

ALMARAI COMPANY
A SAUDI JOINT STOCK COMPANY

THE CONSOLIDATED FINANCIAL STATEMENTS
AND AUDITORS' REPORT FOR THE YEAR ENDED
31 DECEMBER 2009

Ernst & Young

 **ERNST & YOUNG**

ALMARAI COMPANY
A SAUDI JOINT STOCK COMPANY

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

Scope of audit:

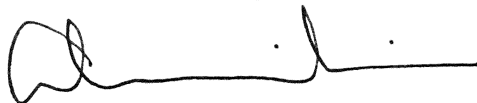
We have audited the accompanying consolidated balance sheet of Almarai Company, a Saudi Joint Stock Company (the Company), and its subsidiaries (the Group) as of 31 December 2009 and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements are the responsibility of the Group's management and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

Unqualified opinion:

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

- i) present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2009 and the results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- ii) comply with the requirements of the Regulations for Companies and the Company's Bye-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

for Ernst & Young



Abdulaziz A. Al-Sowailim
Certified Public Accountant
Registration No. 277



Riyadh 5 Safar 1431H
(20 January 2010)

ALMARAI COMPANY
A SAUDI JOINT STOCK COMPANY

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2009

| | Notes | 2009 SAR '000 | 2008 SAR '000 |
|---------------------------------------|-------|-------------------|------------------|
| ASSETS | | | |
| <u>Current Assets</u> | | | |
| Cash and Cash Equivalents | 5 | 507,666 | 246,585 |
| Derivative Financial Instruments | 23 | - | 6,648 |
| Receivables and Prepayments | 6 | 455,492 | 409,777 |
| Inventories | 7 | 1,218,575 | 1,096,723 |
| Total Current Assets | | 2,181,733 | 1,759,733 |
| <u>Non Current Assets</u> | | | |
| Investments and Financial Assets | 8 | 963,131 | 489,337 |
| Property, Plant and Equipment | 9 | 6,282,208 | 4,704,573 |
| Biological Assets | 10 | 734,689 | 638,735 |
| Intangible Assets - Goodwill | 11 | 793,468 | 548,636 |
| Deferred Charges | | 31,766 | 40,270 |
| Total Non Current Assets | | 8,805,262 | 6,421,551 |
| TOTAL ASSETS | | 10,986,995 | 8,181,284 |
| LIABILITIES AND EQUITY | | | |
| <u>Current Liabilities</u> | | | |
| Short Term Loans | 12 | 395,534 | 511,165 |
| Payables and Accruals | 13 | 962,585 | 669,558 |
| Derivative Financial Instruments | 23 | 82,153 | 108,072 |
| Total Current Liabilities | | 1,440,272 | 1,288,795 |
| <u>Non Current Liabilities</u> | | | |
| Long Term Loans | 12 | 3,981,193 | 3,132,956 |
| Employees' Termination Benefits | | 165,814 | 128,041 |
| Total Non Current Liabilities | | 4,147,007 | 3,260,997 |
| <u>Shareholders' Equity</u> | | | |
| Share Capital | 14 | 1,150,000 | 1,090,000 |
| Share Premium | | 1,600,500 | 612,000 |
| Statutory Reserve | | 526,361 | 416,689 |
| Other Reserves | | (81,390) | (83,161) |
| Retained Earnings | | 2,187,164 | 1,581,614 |
| Total Shareholders' Equity | | 5,382,635 | 3,617,142 |
| Minority Interest | | 17,081 | 14,350 |
| TOTAL LIABILITIES AND EQUITY | | 10,986,995 | 8,181,284 |


Georges Schorderet
Chief Financial Officer


Abdulrahman Al Fadley
Chief Executive Officer


THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS

ALMARAI COMPANY
A SAUDI JOINT STOCK COMPANY

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2009

| | Notes | 2009 | 2008 |
|--|-------|------------------|------------------|
| | | SAR '000 | SAR '000 |
| Sales | 15 | 5,868,805 | 5,029,904 |
| Cost of Sales | 16 | (3,503,013) | (3,030,947) |
| Gross Profit | | 2,365,792 | 1,998,957 |
| Selling and Distribution Expenses | 17 | (887,147) | (750,878) |
| General and Administration Expenses | 18 | (199,735) | (187,108) |
| Income before Bank Charges, Zakat and Minority Interest | | 1,278,910 | 1,060,971 |
| Share of Results of Associates | 8 | (2,003) | - |
| Bank Charges | | (147,518) | (125,489) |
| Income from Main and Continuing Operations | | 1,129,389 | 935,482 |
| Zakat | 19 | (29,229) | (24,662) |
| Income before Minority Interest | | 1,100,160 | 910,820 |
| Minority Interest | | (3,438) | (558) |
| Net Income for the Year | | 1,096,722 | 910,262 |
| Earnings per Share (SAR) | 20 | | |
| Attributable to Income from Main and Continuing Operations | | 10.24 | 8.58 |
| Attributable to Net Income for the Year | | 9.95 | 8.35 |

