAR 1.0 million each without discount or premium. The Sukuk issuance bears a return based on SIBOR plus a pre-determined margin payable semi-annually in arrears. The Sukuk is due for maturity at par on its expiry date of 15 Rajab 1439 A.H. (31 March 2018).

On 3 Dhul Hijja 1436 A.H. (16 September 2015), the Company issued its third Sukuk amounting to SAR 1,600.0 million at a par value of SAR 1.0 million each without discount or premium. The Sukuk issuance bears a return based on SIBOR plus a pre-determined margin payable semi-annually in arrears. The Sukuk is due for maturity at par on its expiry date of 20 Safar 1444 A.H. (16 September 2022).

The terms of the Sukuk entitle the Company to commingle its own assets with the Sukuk assets. Sukuk assets comprise the Sukukholders' share in the Mudaraba assets and the Sukukholders' interest in the Murabaha transactions, together with any amounts standing to the credit of the Sukuk account and the Reserve retained by the Company from the Sukuk account.

### Maturity of Financial Liabilities:

	Facilities available at 31 December 2016	Outstanding Term Loans	
		2016	2015
	SAR '000	SAR '000	SAR '000
Less than one year	1,350,797	1,318,797	1,821,411
One to two years	4,648,196	2,442,236	1,423,364
Two to five years	7,345,565	5,134,475	5,833,670
Greater than five years	4,577,714	2,558,018	2,086,400
<b>Total</b>	<b>17,922,272</b>	<b>11,453,526</b>	<b>11,164,845</b>

## 12. Payables and Accruals

	2016	2015
	SAR '000	SAR '000
Trade Payable		
- Third Parties	1,657,475	1,368,767
- Related Parties (Refer note 28)	29,037	44,719
Other Payables and Accruals	1,305,390	1,170,477
Zakat and Foreign Income Tax Provision (Refer note 21)	214,902	146,190
<b>Total</b>	<b>3,206,804</b>	<b>2,730,153</b>

## 13. Share Capital

On 25 Jumada Thani 1437 A.H. (3 April 2016), the shareholders of the Company approved at the Extraordinary General Assembly Meeting an increase in the share capital from SAR 6,000 million to SAR 8,000 million through distribution of 1 bonus share for each 3 outstanding shares for existing shareholders at the end of the trading on the same day. All legal formalities to affect this increase have been completed.

## 14. Perpetual Sukuk

	2016	2015
	SAR '000	SAR '000
Perpetual Sukuk	1,700,000	1,700,000

On 24 Dhul Qadah 1434 A.H. (30 September 2013), the Company issued its first Perpetual Sukuk - Series I amounting to SAR 1,700.0 million at a par value of SAR 1 million each without discount or premium, bearing a return based on SIBOR plus a pre-determined margin.

The Company at its own discretion may redeem the Perpetual Sukuk, in full or in part, and may defer, in full or in part, payment of any profit distribution. The Company is not subject to any limitation on the number of times that it may defer such payment at its own discretion and such deferral is not considered as an event of default.

The Perpetual Sukuk, in the event of winding up of the Company, ranks in priority to all subordinated obligations and the ordinary share capital of the Company. The Sukuk does not carry the right to vote, however each Sukukholder participates in the Sukuk Assets.

The terms of the Sukuk entitle the Company to commingle its own assets with the Sukuk assets. Sukuk assets comprise the Sukukholders' share in the Mudaraba assets and the Sukukholders' interest in the Murabaha Transaction, together with any amounts standing to the credit of the Sukuk account and the Reserve retained by the Company from the Sukuk account.

## 15. Employee Stock Option Program

The Company is offering certain employees (the “Eligible Employees”) the option (the “Option”) for equity ownership (“Restricted Shares” i.e. Treasury Shares) opportunities and performance based incentives which will result in more alignment between the interest of both shareholders and these employees. The vesting of the Option is dependent on meeting performance targets set by the Company. The exercise of the Option is contingent upon the shares of the Company continuing to be listed on the Saudi Arabian (Tadawul) stock exchange.

If Restricted Shares have not been granted to Eligible Employees in the reporting period for which it was earmarked, it shall carry over to the next reporting period.

In the event of a capital increase, share split or dividend distribution (in the form of shares), the number of Restricted Shares and the exercise price subject to the Option will be adjusted accordingly.

The number of share options and the exercise price has been retrospectively adjusted for the prior period to reflect the effect of the bonus share issue.

