ALMARAI COMPANY
A SAUDI JOINT STOCK COMPANY

THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012

ALMARAI COMPANY

A SAUDI JOINT STOCK COMPANY

INDEX

ERNST & YOUNG

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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 2012 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 2012 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

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ترخيص مهني رقم ٤٥
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PROFESSIONAL LICENCE No. 45
ERNST & YOUNG

Riyadh: 5 Rabi Awal 1434H
(17 January 2013)

ALMARAI COMPANY
A SAUDI JOINT STOCK COMPANY

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2012

	Notes	2012	Restated Note 4 2011
		SAR '000	SAR '000
ASSETS			
Current Assets			
Cash and Cash Equivalents	5	417,304	271,979
Derivative Financial Instruments	24	34,934	109
Receivables and Prepayments	6	791,688	623,756
Inventories	7	2,317,097	1,696,998
Total Current Assets		**3,561,023**	**2,592,842**
Non Current Assets			
Investments and Financial Assets	8	244,327	852,746
Property, Plant and Equipment	9	13,415,836	10,508,181
Biological Assets	10	901,029	817,618
Intangible Assets - Goodwill	11	1,335,455	821,263
Deferred Charges		50,756	53,836
Deferred Tax Asset		10,222	9,940
Total Non Current Assets		**15,957,625**	**13,063,584**
TOTAL ASSETS		**19,518,648**	**15,656,426**
LIABILITIES AND EQUITY			
LIABILITIES			
Current Liabilities			
Short Term Loans	12	1,399,818	1,208,501
Payables and Accruals	13	2,176,575	1,515,772
Derivative Financial Instruments	24	102,977	96,374
Total Current Liabilities		**3,679,370**	**2,820,647**
Non Current Liabilities			
Long Term Loans	12	7,254,743	5,716,663
Employees' Termination Benefits		287,056	243,481
Deferred Tax Liability		126,489	97,983
Total Non Current Liabilities		**7,668,288**	**6,058,127**
TOTAL LIABILITIES		**11,347,658**	**8,878,774**
EQUITY			
Shareholders' Equity			
Share Capital	14	4,000,000	2,300,000
Share Premium		-	1,600,500
Statutory Reserve		912,917	768,854
Other Reserves		(189,861)	(95,238)
Treasury Shares		(95,282)	(97,757)
Retained Earnings		2,921,667	2,242,102
Total Shareholders' Equity		**7,549,441**	**6,718,461**
Minority Interest		**621,549**	**59,191**
TOTAL EQUITY		**8,170,990**	**6,777,652**
TOTAL LIABILITIES AND EQUITY		**19,518,648**	**15,656,426**

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 2012

	Notes	2012	2011
		SAR '000	SAR '000
Sales	15	9,882,996	7,950,989
Cost of Sales	16	(6,371,919)	(4,954,469)
Gross Profit		**3,511,077**	**2,996,520**
Selling and Distribution Expenses	17	(1,616,749)	(1,213,232)
General and Administration Expenses	18	(221,402)	(265,678)
Net Operating Income		**1,672,926**	**1,517,610**
Share of Results of Associates and Joint Ventures	8	(24,583)	(42,298)
Finance Charges		(157,487)	(134,965)
Income from Main Operations		**1,490,856**	**1,340,347**
Impairment Loss		-	(160,237)
Income before Zakat, Income Tax and Minority Interest		**1,490,856**	**1,180,110**
Zakat and Income Tax	20	(50,946)	(33,173)
Income before Minority Interest		**1,439,910**	**1,146,937**
Minority Interest		718	(7,423)
Net Income for the Year		**1,440,628**	**1,139,514**
Earnings per Share (SAR)	21		
Attributable to Income from Main Operations		3.73	3.35
Attributable to Net Income for the Year		3.60	2.85