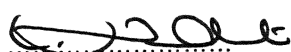

Georges Schorderet
Chief Financial Officer

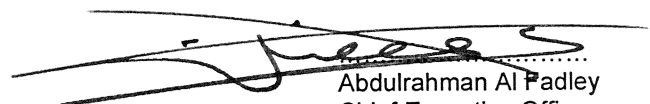

Abdulrahman AlFadley
Chief Executive Officer

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS

ALMARAI COMPANY
A SAUDI JOINT STOCK COMPANY
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2009

| | <u>Notes</u> | <u>2009</u> SAR '000 | <u>2008</u> SAR '000 |
|---|--------------|------------------------------|------------------------------|
| <u>OPERATING ACTIVITIES</u> | | | |
| Net Income for the Year | | 1,096,722 | 910,262 |
| Adjustments for: | | | |
| Depreciation of Property, Plant and Equipment | 21 | 505,201 | 378,968 |
| Net Appreciation of Biological Assets | 21 | (217,175) | (165,142) |
| Profit on Sale of Property, Plant and Equipment | 21 | (3,636) | (1,093) |
| Loss on Sale of Biological Assets | 21 | 78,819 | 57,179 |
| Bank Charges | | 147,518 | 125,489 |
| Share of Results of Associates | | 2,003 | - |
| Change in Employees' Termination Benefits | | 26,202 | 23,138 |
| Share of Minority Interest in Net Income of Consolidated Subsidiaries | | 3,438 | 558 |
| Changes in: | | | |
| Receivables and Prepayments | | 26,086 | (41,967) |
| Inventories | | (32,779) | (363,150) |
| Payables and Accruals | | 169,757 | 91,894 |
| Cash Flows from Operating Activities | | <u>1,802,156</u> | <u>1,016,136</u> |
| <u>INVESTING ACTIVITIES</u> | | | |
| Additions to Property, Plant and Equipment | 9 | (1,334,987) | (1,533,517) |
| Additions / (Purchase Price Rebates) to Biological Assets | 10 | 183 | (122,102) |
| Proceeds from the Sale of Property, Plant and Equipment | 21 | 16,216 | 3,964 |
| Proceeds from the Sale of Biological Assets | 21 | 91,180 | 79,567 |
| Investments in Associates | 8 | (457,864) | - |
| Acquisition of Subsidiaries, Net of Cash Acquired | | (25,730) | - |
| Cash Flows used in Investing Activities | | <u>(1,711,002)</u> | <u>(1,572,088)</u> |
| <u>FINANCING ACTIVITIES</u> | | | |
| Increase in Loans | | 689,625 | 1,052,345 |
| Dividends Paid | | (379,977) | (270,173) |
| Distribution to Minority Interests | | (707) | (543) |
| Bank Charges | | (147,518) | (125,489) |
| Change in Deferred Charges | | 8,504 | (5,578) |
| Minority Interest Share in Modern Food Industries | | - | 14,000 |
| Cash Flows from Financing Activities | | <u>169,927</u> | <u>664,562</u> |
| Increase in Cash and Cash Equivalents | | <u>261,081</u> | <u>108,610</u> |
| Cash and Cash Equivalents at 1 January | | 246,585 | 137,975 |
| Cash and Cash Equivalents at 31 December | 5 | <u><u>507,666</u></u> | <u><u>246,585</u></u> |


 Georges Schorderet
 Chief Financial Officer


 Abdulrahman Al Fadley
 Chief Executive Officer

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS

ALMARAI COMPANY
A SAUDI JOINT STOCK COMPANY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2009

| | Attributable to equity holders of the parent | | | | | Total Shareholders' Equity | Minority Interest | Total Equity |
|---|--|------------------|-------------------|-----------------|-------------------|----------------------------|-------------------|------------------|
| | Share Capital | Share Premium | Statutory Reserve | Other Reserves | Retained Earnings | | | |
| | SAR '000 | SAR '000 | SAR '000 | SAR '000 | SAR '000 | SAR '000 | SAR '000 | SAR '000 |
| Balance at 1 January 2008 | 1,090,000 | 612,000 | 325,663 | (9,095) | 1,034,878 | 3,053,446 | 335 | 3,053,781 |
| Net Income for the Year | - | - | - | - | 910,262 | 910,262 | 558 | 910,820 |
| Transfers from Retained Earnings | - | - | 91,026 | - | (91,026) | - | - | - |
| Net Movement on Financial Investments | - | - | - | 18,263 | - | 18,263 | - | 18,263 |
| Distribution to Minority Interests | - | - | - | - | - | - | (543) | (543) |
| Dividends Approved | - | - | - | - | (272,500) | (272,500) | - | (272,500) |
| Net Movement on Cash Flow Hedges | - | - | - | (92,329) | - | (92,329) | - | (92,329) |
| Minority Interest Share in Modern Food Industries | - | - | - | - | - | - | 14,000 | 14,000 |
| Balance at 31 December 2008 | 1,090,000 | 612,000 | 416,689 | (83,161) | 1,581,614 | 3,617,142 | 14,350 | 3,631,492 |
| Net Income for the Year | - | - | - | - | 1,096,722 | 1,096,722 | 3,438 | 1,100,160 |
| Transfers from Retained Earnings | - | - | 109,672 | - | (109,672) | - | - | - |
| Net Movement on Financial Investments | - | - | - | (17,500) | - | (17,500) | - | (17,500) |
| Distribution to Minority Interests | - | - | - | - | - | - | (707) | (707) |
| Dividends Approved | - | - | - | - | (381,500) | (381,500) | - | (381,500) |
| Net Movement on Cash Flow Hedges | - | - | - | 19,271 | - | 19,271 | - | 19,271 |
| Share Capital Issued | 60,000 | 988,500 | - | - | - | 1,048,500 | - | 1,048,500 |
| Balance at 31 December 2009 | 1,150,000 | 1,600,500 | 526,361 | (81,390) | 2,187,164 | 5,382,635 | 17,081 | 5,399,716 |


Georges Schorderet
Chief Financial Officer


Abdulrahman Al Fadley
Chief Executive Officer

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS

ALMARAI COMPANY
A SAUDI JOINT STOCK COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. THE COMPANY, ITS SUBSIDIARIES AND ITS BUSINESS DESCRIPTION

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

The Company and its subsidiaries (together, "the Group") are a major integrated consumer food group in the Middle East with leading market shares in Saudi Arabia and the neighbouring Gulf Cooperative Council (GCC) countries.

The dairy, fruit juices and related food business is operated under the Almarai brand name. All raw milk production and related processing along with dairy food manufacturing activities are undertaken in Saudi Arabia and United Arab Emirates (UAE). Final consumer products are distributed from the manufacturing facilities in Saudi Arabia and UAE to local distribution centres by the Group's long haul distribution fleet.

Bakery products are manufactured and traded by Western Bakeries Company Limited and Modern Food Industries Limited under the brand names L'usine and 7 Days respectively. International Baking Services Company Limited trades bakery products. These are Limited Liability companies registered in Saudi Arabia and based in Jeddah.

Poultry products are manufactured and traded by Hail Agricultural Development Company (HADCO) under the HADCO brand. HADCO is a closed joint stock company registered in Saudi Arabia and based in Hail.

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

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

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

The Group's Head Office is located at the following address:
Exit 7, North Circle Road
Al Izdihar District
P.O. Box 8524
Riyadh 11492
Saudi Arabia

On 2 Safar 1430 AH (28 January 2009), a new subsidiary, Almarai Investment Holding W.L.L. was incorporated as a holding company for the joint venture with PepsiCo.

On 19 Safar 1430 AH (14 February 2009), the Company announced the creation of a joint venture with PepsiCo to explore new business opportunities in dairy and juice products. The new joint venture, called International Dairy and Juice Limited (IDJ), held 52% by PepsiCo and 48% by Almarai (through its subsidiary Almarai Investment Holding W.L.L.), has been incorporated with an initial paid up capital of USD 7 million and will focus-on opportunities in Southeast Asia, Africa and the Middle East excluding the Gulf Cooperation Council Countries.

On 3 Safar 1430 A.H. (29 January 2009), the Company completed the acquisition of 75% of Teeba Investment for Developed Food Processing Company ("Teeba") in Jordan. An amount of JOD 54.8 million (SAR 271 million) was paid to the founding shareholders. At the same time, the Company

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

increased its share capital from JOD 12.2 million to JOD 32.2 million. On 10 Jumada II 1430 A.H. (3 June 2009) the Company transferred its 75% investment in Teeba to IDJ for equity and cash. IDJ paid up capital has been increased from USD 7.0 million to USD 108.4 million .