The first tranche was granted in Dul Qadah 1432 A.H. (October 2011). The number of Restricted Shares shall not exceed 2,869,350 shares.

The second tranche was granted in Rajab 1434 A.H. (June 2013). The number of Restricted Shares shall not exceed 1,237,500 shares.

The third tranche was granted in Dul Qadah 1436 A.H. (August 2015). The number of Restricted Shares shall not exceed 2,283,000 shares.

The fourth tranche was granted in Jumada Al-Thani 1437 A.H. (April 2016). The number of Restricted Shares shall not exceed 2,933,333 shares

The following table sets out the number of, and movements in, share options during the year:

	2016	2015
Outstanding at 1 January	3,062,000	3,189,225
Granted during the year	2,828,000	2,270,000
Settled during the year	(774,000)	(2,237,055)
Forfeited during the year	(309,000)	(160,170)
Outstanding at 31 December	4,807,000	3,062,000

The fair value per Option, estimated at the grant date using the Black Scholes Merton pricing model, taking into account the terms and conditions upon which the share options were granted, was SAR 13.5, SAR 23.9, SAR 26.7 and SAR 15.65 for the first, second, third and fourth tranche respectively. The following table lists the inputs to the model:

	First tranche	Second tranche	Third tranche	Fourth tranche
Dividend Yield (%)	2.5%	1.5%	1.1%	2.2%
Expected Volatility (%)	21.0%	18.0%	25.0%	33.2%
Risk Free Interest Rate (%)	5.0%	5.0%	5.0%	5.0%
Contractual Life of Share Options (Years)	2.4	2.8	2.5	2.8
Share Price (SAR) at Grant Date	89.5	83.3	90.5	52.5
Exercise Price (SAR) at Grant Date	88.3	64.8	73.5	45.0
Model Used	Black Scholes Merton			

The exercise price, after taking account of bonus shares issued, for first tranche, second tranche, third tranche and fourth tranche is SAR 25.6, SAR 32.4, SAR 55.1 and SAR 45.0 respectively.

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the Options is indicative of future trends, which may also not necessarily be the actual outcome.

## 16. Segmental Reporting

The Group's principal business activities involve manufacturing and trading of Dairy and Juice products under the "Almarai", "Beyti" and "Teeba" brands, Bakery products under the brands "L'usine" and "7

Days", Poultry products under the "Alyoum" brand. Other Activities include Arable, Horticulture and Infant Nutrition. Selected financial information as of 31 December 2016 and 31 December 2015 and for the years then ended categorized by these segments, are as follows:

	Dairy and Juice	Bakery	Poultry	Other Activities	Total
	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000
<b>31 December 2016</b>					
Sales	11,372,492	1,890,848	1,368,427	906,413	15,538,180
Third Party Sales	11,273,787	1,890,848	1,368,427	165,600	14,698,662
Depreciation	(1,207,205)	(178,299)	(295,494)	(113,887)	(1,794,885)
Share of Net Assets in Associates and Joint Ventures	-	-	3,143	10,180	13,323
Income / (loss) before Non Controlling Interest	2,226,377	347,013	(294,460)	(196,134)	2,082,796
Share of Net Assets in Associates and Joint Ventures	204	-	38,112	58,296	96,612
Additions to Non-Current Assets	3,656,897	598,711	410,482	625,996	5,292,086
Non-Current Assets	14,143,701	2,371,373	4,953,943	2,248,863	23,717,880
Net income	2,238,850	332,229	(294,460)	(196,134)	2,080,485
Total Assets	17,933,507	2,478,040	5,619,936	2,991,257	29,022,740
<b>31 December 2015</b>					
Sales	10,789,223	1,625,837	1,262,256	649,361	14,326,677
Third Party Sales	10,740,892	1,625,837	1,262,256	165,631	13,794,616
Depreciation	(1,030,330)	(168,245)	(303,503)	(85,757)	(1,587,835)
Share of Net Assets in Associates and Joint Ventures	-	-	2,488	(39,785)	(37,297)
Income / (loss) before Non Controlling Interest	1,950,617	233,151	(213,987)	(171,120)	1,798,661
Share of Net Assets in Associates and Joint Ventures	204	-	35,469	58,504	94,177
Additions to Non-Current Assets	3,250,036	574,606	622,886	240,877	4,688,405
Non-Current Assets	12,411,697	2,003,876	4,926,795	1,873,680	21,216,048
Net income	2,095,775	205,023	(213,987)	(171,120)	1,915,691
Total Assets	17,165,087	2,126,572	5,440,878	2,638,498	27,371,035

In relation to segment information for the year ended 31 December 2015 reported above the income from settlement of insurance contract exceeding the carrying value of damaged assets of the Bakery segment has been allocated to other segments to neutralize the impact of non-recurring items which is consistent with information reported to Executive Management of the Group.