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 2012

	Notes	2012	Restated 2011
		SAR '000	SAR '000
OPERATING ACTIVITIES			
Net Income for the Year		1,440,628	1,139,514
Adjustments for:			
Depreciation of Property, Plant and Equipment	22	924,861	732,730
Net Appreciation of Biological Assets	22	(210,708)	(213,636)
Profit on Sale of Property, Plant and Equipment	22	(77,122)	(8,471)
Loss on Sale of Biological Assets	22	46,758	62,151
Impairment Loss		-	160,237
Finance Charges Accrued		157,487	134,965
Share of Results of Associates and Joint Ventures		24,583	42,298
Change in Employees' Termination Benefits		43,575	37,393
Share Based Payment Expense		6,227	1,027
Share of Minority Interest in Net Income of Consolidated Subsidiaries		(718)	7,423
Changes in:			
Receivables and Prepayments		(91,133)	9,595
Inventories		(504,542)	(386,107)
Deferred Tax		(637)	-
Payables and Accruals		625,183	204,898
Cash Flows from Operating Activities		**2,384,442**	**1,924,017**
INVESTING ACTIVITIES			
Additions to Property, Plant and Equipment	9	(3,137,978)	(3,035,332)
Additions to Biological Assets	10	(44,222)	(19,358)
Proceeds from the Sale of Property, Plant and Equipment	22	98,144	23,528
Proceeds from the Sale of Biological Assets	22	147,599	123,646
Acquisition of Investments and Financial Assets	8	(23,501)	(17,500)
Acquisition of Subsidiaries, Net of Cash Acquired	4	24,905	(315,580)
Dividend received from an Associate		2,134	3,139
Cash Flows used in Investing Activities		**(2,932,919)**	**(3,237,457)**
FINANCING ACTIVITIES			
Net Increase in Loans		1,480,924	2,077,529
Dividends Paid		(511,842)	(515,640)
Distribution to Minority Interests		(784)	-
Finance Charges Paid		(277,576)	(89,177)
Purchase of Treasury Shares		-	(97,757)
Change in Deferred Charges		3,080	(30,286)
Cash Flows from Financing Activities		**693,802**	**1,344,669**
Increase in Cash and Cash Equivalents		**145,325**	**31,229**
Cash and Cash Equivalents at 1 January		271,979	240,750
Cash and Cash Equivalents at 31 December	5	**417,304**	**271,979**

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 2012

	Attributable to equity holders of the parent								
	Share Capital	**Share Premium**	**Statutory Reserve**	**Other Reserves**	**Treasury Shares**	**Retained Earnings**	**Total Shareholders' Equity**	**Minority Interest**	**Total Equity**
	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000
Balance at 1 January 2011	**2,300,000**	**1,600,500**	**654,903**	**(155,828)**	**-**	**1,734,039**	**6,133,614**	**51,768**	**6,185,382**
Net Income for the Year	-	-	-	-	-	1,139,514	**1,139,514**	7,423	**1,146,937**
Transfers from Retained Earnings	-	-	113,951	-	-	(113,951)	**-**	-	**-**
Purchase of Treasury Shares	-	-	-	-	(97,757)	-	**(97,757)**	-	**(97,757)**
Share Based Payment Transactions	-	-	-	1,027	-	-	**1,027**	-	**1,027**
Net Movement on Financial Investments	-	-	-	83,237	-	-	**83,237**	-	**83,237**
Dividends Approved	-	-	-	-	-	(517,500)	**(517,500)**	-	**(517,500)**
Net Movement on Cash Flow Hedges	-	-	-	(23,674)	-	-	**(23,674)**	-	**(23,674)**
Balance at 31 December 2011	**2,300,000**	**1,600,500**	**768,854**	**(95,238)**	**(97,757)**	**2,242,102**	**6,718,461**	**59,191**	**6,777,652**
Net Income for the Year	-	-	-	-	-	1,440,628	**1,440,628**	(718)	**1,439,910**
Transfers from Retained Earnings	-	-	144,063	-	-	(144,063)	**-**	-	**-**
Acquisition of Subsidiaries	-	-	-	-	-	-	**-**	563,860	**563,860**
Net Movement on Treasury Shares	-	-	-	-	2,475	-	**2,475**	-	**2,475**
Share Based Payment Transactions	-	-	-	6,227	-	-	**6,227**	-	**6,227**
Net Movement on Financial Investments	-	-	-	(122,444)	-	-	**(122,444)**	-	**(122,444)**
Distribution to Minority Interests	-	-	-	-	-	-	**-**	(784)	**(784)**
Dividends Approved	-	-	-	-	-	(517,500)	**(517,500)**	-	**(517,500)**
Net Movement on Cash Flow Hedges	-	-	-	28,221	-	-	**28,221**	-	**28,221**
Bonus Share Issue	1,700,000	(1,600,500)	-	-	-	(99,500)	**-**		**-**
Currency Translation Adjustment	-	-	-	(6,627)	-	-	**(6,627)**	-	**(6,627)**
Balance at 31 December 2012	**4,000,000**	**-**	**912,917**	**(189,861)**	**(95,282)**	**2,921,667**	**7,549,441**	**621,549**	**8,170,990**

The accompanying notes form an integral part of these 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. Prior to the consolidation of activities in 1991, the core business traded between 1976 and 1991 under the Almarai brand name.

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 Cooperation Council (GCC) countries.

The dairy, fruit juices and related food business is operated under the Almarai, Beyti and Teeba brand names. All raw milk production and related processing along with dairy food manufacturing activities are undertaken in Saudi Arabia, United Arab Emirates (UAE), Egypt and Jordan. Final consumer products are distributed from the manufacturing facilities in these countries 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 has ceased trading. 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 Alyoum brand. HADCO is a closed joint stock company registered in Saudi Arabia and based in Hail.

Almarai Baby Food Company Limited is a limited liability company registered in Saudi Arabia. It owns a modern infant formula manufacturing plant in Al Kharj, which is leased to International Pediatric Nutrition Company (a joint venture between Mead Johnson and the Company).