On 20 Dhul-Qa'da 1430 A.H. (8 November 2009) IDJ increased its paid up capital from USD 108.4 million to USD 127.0 million.

On 14 Jumada II 1430 A.H. (7 June 2009), a new subsidiary, Almarai International Holding W.L.L. was incorporated as a holding company for the acquisition of the International Company for Agro Industrial Projects (Beyti) in Egypt. The transaction was completed on 11 Shawwal 1430 A.H. (30 September 2009) and the Company paid cash consideration of USD 127.1 million (SAR 477.7 million). On 13 Muharam 1431 A.H. (30 December 2009), the company transferred 100% of Beyti to IDJ for equity and cash. As a consequence the paid in capital of IDJ increased from USD 127.0 million to USD 254.0 million.

On 26 Shawwal 1430 A.H. (15 October 2009) the Company acquired 100% of the outstanding share capital of HADCO in exchange for 6 million new shares issued by Almarai in the ratio of one new Almarai share for every five HADCO shares and a payment of SAR 0.50 per HADCO share. The total acquisition cost of HADCO including acquisition expenses amounts to SAR 1,081.7 million based on an issued share price of SAR 174.75 at close of market on 25 Shawwal 1430 A.H. (14 October 2009)

On 25 Rajab 1430 A.H. (18 July 2009) Almarai Baby Food Company Limited was incorporated (which is 100% owned by the Group) with the objective of manufacturing and trading baby food products.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Details of the subsidiary companies are as follows:

| Name of Subsidiary | Country of Incorporation | Business Activity | Direct and Beneficial Ownership Interest | | Shares | |
|--|--------------------------|-----------------------------------|--|------|--------------------|------------|
| | | | 2009 | 2008 | Capital | Issued |
| Almarai Investment Company Limited | Saudi Arabia | Holding Company | 100% | - | SAR 1,000,000 | 100,000 |
| Almarai Baby Food Company Limited | Saudi Arabia | Manufacturing and Trading Company | 100% | - | SAR 5,000,000 | 500,000 |
| Hail Agricultural Development Company | Saudi Arabia | Poultry / Agricultural Company | 100% | - | SAR 300,000,000 | 30,000,000 |
| Western Bakeries Company Limited | Saudi Arabia | Bakery Company | 100% | 100% | SAR 100,000,000 | 100,000 |
| International Baking Services Company Limited | Saudi Arabia | Trading Company | 100% | 100% | SAR 500,000 | 500 |
| Modern Food Industries Limited | Saudi Arabia | Bakery Company | 60% | 60% | SAR 35,000,000 | 35,000 |
| Agricultural Input Company Limited (Mudkhalat) | Saudi Arabia | Agricultural Company | 52% | - | SAR 25,000,000 | 250 |
| Almarai Company Bahrain S.P.C. | Bahrain | Sales Company | 100% | 100% | BHD 100,000 | 1,000 |
| Almarai International Holding W.L.L. | Bahrain | Holding Company | 100% | - | BHD 250,000 | 2,500 |
| Almarai Investment Holding W.L.L. | Bahrain | Holding Company | 99% | - | BHD 250,000 | 2,500 |
| Markley Holdings Limited | Jersey | Dormant | 100% | 100% | - | - |
| Arabian Planets for Trade and Marketing L.L.C. | Oman | Sales Company | 90% | 90% | OMR 150,000 | 150,000 |

ALMARAI COMPANY
A SAUDI JOINT STOCK COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

- (a) The consolidated financial statements have been prepared on the accrual basis under the historical cost convention (except for derivative financial instruments and investments that have been measured at fair value) and in compliance with the accounting standards issued by the Saudi Organisation for Certified Public Accountants (SOCPA).
- (b) When necessary, prior year comparatives have been regrouped or adjusted on a basis consistent with current year classification. Any adjustments are considered immaterial in the context of these consolidated financial statements.
- (c) These consolidated financial statements include assets, liabilities and the results of the operations of Almarai Company (the company) and its subsidiaries (the Group) as set out in note (1) above. A subsidiary company is that in which the Company has, directly or indirectly, long term investment comprising an interest of more than 50% in the voting capital or over which it exerts practical control. A subsidiary company is consolidated from the date on which the Company obtains control until the date that control ceases. The consolidated financial statements are prepared on the basis of the individual financial statements of the company and the audited financial statements of its subsidiaries, as adjusted by the elimination of all significant inter group balances and transactions. Minority interests represent the portion of profit or loss and net assets not controlled by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated balance sheet.
- (d) The figures in these consolidated financial statements are rounded to the nearest thousand.

3. SIGNIFICANT ACCOUNTING POLICIES

A. Use of Estimates

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

B. Revenue Recognition

Products are sold principally on a sale or return basis. Revenue is recognised on delivery of products to customers by the Group or its distributors, at which time risk and reward passes, subject to the physical return of expired products. Adjustment is made in respect of known actual returns.

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

C. Cash and Cash Equivalents

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

ALMARAI COMPANY
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

D. Accounts Receivable

Accounts receivable are carried at the original invoiced amount less any provision made for doubtful debts. Provision is made for all debts for which the collection is considered doubtful or more than three months due. Bad debts are written off as incurred.

E. Inventory Valuation

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

F. Accounts payable and accruals

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

G. Intangibles-Goodwill

Goodwill represents the difference between the cost of businesses acquired and the Group's share in the net fair value of the acquiree's assets liabilities and contingent liabilities at the date of acquisition. Goodwill arising on acquisitions is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

H. Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and depreciated on a straight line basis at the following annual rates:

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

I. Biological Assets

Biological assets are stated at cost of purchase or at the cost of rearing or growing to the point of commercial production, less accumulated depreciation. The costs of immature biological assets are determined by the cost of rearing or growing to their respective age. Biological assets are depreciated to their estimated residual value based on commercial production periods ranging from 36 weeks to 50 years. Biological assets are depreciated on a straight line basis (excluding poultry flocks which are depreciated according to actual output) at the following annual rates:

| | |
|-------------|-----------|
| Dairy Herd | 15% - 25% |
| Plantations | 2% - 8% |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

J. Impairment

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

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

K. Conversion of Foreign Currency Transactions

During the financial period foreign currency transactions are converted and booked in Saudi Riyals at standard exchange rates which are periodically set to reflect average market rates or forward rates if the transactions were so covered. At the balance sheet date, assets and liabilities denominated in foreign currencies are converted into Saudi Riyals at the exchange rates ruling on such date or at the forward purchase rates if so covered. Any resulting exchange variances are charged or credited to the consolidated statement of income as appropriate.

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

L. Employees' Termination Benefits

Employees' termination benefits are payable as a lump sum to all employees employed under the terms and conditions of the respective GCC Labour and Workman Laws on termination of their employment contracts. The liability is calculated as the current value of the vested benefits to which the employee is entitled, should the employee leave at the balance sheet date. Termination payments are based on the employees' final salaries and allowances and their cumulative years of service, in compliance with the conditions stated in the laws of the respective GCC countries.