	2016	2015
	SAR '000	SAR '000
<b>Sales</b>		
Saudi Arabia	9,283,157	8,788,491
Other GCC Countries	3,879,738	3,663,409
Other Countries	1,535,767	1,342,716
Total	14,698,662	13,794,616

The business activities and operating assets of the Group are mainly concentrated in GCC countries. The selected geographical information as at 31 December 2016 and 31 December 2015 for the years then ended is as follows:

	2016	2015
	SAR '000	SAR '000
<b>Non - Current Assets</b>		
Saudi Arabia	21,475,131	19,130,113
Other GCC Countries	442,344	432,969
Other Countries	1,800,405	1,652,966
Total	23,717,880	21,216,048

## 17. Cost of Sales

	2016	2015
	SAR '000	SAR '000
Material Consumed	5,474,592	5,647,877
Government Grants	(161,168)	(294,776)
Employee Costs	1,361,356	1,310,591
Depreciation of Property, Plant and Equipment	1,088,143	1,049,736
Repair and Maintenance	466,945	406,765
Depreciation of Biological Assets	363,132	237,949
Appreciation of Biological Assets	(618,673)	(514,954)
Telephone and Electricity	248,366	165,853
Vaccines and Drugs Consumed	131,080	128,340
Crates and Pallets Consumed	43,311	38,345
Rent	39,249	27,568
Share Based Payment	13,497	6,913
Other Expenses	415,220	301,146
<b>Total</b>	<b>8,865,050</b>	<b>8,511,353</b>

## 18. Selling and Distribution Expenses

	2016	2015
	SAR '000	SAR '000
Employee Costs	1,331,368	1,260,446
Marketing	930,051	858,091
Depreciation of Property, Plant and Equipment	286,218	254,881
Repair and Maintenance	135,348	125,893
Rent	42,020	39,364
Telephone and Electricity	22,880	19,606
Share Based Payment	9,284	4,669
Crates and Pallets Consumed	1,559	8
Other Expenses	96,930	49,240
<b>Total</b>	<b>2,855,658</b>	<b>2,612,198</b>

## 19. General and Administration Expenses

	2016	2015
	SAR '000	SAR '000
Employee Costs	273,860	274,866
Insurance	57,477	49,810
Depreciation of Property, Plant and Equipment	57,392	45,269
Repair and Maintenance	16,535	18,439
Rent	9,940	6,689
Telephone and Electricity	6,146	6,157
Share Based Payment	12,298	3,866
Other Expenses	2,430	3,917
<b>Total</b>	<b>436,078</b>	<b>409,013</b>

## 20. Other Expenses, Net

	2016	2015
	SAR '000	SAR '000
Loss on Sale of Property, Plant and Equipment	(19,773)	(4,696)
Loss on Sale of Biological Assets	(84,333)	(27,005)
Net gain on settlement of Insurance Claim (a)	25,108	442,926
Impairment of Assets (b)	(12,400)	-
Impairment of Intangible Assets - Goodwill	-	(328,182)
Impairment of Available for Sale Investments	-	(213,764)
Total	(91,398)	(130,721)

(a) (i) During year ended 31 December 2016, the Company has received an amount of SAR 25.1 million as full and final settlement for an insurance claim. The insurance claim is related to power outages that happened during Muharram 1437 (November 2015) in its manufacturing facilities in Al Kharj.

(ii) On 11 Ramadan 1436 A.H. (28 June 2015) a settlement agreement was signed with Arabian Shield Cooperative Insurance Company ("the Insurer"), a related party, for SAR 790 million as a full and final settlement of the insurance claims arising from the Fire incident which occurred at one of the manufacturing facilities in Jeddah on 15 Dul Hijjah 1435 A.H. (9 October 2014). Out of the total SAR 790 million an amount of SAR 214 million was recognised as income during the year ended 31 December 2014 and the remaining amount of SAR 576 million was recognised as income during the year 31 December 2015.