M. Government Grants

Government grants are recognized when there is a reasonable assurance that they will be received from the state authority. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate

N. Selling, Distribution, General & Administration Expenses

Selling, Distribution, General & Administration Expenses include direct and indirect costs not specifically part of Cost of Sales as required under accounting standards generally accepted in Saudi Arabia. Allocations between Cost of Sales and Selling, Distribution, General and

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Administration Expenses, when required, are made on a consistent basis. The Group charges payments in respect of long term agreements with customers and distributors to Selling and Distribution Expenses.

O. Management Fees

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

P. Zakat

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

Q. Operating Leases

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

R. Investments in Securities

Investments in securities are measured and carried in the consolidated balance sheet at fair value with unrealised gains or losses recognised directly in equity. When the investment is disposed of or impaired the cumulative gain or loss previously recorded in equity is recognised in the consolidated statement of income. Where there is no market for the investments, cost is taken as the most appropriate, objective and reliable measurement of fair value of the investments.

S. Investment in an Associates

The investment in an associate is accounted for under the equity method of accounting when the Company exercises significant influence over the entity and where the entity is neither a subsidiary nor a joint venture. Investment in an associate is carried in the balance sheet at cost, plus post-acquisition changes in the Company's share of net assets of the associates, less any impairment in value. The income statement reflects the Company's share of the results of its associates. Unrealized gains and losses resulting from transactions between the Company and its associate are eliminated to the extent of the Company's interest in the associates.

T. Derivative Financial Instruments and Hedging

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

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

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

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All hedges are expected to be in the range of 80 – 125% effective and are assessed on an ongoing basis. All hedges are treated as cash flow hedges and gains / losses at market valuation are recorded as derivative financial instruments in the consolidated balance sheet and taken to other reserves in Shareholders' Equity. When the hedging instrument matures or expires any associated gain or loss in Other Reserves is reclassified to the consolidated statement of income, or the underlying asset purchased that was subjected to the hedge.

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

U. Statutory Reserve

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

V. Segmental Reporting

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

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4. BUSINESS COMBINATION

Acquisition of Hail Agricultural Development Company (HADCO)

On 26 Shawwal 1430 A.H. (15 October 2009), the Company acquired 100% of the share capital of HADCO, a company engaged in the production of a variety of agricultural products as well as the manufacture and distribution of poultry products for a purchase consideration of SAR 1,081.7 million. These consolidated financial statements include the results of HADCO for the period from 15 October 2009 as the Company effectively obtained control of HADCO from that date.

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

| | Fair Value Recognized on Acquisition SAR '000 |
|---|--|
| Assets | |
| Investments | 35,433 |
| Fixed Assets | 809,390 |
| Inventories | 89,073 |
| Receivables and Prepayments | 71,800 |
| Bank Balances and Cash | 7,511 |
| | 1,013,207 |
| Liabilities | |
| Payables and Accruals | 121,747 |
| Short Term Loans | 37,230 |
| Long Term Loans | 5,750 |
| Employees' Termination Benefits | 11,571 |
| | 176,298 |
| | |
| Total Identifiable Net Assets at Fair Value | 836,909 |
| | |
| Goodwill Arising on Acquisition | 244,832 |
| Purchase Consideration Transferred | 1,081,741 |

The total acquisition cost of SAR 1,081.7 million comprised an issue of shares, cash and costs directly attributable to the combination. The Company issued 6 million ordinary shares with a fair value of SAR 174.75 each, being the published price of the shares of the Company at the date of exchange.

| | |
|---|------------------|
| Total Acquisition Cost: | SAR '000 |
| Shares Issued, at Fair Value | 1,048,500 |
| Cash Consideration | 15,000 |
| Costs Associated with the Acquisition | 18,241 |
| Total | 1,081,741 |
| | |
| Cash Outflow on Acquisition: | |
| Net Cash Acquired with the Subsidiaries | 7,511 |
| Cash Paid | (33,241) |
| Net Cash Outflow | (25,730) |

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The goodwill is attributable to the position of the poultry and agricultural businesses in their respective markets and their projected cash flows expected to arise after acquisition by the Company.

The fair valuation adjustments to HADCO's assets and liabilities are as follows:

A. Land

Land has been fair valued based on a combination of third party valuation and recent local land sales.

B. Inventories have been fair valued as follows:

- I. finished goods at selling prices less the cost of disposal and a reasonable profit allowance for the selling effort of the acquirer based on profit for similar finished goods;
- II. work in progress at the selling prices of finished goods less the sum of (1) costs to complete, (2) costs of disposal and (3) a reasonable profit allowance for the completing and selling effort based on profit for similar finished goods; and
- III. raw materials at current replacement costs less any provision made for obsolescence

C. Receivables and Prepayments

The fair value of receivables and prepayments amounts to SAR 71.8 million. The gross amount of receivables and prepayments amounts to SAR 113.2 million and a provision for doubtful amounts has been made in accordance with the Company's accounting policies.

From the date of acquisition, HADCO has contributed SAR 72.9 million of revenue and SAR 3.1 million to the net income of the Group. If the combination had taken place at the beginning of the year, revenue from continuing operations would have been SAR 223.4 million and the profit from continuing operations for the Group would have been SAR 19.3 million.

| | 2009 | 2008 |
|--|----------|----------|
| | SAR '000 | SAR '000 |
| 5. <u>CASH AND CASH EQUIVALENTS</u> | | |
| Cash at Bank | 437,823 | 191,272 |
| Cash in Hand | 69,843 | 55,313 |
| Total | 507,666 | 246,585 |

Cash at bank includes SAR 248.9 million received on 31 December 2009 for the sale of Beyti to IDJ.

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| | 2009 | 2008 |
|---|----------|----------|
| | SAR '000 | SAR '000 |
| 6. RECEIVABLES AND PREPAYMENTS | | |
| Trade Accounts Receivable - Third Parties | 376,945 | 309,422 |
| - Related Parties (Refer note 26) | 67,464 | 31,357 |
| | 444,409 | 340,779 |
| Less: Provision for impairment of trade receivables | (56,728) | (11,726) |
| Less: Provision for sales returns | (11,331) | (10,039) |
| Net Accounts Receivable | 376,350 | 319,014 |
| Prepayments | 79,142 | 90,763 |
| Total | 455,492 | 409,777 |

A. The Group's policy is to provide 100% impairment provision for all trade receivables due over three months. As at 31 December 2009, trade receivables more than three months due and impaired were SAR 56.7 million (2008: SAR 11.7 million). Except for the provision of SAR 41.4 million relating to HADCO trade receivables acquired 15 October 2009 the movement in the group provision for impairment was not significant.

| | 2009 | 2008 |
|----------------------------------|----------|----------|
| | SAR '000 | SAR '000 |
| <u>Trade Accounts Receivable</u> | | |
| Up to 3 months | 387,681 | 329,053 |
| More than 3 months | 56,728 | 11,726 |
| Total | 444,409 | 340,779 |

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. Provision for sales returns is calculated based on the forecasted return of expired products in line with the Group's product return policy.

| | 2009 | 2008 |
|-----------------------|-----------|-----------|
| | SAR '000 | SAR '000 |
| 7. INVENTORIES | | |
| Raw Materials | 874,765 | 839,688 |
| Finished Goods | 201,455 | 163,077 |
| Spares | 102,883 | 57,497 |
| Work in Progress | 39,472 | 36,461 |
| Total | 1,218,575 | 1,096,723 |

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| | 2009 | 2008 |
|---|----------------|----------------|
| | SAR '000 | SAR '000 |
| 8. INVESTMENTS AND FINANCIAL ASSETS | | |
| The investments in securities and associated companies comprise of the following: | | |
| International Dairy and Juice Limited (IDJ Limited) | 48.0% | 455,080 |
| Pure Breed Company (PB Company) | 21.5% | 29,050 |
| Zain Equity Investment | 2.5% | 355,250 |
| Zain Subordinated Founding Shareholders' Loan | - | 109,587 |
| Jannat for Agricultural Investment Company | 10.0% | 7,000 |
| National Seeds and Agricultural Services Company | 7.0% | 2,064 |
| United Dairy Farms Company | 8.3% | 600 |
| National Company for Tourism | 1.1% | 4,500 |
| Total | 963,131 | 489,337 |

(a) The investment in associated companies comprises the following:

| | IDJ Limited | PB Company | Total |
|---------------------------------|-------------|------------|----------|
| | SAR '000 | SAR '000 | SAR '000 |
| Balance at 1 January 2009 | - | - | - |
| Add : Capital Introduced | 458,451 | 28,269 | 486,720 |
| Less : Distributions | - | (587) | (587) |
| : Share of Results for the Year | (3,371) | 1,368 | (2,003) |
| Balance at 31 December 2009 | 455,080 | 29,050 | 484,130 |

Pure Breed Company is an associate company of HADCO. The capital introduced represents the fair value of the investment at the date of acquisition of HADCO by the Group.

(b) The Zain equity investment of 35 million shares at a par value of SAR 10 per share is measured at fair value based on a quoted market price for the shares on the Saudi Arabian (Tadawul) stock exchange at 31 December 2009 of SAR 10.15. This has resulted in an unrealised gain of SAR 0.8 million which is included within other reserves in shareholders' equity. The founding shareholders have extended the repayment date of the shareholders' loans to ZAIN KSA and have agreed to pledge their ZAIN's shares for and on behalf of the preferred creditors until 27th July 2012 in order to enable ZAIN KSA to refinance its existing debts.

(c) All other investments in securities are stated at cost less impairment.

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9. PROPERTY, PLANT AND EQUIPMENT

| | Land and Buildings ^(a) | Plant, Machinery & Equipment | Motor Vehicles | Capital Work-in-Progress | Total 2009 | Total 2008 |
|---------------------------------|-----------------------------------|------------------------------|----------------|--------------------------|------------------|------------------|
| | SAR '000 | SAR '000 | SAR '000 | SAR '000 | SAR '000 | SAR '000 |
| Cost | | | | | | |
| At the beginning of the year | 1,845,431 | 2,971,227 | 609,186 | 1,139,150 | 6,564,994 | 5,127,308 |
| Acquisition of Subsidiaries | 915,798 | 457,390 | 45,588 | 25,667 | 1,444,443 | - |
| Additions during the year | 14,544 | 78,262 | 41,676 | 1,200,505 | 1,334,987 | 1,533,517 |
| Transfers during the year | 630,101 | 782,702 | 174,291 | (1,587,094) | - | - |
| Disposals during the year | (2,981) | (61,384) | (37,848) | - | (102,213) | (95,831) |
| At the end of the year | 3,402,893 | 4,228,197 | 832,893 | 778,228 | 9,242,211 | 6,564,994 |
| Accumulated Depreciation | | | | | | |
| At the beginning of the year | 342,724 | 1,235,775 | 281,922 | - | 1,860,421 | 1,574,413 |
| Acquisition of Subsidiaries | 232,962 | 419,602 | 31,450 | - | 684,014 | - |
| Depreciation for the year | 77,238 | 328,328 | 99,635 | - | 505,201 | 378,968 |
| Disposals during the year | (1,697) | (53,469) | (34,467) | - | (89,633) | (92,960) |
| At the end of the year | 651,227 | 1,930,236 | 378,540 | - | 2,960,003 | 1,860,421 |
| Net Book Value | | | | | | |
| At 31 December 2009 | 2,751,666 | 2,297,961 | 454,353 | 778,228 | 6,282,208 | - |
| At 31 December 2008 | 1,502,707 | 1,735,452 | 327,264 | 1,139,150 | - | 4,704,573 |

(a) Land & Buildings include land granted to a subsidiary of the company at a historic fair value of SAR 61.0 million

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10. BIOLOGICAL ASSETS

| | Mature Dairy | Immature Dairy | Mature Poultry | Immature Poultry | Mature Plantations | Immature Plantations | Total 2009 | Total 2008 |
|--|----------------|----------------|----------------|------------------|--------------------|----------------------|----------------|----------------|
| | SAR '000 | SAR '000 | SAR '000 | SAR '000 | SAR '000 | SAR '000 | SAR '000 | SAR '000 |
| Cost | | | | | | | | |
| At the beginning of the year | 518,817 | 302,400 | - | - | - | - | 821,217 | 611,283 |
| Acquisition of Subsidiaries | - | - | 9,176 | 4,195 | 11,531 | 33,400 | 58,302 | - |
| Additions / (Purchase Price Rebates) during the year | (465) | - | - | - | - | 282 | (183) | 122,102 |
| Appreciation | - | 309,488 | - | 3,576 | - | - | 313,064 | 271,589 |
| Transfers during the year | 253,706 | (253,706) | 3,756 | (3,756) | 4,045 | (4,045) | - | - |
| Disposals during the year | (152,259) | (76,504) | - | - | - | (1,071) | (229,834) | (183,757) |
| At the end of the year | 619,799 | 281,678 | 12,932 | 4,015 | 15,576 | 28,566 | 962,566 | 821,217 |
| Accumulated Depreciation | | | | | | | | |
| At the beginning of the year | 182,482 | - | - | - | - | - | 182,482 | 123,046 |
| Acquisition of Subsidiaries | - | - | 5,292 | - | 4,049 | - | 9,341 | - |
| Depreciation for the year | 93,042 | - | 2,789 | - | 58 | - | 95,889 | 106,447 |
| Disposals during the year | (59,835) | - | - | - | - | - | (59,835) | (47,011) |
| At the end of the year | 215,689 | - | 8,081 | - | 4,107 | - | 227,877 | 182,482 |
| Net Book Value | | | | | | | | |
| At 31 December 2009 | 404,110 | 281,678 | 4,851 | 4,015 | 11,469 | 28,566 | 734,689 | - |
| At 31 December 2008 | 336,335 | 302,400 | - | - | - | - | - | 638,735 |

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| | 2009 | 2008 |
|--|----------|----------|
| | SAR '000 | SAR '000 |
| 11. INTANGIBLE ASSETS – GOODWILL | | |
| Western Bakeries and International Baking Services | 548,636 | 548,636 |
| HADCO | 244,832 | - |
| Total | 793,468 | 548,636 |

The goodwill noted above arised from the acquisition of Western Bakeries Limited and International Baking Services Limited in 2007 and HADCO in 2009 (“the Subsidiaries”).