Gain on settlement of Insurance Claim, in each of the years, is reported net of the carrying value of assets damaged in the incident and provision for site restoration costs

(b) As part of site restoration activities at fire affected factory site in Jeddah and the transfer of facilities to the new plant, the Group identified additional assets with net book value of SAR 104.8 million which were no longer usable and are considered impaired. The impairment is charged to the Statement of Income net of the site restoration cost provision of SAR 92.2 million that was made in 2015 for this purpose.

## 21. Zakat and Foreign Income Tax

A. Zakat is charged at the higher of net adjusted income or Zakat base as required by General Authority of Zakat and Income Tax (GAZT). Foreign Income Tax in each jurisdiction is calculated as per applicable tax regulations.

	2016	2015
	SAR '000	SAR '000
Zakat	67,576	61,269
Foreign Income Tax	11,297	3,738
Deferred Tax	(4,528)	728
Total	74,345	65,735

### B. Zakat Provision

	2016	2015
	SAR '000	SAR '000
Balance at 1 January	130,941	78,261
Charge	67,576	61,269
Payments	(2,893)	(8,589)
Balance at 31 December	195,624	130,941

The Company has filed its Consolidated Zakat returns for all the years up to 2015 and settled its Zakat liabilities accordingly. The Zakat assessments have been agreed with the GAZT for all the years up to 2006 while the 2007 to 2015 Zakat returns are under review by the GAZT.

HADCO has filed its Zakat returns for all years up to 31 December 2008 and has settled its Zakat liabilities accordingly. The Zakat assessments have been agreed with GAZT for all years up to 31 December 2002 while the 2003 to 2008.

Zakat returns are under review by the GAZT. From 2009 onwards HADCO is not required to file a return as its results are included in the Company's Consolidated Zakat return.

### C. Foreign Income Tax Provision

	2016	2015
	SAR '000	SAR '000
Balance at 1 January	15,249	16,256
Charge	11,297	3,738
Payments	(7,268)	(4,745)
Balance at 31 December	19,278	15,249

Foreign Subsidiaries have filed their tax returns for all years up to 2015, and settled their tax liabilities accordingly. While all the returns have been filed, final assessments are pending for certain years. The earliest year open for assessment is 2008, and the latest year assessed is 2011.

### D. Deferred Tax

Deferred tax liability of SAR 56.5 million relates to taxable temporary differences arising on property, plant and equipment. This includes SAR 28.2 million on the revaluation of land amounting to SAR 80.7 million carried out at the time of business combination of the Group's subsidiaries in Argentina, being the temporary difference between the carrying amount of land for financial reporting purposes and the amount used for taxation purposes.

Deferred tax asset of SAR 13.9 million relates to unused tax losses for to its subsidiaries in Argentina. Management believes that future taxable profits will be available against which deferred tax asset can be realised.

## 22. Earnings Per Share

	2016	2015
	SAR '000	SAR '000
Income before Zakat and Foreign Income Tax	2,157,141	1,864,396
<b>Less:</b> Profit attributable to Perpetual Sukukholders	(65,394)	(50,064)
<b>Income before Zakat and Foreign Income Tax - Attributable to Shareholders</b>	<b>2,091,747</b>	<b>1,814,332</b>
Net Income for the Year	2,080,485	1,915,691
<b>Less:</b> Profit attributable to Perpetual Sukukholders	(65,394)	(50,064)
<b>Net Income for the Year - Attributable to Shareholders</b>	<b>2,015,091</b>	<b>1,865,627</b>
Total Weighted Average Shares in thousands for Basic EPS	793,218	795,307
Total Weighted Average Shares in thousands for Diluted EPS	800,000	800,000

Weighted average numbers of shares are retrospectively adjusted to reflect the effect of bonus shares and are adjusted to take account of Treasury Shares held under the Almarai Employees Stock Option Program.

## 23. Depreciation and Disposal of Assets

	2016	2015
	SAR '000	SAR '000
<b>A. Depreciation</b>		
<b>Property, Plant and Equipment</b>		
Depreciation of Property, Plant and Equipment	1,431,753	1,349,886
<b>Biological Assets</b>		
Depreciation of Biological Assets	363,132	237,949
Appreciation of Biological Assets	(618,673)	(514,954)
Net Biological Assets Appreciation	(255,541)	(277,005)
Total	1,176,212	1,072,881
<b>B. Profit / (Loss) on the Sale of Assets</b>		
<b>Property, Plant &amp; Equipment</b>		
Proceeds from the Sale of Property, Plant and Equipment	133,971	37,279
Net Book Value of Property, Plant and Equipment Sold	(153,744)	(41,975)
Loss on Sale of Property, Plant and Equipment	(19,773)	(4,696)
<b>Biological Assets</b>		
Proceeds from Sale of Biological Assets	200,486	196,940
Net Book Value of Biological Assets Sold	(284,819)	(223,945)
Loss on Sale of Biological Assets	(84,333)	(27,005)
Total	(104,106)	(31,701)

## 24. Financial Risk Management Objectives and Policies

Financial instruments carried on the Consolidated Balance Sheet include cash and cash equivalents, trade and other receivables, derivative financial instruments, investments in securities, loans, trade and other payables and other liabilities.