Goodwill is subject to impairment testing. Western Bakeries and International Baking Services Limited form part of the Bakery Products reporting segment, while HADCO represents part of both the Dairy and the Poultry reporting segments.

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

Key Assumptions Used in Value in Use Calculations

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

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

Sensitivity to Changes in Assumptions – Western Bakeries

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

(a) Sales Growth Assumption

The current sales growth in 2009 is 22% and in the forecast period has been estimated to be a compound annual growth of 29%. All other assumptions kept the same; a reduction of this growth rate to 17% would give a value in use equal to the current carrying amount.

(b) Cost of Sales Inflation

The current cost of sales in 2009 is 37% and in the forecast period has been estimated at an average of 39%. All other assumptions kept the same; an increase in the rate to an average of 60% would give a value in use equal to the current carrying amount.

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Key Assumptions Used in Fair Value Calculations

The recoverable amount for HADCO is measured on the basis of fair value less costs to sell. Fair value less costs to sell is defined as 'the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.'

The recent best evidence of HADCO's fair value less costs to sell is the arm's length price paid to acquire HADCO adjusted for disposal costs. The cost of disposal has been determined to be insignificant, therefore, fair value less cost to sell is the same as the purchase price paid by the Group.

| | 2009 | 2008 |
|---------------------------------------|-----------|-----------|
| | SAR '000 | SAR '000 |
| 12. TERM LOANS | | |
| Islamic Banking Facilities (Murabaha) | 3,756,739 | 3,078,796 |
| Saudi Industrial Development Fund | 612,270 | 554,890 |
| Agricultural Development Fund | 7,718 | 10,435 |
| Total | 4,376,727 | 3,644,121 |

- A. The borrowings from Islamic banking facilities (Murabaha) are secured by promissory notes given by the Group.
- B. The borrowings from the Saudi Industrial Development Fund (SIDF) are secured as follows:
- (i) in respect of borrowings amounting to SAR 612.3 million for 31 December 2009 (2008: SAR 554.9 million) by a mortgage on specific assets;
- (ii) in respect of uncollateralized borrowings, no payment guarantee was given for both the years ended 31 December 2009 and 2008.
- C. The borrowings from Agricultural Development Fund are secured by a bank payment guarantee.

D. Maturity of Financial Liabilities:

| | Facilities available at 31 December | 2009 | 2008 |
|-------------------------|---|-----------|-----------|
| | SAR '000 | SAR '000 | SAR '000 |
| Less than one year | 440,600 | 395,534 | 511,165 |
| One to two years | 3,231,845 | 1,452,227 | 1,617,148 |
| Two to five years | 3,329,413 | 2,527,966 | 1,500,488 |
| Greater than five years | 371,980 | 1,000 | 15,320 |
| Total | 7,373,838 | 4,376,727 | 3,644,121 |

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

During 2009 the group secured an additional SAR 790 million of commercial loan facilities with maturities between three to five years (2008: SAR 1,700.0 million).

As at 31 December 2009 SAR 2,515.3 million Islamic Banking Facilities (Murabaha) were unutilized and available for drawdown (2008: SAR 1,729.8 million).

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As at 31 December 2009 the Group had SAR 481.8 million of unutilized SIDF facilities available for draw down with maturities predominantly greater than five years (2008: SAR 581.4 million).

| | 2009 | 2008 |
|---|-------------|-------------|
| | SAR '000 | SAR '000 |
| 13. <u>PAYABLES AND ACCRUALS</u> | | |
| Trade Accounts Payable | | |
| - Third Parties | 427,854 | 350,098 |
| - Related Parties (Refer note 26) | 42,425 | 46,360 |
| Other Payables | 431,790 | 250,318 |
| Zakat Provision (Refer note 19) | 60,516 | 22,782 |
| Total | 962,585 | 669,558 |
| 14. <u>SHARE CAPITAL</u> | | |

On 26 Shawwal 1430 A.H. (15 October 2009), the Company issued 6 million shares to the owners of the Hail Agricultural Development Company, on acquisition of the same (Note 4), and as a result the share capital of the Company increased from 109 million fully paid and issued shares of SAR 10 each to 115 million fully paid and issued shares of SAR 10 each.

The Company's share capital at 31 December 2009 and 31 December 2008 amounted to SAR 1,150 million and SAR 1,090 million respectively, consisting of 115 million and 109 million fully paid and issued shares of SAR 10 each.

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15. SEGMENTAL REPORTING

The Group's principal business activities involve manufacturing and trading of dairy and juices products under the Almarai brand, bakery products under the brands L'usine and 7 Days, poultry products under the HADCO brand, arable and horticultural products as well as other activities. Other activities include our investment in Zain and infant formula. Selected financial information as of 31 December 2009 and 2008 and for the years then ended categorized by these business segments, are as follows:

| | Dairy and Juice | Bakery | Poultry | Arable and Horticulture | Other Activities | Total |
|-----------------------------------|--------------------|-----------|----------|----------------------------|---------------------|-------------|
| | SAR '000 | SAR '000 | SAR '000 | SAR '000 | SAR '000 | SAR '000 |
| 31 December 2009 | | | | | | |
| Sales | 5,204,614 | 646,416 | 44,498 | 158,926 | - | 6,054,454 |
| Third Party Sales | 5,177,730 | 618,122 | 44,498 | 28,455 | - | 5,868,805 |
| Depreciation | (206,632) | (56,468) | (2,696) | (22,230) | - | (288,026) |
| Share of Results of Associates | (3,371) | - | 1,368 | - | - | (2,003) |
| Income before Minority Interest | 972,450 | 139,770 | 8,395 | (7,910) | (12,545) | 1,100,160 |
| Share of Net Assets in Associates | 455,080 | - | 29,050 | - | - | 484,130 |
| Additions to Non-Current Assets | 1,537,741 | 338,253 | 383,365 | 847,917 | 88,706 | 3,195,982 |
| Non-Current Assets | 5,663,992 | 1,280,632 | 377,916 | 922,179 | 560,543 | 8,805,262 |
| Total Assets | 7,298,020 | 1,467,132 | 454,201 | 1,203,056 | 564,586 | 10,986,995 |
| Total Liabilities | (4,666,296) | (218,375) | (70,241) | (131,717) | (500,650) | (5,587,279) |
| 31 December 2008 | | | | | | |
| Sales | 4,535,833 | 537,335 | - | - | - | 5,073,168 |
| Third Party Sales | 4,515,097 | 514,807 | - | - | - | 5,029,904 |
| Depreciation | (168,977) | (44,849) | - | - | - | (213,826) |
| Income before Minority Interest | 818,019 | 106,361 | - | - | (13,560) | 910,820 |
| Additions Non-Current Assets | 1,717,839 | 209,369 | - | - | - | 1,927,208 |
| Non-Current Assets | 4,923,741 | 1,008,473 | - | - | 489,337 | 6,421,551 |
| Total Assets | 6,556,270 | 1,135,677 | - | - | 489,337 | 8,181,284 |
| Total Liabilities | (3,904,200) | (158,132) | - | - | (487,460) | (4,549,792) |