**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), other banking facilities and Sukuk amounting to SAR 10,175.4 million at 31 December 2016 (2015: SAR 9,926.9 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 50% to 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 direct impact on the Company's equity.

		Increase / decrease in basis points of commission rates	Effect on income for the year (SAR '000)
2016	SAR	+30	(30,526)
	SAR	-30	30,526
2015	SAR	+30	(29,781)
	SAR	-30	29,781

**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 United States Dollars, Euros and Great Britain Pounds. Other transactions in foreign currencies are not material.

The significant outstanding foreign currency forward purchase agreements were as follows:

	2016	2015
United States Dollar ('000)	800,750	789,000
Euro ('000)	232,823	179,763
Great Britain Pound ('000)	53,735	35,200

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. As the Saudi Riyal is pegged to the United States Dollar any exposure to fluctuations in the exchange rate are deemed to be insignificant.

Following analysis shows the sensitivity of income to reasonably possible movements of the SAR currency rate against the Euro, 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)
2016	+10%	(11,463)
	-10%	11,463
2015	+10%	(6,170)
	-10%	6,170

**Commodity Price Risk** is the risk that is associated with changes in prices to certain commodities that the Group is exposed to and its unfavorable effect on the Group's costs and cash flow. This commodity price risk arises from forecasted purchases of certain commodities that the Group uses as raw material, which is managed and mitigated by entering into commodity derivatives.

**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 recognised, 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 receivables are mainly due from local customers and related parties and are stated at their estimated realisable 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 34% of outstanding trade receivables at 31 December 2016 (2015: 31%).

With respect to credit risk arising from other financial assets of the Group comprising of cash and cash equivalents, investments in securities, 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.

**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 banking and other credit facilities are available to meet the Group'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 2016 were 22 days (2015: 22 days). Trade payables are typically settled on a terms basis, the average payables outstanding for 2016 were 64 days (2015: 58 days).

## 25. 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 2016, the Group had various financial derivatives that were designated as cash flow hedge instruments to cover cash flow fluctuations arising from commission rates, foreign exchange prices and commodity prices that are subject to market price fluctuations. As per Group policy derivative instruments are not used for trading or speculative purposes.

At 31 December 2016 the Group had 28 commission rate swap (2015: 19) agreements in place covering a total notional amount of SAR 4,551.0 million (2015: SAR 2863.3 million).

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

The Group entered into cross currency swap resulting in payment of AED / USD and receiving in SAR, floating amount based on SIBOR under specific condition.

The swaps are being used to hedge the exposure to commission rate changes of the Group's Islamic borrowings.

The Group enters into hedging strategies by using various financial derivatives to cover foreign exchange firm commitments and forecasted transactions that are highly probable.

The Group enters in to various commodity derivatives to hedge the price of certain commodity purchases. These derivatives match the maturity of the expected commodity purchases and use the same underlying index as for the hedged item, therefore does not result in basis risk.

All financial derivatives are carried in the Consolidated Balance Sheet at fair value. All cash flow hedges are considered highly effective. The net decrease in fair value of SAR 42.0 million (2015: net decrease of SAR 70.5 million) was recognised in Other Reserves within equity.

## 26. Commitments and Contingencies

A. The contingent liabilities against letters of credit are SAR 447.9 million at 31 December 2016 (2015: SAR 531.8 million).

B. The contingent liabilities against letters of guarantee are SAR 1,476.6 million at 31 December 2016 (2015: SAR 1,455.6 million).

C. The Company had capital commitments amounting to SAR 2,037.1 million at 31 December 2016 in respect of ongoing projects (2015: SAR 3,647.8 million). The majority of the capital commitments are for new production facilities, sales depot development, distribution fleet, fridges and IT equipment.