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The business activities and operating assets of the Group are mainly concentrated in GCC countries, and selected financial information as at 31 December 2009 and 2008 and for the years then ended, categorized by these geographic segments are as follows:

| | Sales | Non- Current Assets |
|---------------------|------------------|---------------------------|
| | SAR '000 | SAR '000 |
| <u>2009</u> | | |
| Saudi Arabia | 4,061,912 | 8,246,294 |
| Other GCC Countries | 1,744,249 | 103,888 |
| Other Countries | 62,644 | 455,080 |
| Total | <u>5,868,805</u> | <u>8,805,262</u> |
| <u>2008</u> | | |
| Saudi Arabia | 3,453,558 | 6,332,772 |
| Other GCC Countries | 1,510,552 | 88,779 |
| Other Countries | 65,794 | - |
| Total | <u>5,029,904</u> | <u>6,421,551</u> |

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

| | 2009 | 2008 |
|-------------------------|------------------|------------------|
| | SAR '000 | SAR '000 |
| Fresh Dairy | 2,817,587 | 2,474,586 |
| Long Life Dairy | 562,619 | 495,710 |
| Fruit Juice | 620,162 | 484,455 |
| Cheese & Butter | 1,143,002 | 1,028,206 |
| Bakery | 618,122 | 514,807 |
| Poultry | 44,498 | - |
| Arable and Horticulture | 28,445 | - |
| Other | 34,370 | 32,140 |
| Total | <u>5,868,805</u> | <u>5,029,904</u> |

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| | 2009 | 2008 |
|---|-----------|-----------|
| | SAR '000 | SAR '000 |
| 16. <u>COST OF SALES</u> | | |
| Direct Material Costs | 2,580,261 | 2,242,693 |
| Government Grants | (93,812) | (17,618) |
| Employee Costs | 363,440 | 297,622 |
| Depreciation of Property, Plant and Equipment | 390,750 | 290,537 |
| Depreciation of Biological Assets | 95,889 | 106,447 |
| Biological Asset Appreciation | (313,064) | (271,589) |
| Loss on Sale of Biological Assets | 78,819 | 57,179 |
| Other Expenses | 400,730 | 325,676 |
| Total | 3,503,013 | 3,030,947 |
| | | |
| | 2009 | 2008 |
| | SAR '000 | SAR '000 |
| 17. <u>SELLING AND DISTRIBUTION EXPENSES</u> | | |
| Employee Costs | 376,909 | 327,951 |
| Marketing Expenses | 297,442 | 247,319 |
| Depreciation of Property, Plant and Equipment | 96,680 | 78,982 |
| Other Expenses | 116,116 | 96,626 |
| Total | 887,147 | 750,878 |
| | | |
| | 2009 | 2008 |
| | SAR '000 | SAR '000 |
| 18. <u>GENERAL AND ADMINISTRATION EXPENSES</u> | | |
| Employee Costs | 144,077 | 121,109 |
| Insurance | 22,527 | 20,936 |
| Depreciation of Property, Plant and Equipment | 17,771 | 9,449 |
| Profit on Sale of Property, Plant and Equipment | (3,636) | (1,093) |
| Other Expenses | 18,996 | 36,707 |
| Total | 199,735 | 187,108 |

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19. ZAKAT

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

| | 2009 | 2008 |
|---|-------------|-------------|
| | SAR '000 | SAR '000 |
| Income from Main and Continuing Operations | 1,129,389 | 935,482 |
| Disallowed Expenses: | | |
| Accrual for Employees' Termination Benefits | 26,202 | 23,138 |
| Other Provision | 13,551 | 10,946 |
| Net Income for Zakat Purposes | 1,169,142 | 969,566 |
| | | |
| Zakat Charge @ 2.5% | 29,229 | 24,239 |
| Adjustment in respect of prior year provision | - | 423 |
| Charged to Consolidated Statement of Income | 29,229 | 24,662 |

B. Zakat Provisions

| | | |
|---|----------|----------|
| Balance at 1 January | 22,782 | 18,028 |
| Acquisition of Subsidiary | 26,070 | - |
| Charged to Consolidated Statement of Income | 29,229 | 24,662 |
| Payments | (17,565) | (19,908) |
| Balance at 31 December | 60,516 | 22,782 |

- C. The Company has filed its Zakat returns for all the years up to 2008 and settled its Zakat liabilities accordingly. The Zakat assessments have been agreed with the Department of Zakat and Income Tax (DZIT) for all the years up to 2006 while 2007 and 2008 Zakat returns are still under review by the Department of Zakat and Income Tax (DZIT).

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 the DZIT for all years up to 31 December 2002.

20. EARNINGS PER SHARE

Earnings per Share are calculated on the weighted average number of issued shares for the years ended 31 December 2009 and 31 December 2008 amounting to 110.3 million shares and 109 million shares respectively.

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| | 2009 | 2008 |
|---|-----------|-----------|
| | SAR '000 | SAR '000 |
| 21. <u>DEPRECIATION AND DISPOSAL OF ASSETS</u> | | |
| A. <u>Depreciation</u> | | |
| <u>Biological Assets</u> | | |
| Depreciation of Biological Assets | 95,889 | 106,447 |
| Biological Assets Appreciation | (313,064) | (271,589) |
| Net Biological Assets Appreciation | (217,175) | (165,142) |
| <u>Property, Plant and Equipment</u> | | |
| Depreciation | 505,201 | 378,968 |
| Total | 288,026 | 213,826 |
| B. <u>(Profit)/Loss on the Sale of Assets</u> | | |
| <u>Biological Assets</u> | | |
| Proceeds from Sale of Biological Assets | (91,180) | (79,567) |
| Net Book Value of Biological Assets Sold | 169,999 | 136,746 |
| Loss on the Sale of Biological Assets | 78,819 | 57,179 |
| <u>Property, Plant & Equipment</u> | | |
| Proceeds from the Sale of Property, Plant and Equipment | (16,216) | (3,964) |
| Net Book Value of Property, Plant and Equipment Sold | 12,580 | 2,871 |
| Profit on the Sale of Property, Plant and Equipment | (3,636) | (1,093) |
| Total | 75,183 | 56,086 |

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22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial instruments carried on the consolidated balance sheet include cash and cash equivalents, trade and other accounts receivable, derivative financial instruments, investments in securities, loan, short term bank borrowings, accounts payable, accrued expenses and other liabilities and long term debt.