D. Commitments under operating leases expire as follows:

	2016	2015
	SAR '000	SAR '000
Within one year	94,447	92,745
Two to five years	189,531	193,435
After five years	214,301	215,239
Total	498,279	501,419

## 27. Directors Remuneration

The Directors' remuneration paid to the Board of Directors for year ended 31 December 2016 amounted to SAR 6.9 million (2015: SAR 23.3 million).

## 28. Related Party Transactions and Balances

During the normal course of its operations, the Group had the following significant transactions with related parties during the year ended 31 December 2016 and 31 December 2015 along with their balances:

Nature of Transaction	Transaction Amount		Balance at 31 December	
	2016	2015	2016	2015
	SAR '000	SAR '000	SAR '000	SAR '000
<b>Sales To</b>				
Panda Retail Company	612,686	566,733	112,475	96,339
	612,686	566,733	112,475	96,339
<b>Purchases From</b>				
Savola Packaging Systems Company Limited	-	28,197	-	-
United Sugar Company	106,991	108,380	(8,702)	(7,661)
Afia International Company	76	41	(76)	-
Al Nafoura Catering	309	121	(43)	-
International Pediatric Nutrition Company Limited	-	-	-	-
Al Kabeer Farms - Forage	53,530	39,663	(20,216)	(8,899)
	160,906	176,402	(29,037)	(16,560)
<b>Services To</b>				
Al Kabeer Farms	864	864	-	-
United Farmers Holding Company	131	955	1,735	1,603
	995	1,819	1,735	1,603
<b>Services From</b>				
Arabian Shield Cooperative Insurance Company (Refer note (a) below)	113,704	96,561	981	(48,865)
Todhia Farm	813	813	-	-
Abdul Aziz Al Muhanna (Land rent)	173	173	-	-
Mobile Telecommunication Company Saudi Arabia	303	13	-	-
Al Jazirah Corporation for Press, Printing and Publishing	357	436	(52)	(120)
	115,350	97,996	929	(48,985)
<b>Dividend Received</b>				
Pure Breed Company	500	-	-	-
	500	-	-	-
<b>Payment of Sukuk Finance Charges</b>				
Yamama Cement Company	1,179	920	(433)	(235)
Saudi British Bank	10,664	6,645	(4,221)	(2,376)
Banque Saudi Fransi	11,180	7,083	(4,442)	(2,547)
Arabian Shield Cooperative Insurance Company	73	30	(33)	-
	23,096	14,678	(9,129)	(5,158)
<b>Bank Financing</b>				
Saudi British Bank	31,136	25,812	692,569	1,175,494
J.P. Morgan Saudi Arabia Limited	1,046	-	375,250	-
Banque Saudi Fransi	19,093	19,714	415,000	781,667
	51,275	45,526	1,482,819	1,957,161

(a) The related party balance with Arabian Shield Cooperative Insurance Company for the year ended 31 December 2015 includes a receivable of SAR 214.0 million in respect of the partial insurance claim (refer note 20).

Pricing and terms for these transactions are at arm's length. The related parties, other than subsidiaries and associates, include following:

Entity	Relationship
Panda Retail Company	Common Ownership
Savola Packaging Systems Company Limited	Common Ownership
United Sugar Company	Common Ownership
Afia International Company	Common Ownership
Al Nafoura Catering	Common Ownership
Yamama Cement Company	Common Directorship
Arabian Shield Cooperative Insurance Company	Common Directorship
Managed Arable Farms	Common Directorship
Abdul Aziz Al Muhanna	Common Directorship
Mobile Telecommunications Company Saudi Arabia (Zain KSA)	Common Directorship
Al Jazirah Corporation for Press, Printing and Publishing	Common Directorship
Saudi British Bank	Common Directorship
Banque Saudi Fransi	Common Directorship
JP Morgan Saudi Arabia Limited	Common Directorship

## 29. Dividends Approved and Paid

On 25 Jumada Thani 1437 A.H. (3 April 2016) the Extraordinary General Assembly Meeting approved a dividend of SAR 690.0 million (SAR 1.15 per share) for the year ended 31 December 2015 which was paid on Rajab 1437 A.H. (12 April 2016).

## 30. Dividends Proposed

The Board of Directors proposes for approval at the General Assembly Meeting a dividend for the year ended 31 December 2016 of SAR 720 million (SAR 0.90 per share based on 800 million shares).

## 31. 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.

## 32. Approval of Consolidated Financial Statements

The Consolidated Financial Statements were approved by the Board of Directors on 17 Rabi Thani 1438 A.H. (15 January 2017).

## Imprint

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