Commission Rate Risk is the exposure associated with the effect of fluctuations in the prevailing commission rates on the Group's financial position and cash flows. Islamic banking facilities (Murabaha) amounting to SAR 3,756.7 million at 31 December 2009 (2008: SAR 3,078.8 million) bear financing commission charges at the prevailing market rates.

The Group's policy is to manage its financing charges using a mix of fixed and variable commission rate debts. The policy is to keep between 50% 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 impact on the Company's equity.

| | Increase/decrease in basis points of commission rates | Effect on income for the year SAR'000 |
|-------------|---|--|
| 2009 | | |
| SAR | +30 | 11,141 |
| SAR | - 30 | (11,141) |
| 2008 | | |
| SAR | + 30 | 9,236 |
| SAR | - 30 | (9,236) |

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

The outstanding foreign currency forward purchase agreements were as follows:

| | 2009 SAR '000 | 2008 SAR '000 |
|---------------------|------------------|------------------|
| Euro | 703,642 | 669,819 |
| Great British Pound | 66,409 | 94,800 |
| Other | 30,924 | 37,428 |
| Total | 800,975 | 802,047 |

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

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enter into forward contracts based on the underlying exposure available from the group's business plan/commitment with the suppliers. The forward purchase agreements are secured by promissory notes given by the Group.

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

| | Increase/decrease in Euro rate to SAR | Effect on income for the year SAR'000 |
|------|--|--|
| 2009 | +10% | 11,229 |
| | -10% | (11,229) |
| 2008 | +10% | 8,602 |
| | -10% | (8,602) |

Credit Risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Group limits its credit risk by trading only with recognized, creditworthy third parties. The Group's policy is that all customers who wish to trade on credit terms are subject to credit verification procedures. Trade and other account receivables are mainly due from local customers and related parties and are stated at their estimated realizable values. The Group seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and by monitoring outstanding receivables on an ongoing basis. The receivable balances are monitored with the result that the Group's exposure to bad debts is not significant. The five largest customers account approximately for 19% of outstanding accounts receivable at 31 December 2009 (2008: 25%).

With respect to credit risk arising from other financial assets of the Group comprising of cash and cash equivalents, investments in securities and loan, the Group's exposure to credit risk arises from default of the counterparty, with maximum exposure equal to the carrying amount of these instruments. Cash and bank balances are placed with national and international banks with sound credit ratings. All derivative financial instruments form part of effective cash flow hedges.

Liquidity Risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds and bank facilities are available to meet the 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 2009 were 24 days (2008: 22 days). Trade payables are typically settled on a terms basis, the average payables outstanding for 2009 were 45 days (2008: 46 days).

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23. 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 2009 the Group had 8 commission rate swap agreements in place covering total notional amounts of SAR 100 million and US\$ 210 million. At 31 December 2008 the Group had 8 commission rate swap agreements in place covering total notional amounts of SAR 100 million and US\$ 210 million.

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

At 31 December 2009 and 2008 the Group had various forward foreign exchange contracts that were designated as hedges to cover purchases and other expenditures in a variety of foreign currencies.

All derivative financial instruments are being used as cash flow hedges and are carried in the consolidated balance sheet at fair value. All cash flow hedges are either against transactions with either firm commitments, or forecast transactions that are highly probable. The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 14 months.

All 2009 hedges were considered highly effective and the net loss on cash flow hedges during the year recognised in Other Reserves within equity was SAR 82.2 million (2008: net loss of SAR 101.4 million). During the year net gains reclassified to the income statement were SAR 14.8 million (2008: SAR 14.7 million).

24. COMMITMENTS AND CONTINGENCIES

- A. The contingent liabilities against letters of credit are SAR 170.9 million for 31 December 2009 (2008: SAR 330 million).
- B. The contingent liabilities against letters of guarantee are SAR 83.0 million for 31 December 2009 (2008: SAR 61.1 million).
- C. The Company had capital commitments to SAR 1,555.6 million for 31 December 2009 in respect of ongoing projects (2008: SAR 702.5 million). The majority of the capital commitments are for new production facilities, sales depot development, distribution fleet, fridges and information technology.

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D. Commitments under operating leases expire as follows:

| | 2009 | 2008 |
|-------------------|-------------|-------------|
| | SAR '000 | SAR '000 |
| Within one year | 63,517 | 50,723 |
| Two to five years | 61,759 | 48,288 |
| After five years | 20,104 | 96,268 |
| Total | 145,380 | 195,279 |

25. DIRECTORS REMUNERATION

The Directors' remuneration paid to the Board of Directors for year ended 31 December 2009 amounted to SAR 6.3 million (2008: SAR 6.4 million).

26. 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 2009 and 31 December 2008 along with their balances:

| Nature of Transaction | Amount | Balance at 31 December |
|------------------------------|---------------|---------------------------------------|
| | SAR '000 | SAR '000 |
| <u>2009</u> | | |
| Sales | (257,250) | 67,464 |
| Purchases | 190,935 | (42,425) |
| <u>2008</u> | | |
| Sales | (155,141) | 31,357 |
| Purchases | 185,986 | (46,360) |

Pricing and terms for these transactions are at arms length. The related parties noted above include the following:

| <u>Entity</u> | <u>Relationship</u> |
|--|----------------------------|
| Savola Group | Common Ownership |
| Arabian Shield Cooperative Insurance Company | Common Ownership |
| ARASCO Feed Mills | Common Ownership |
| Managed Arable Farms | Common Ownership |
| International Dairy and Juice Limited | Investment in Associate |
| Pure Breed Company | Investment in Associate |

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27. DIVIDENDS APPROVED AND PAID

On 26 Rabi Awal 1430 A.H. (23 March 2009), the General Assembly Meeting approved a dividend of SAR 381.5 million (SAR 3.5 per share) for the year ended 31 December 2008, which was paid on 11 Rabi Thani 1430 A.H. (7 April 2009).

28. DIVIDENDS PROPOSED

The Board of Directors proposes for approval at the General Assembly Meeting a dividend for the year ended 31 December 2009 of SAR 460.0 million (SAR 4.0 per share).

29. SUBSEQUENT EVENTS

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