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 through its subsidiary Almarai Company Bahrain S.P.C and in Oman through its subsidiaries Arabian Planets for Trade and Marketing L.L.C. and Alyoum for Food Products Company L.L.C.

The Group owns and operates arable farms in Argentina through three of its Argentinean subsidiaries Fondomonte Inversiones Argentina S.A., Fondomonte El Descanso S.A. and Fondomonte Sandoval S.A.

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 10 Safar 1433 A.H. (4 January 2012) Almarai Emirates Company L.L.C (UAE) was incorporated (which is 100% owned by the Group) for the purpose of trading in United Arab Emirates. Trading has not yet commenced.

On 5 Jumad Awwal 1433 A.H. (28 March 2012) the Company, through its subsidiary Almarai Investment Holding Company W.L.L., increased its shareholding in International Dairy and Juice Limited (IDJ) from 48% to 52% through an equity contribution of USD 22.4 million (SAR 83.8 million). IDJ was incorporated on 14 February 2009 between the Company and PepsiCo, focusing on new business opportunities in dairy and juice products in the Middle East, Africa and Southeast Asia excluding the GCC countries. IDJ's main businesses are the dairy and juice activities of the IDJ operating companies in Egypt and Jordan, as well as exporting Almarai products into the IDJ designated territories.

On 10 Shaaban 1433 A.H. (10 July 2012) Nourlac Company Limited was incorporated (which is 100% owned by the Group) for the purpose of trading infant formula. Trading has not yet commenced.

On 6 Safar 1434 A.H. (19th December 2012), Almarai Investment Holding Company W.L.L., a subsidiary of the Company and the sole shareholder of Blue Yulan S.A. resolved to appoint a liquidator. This holding company is superfluous to the Group structure requirements and the ownership and trading activities of Fondomonte remained within the Group. All assets and liabilities of Blue Yulan S.A. have been taken over and absorbed by Almarai Investment Holding Company W.L.L. and the liquidation was completed on 15 Safar 1434. A.H. (28 December 2012).

Details of the subsidiary companies are as follows:

Name of Subsidiary	Country of Incorporation	Business Activity	Functional Currency	Direct and Beneficial Ownership Interest		Shares	
				2012	2011	Capital	Issued
Almarai Investment Company Limited	Saudi Arabia	Holding Company	SAR	100%	100%	SAR 1,000,000	100,000
Almarai Baby Food Company Limited	Saudi Arabia	Manufacturing and Trading Company	SAR	100%	100%	SAR 200,000,000	20,000,000
Hail Agricultural Development Company	Saudi Arabia	Poultry / Agricultural Company	SAR	100%	100%	SAR 300,000,000	30,000,000
Western Bakeries Company Limited	Saudi Arabia	Bakery Company	SAR	100%	100%	SAR 200,000,000	200,000
International Baking Services Company Limited	Saudi Arabia	Holding Company	SAR	100%	100%	SAR 500,000	500
Modern Food Industries Limited	Saudi Arabia	Bakery Company	SAR	60%	60%	SAR 70,000,000	70,000
Agricultural Input Company Limited (Mudkhalat)	Saudi Arabia	Agricultural Company	SAR	52%	52%	SAR 25,000,000	250
Nourlac Company Limited	Saudi Arabia	Trading Company	SAR	100%	-	SAR 3,000,000	3,000
Fondomonte El Descanso S.A.	Argentina	Agricultural Company	ARG	100%	100%	ARG 27,475,914	27,475,914
Fondomonte Inversiones Argentina S.A.	Argentina	Agricultural Company	ARG	100%	100%	ARG 17,849,997	17,849,997
Fondomonte Sandoval S.A.	Argentina	Agricultural Company	ARG	100%	100%	ARG 4,383,432	4,383,432
Agro Terra S.A.	Argentina	Dormant	ARG	100%	100%	ARG 475,875	475,875
Almarai Company Bahrain S.P.C.	Bahrain	Sales Company	BHD	100%	100%	BHD 100,000	1,000
Almarai International Holding W.L.L.	Bahrain	Holding Company	BHD	100%	100%	BHD 250,000	2,500
Almarai Investment Holding Company W.L.L.	Bahrain	Holding Company	BHD	100%	100%	BHD 250,000	2,500
IDJ Bahrain Holding Company W.L.L.	Bahrain	Holding Company	BHD	52%	48%	BHD 250,000	2,500

Name of Subsidiary	Country of Incorporation	Business Activity	Functional Currency	Direct and Beneficial Ownership Interest		Shares	
				2012	2011	Capital	Issued
International Dairy and Juice Limited	Bermuda	Holding Company	USD	52%	48%	USD 7,000,000	7,000,000
International Dairy and Juice (Egypt) Limited	Egypt	Holding Company	EGP	52%	48%	EGP 50,000,000	5,000,000
International Company for Agricultural Industries Projects (Beyti) (SAE)	Egypt	Manufacturing and Trading Company	EGP	52%	48%	EGP 317,159,000	31,715,900
Markley Holdings Limited	Jersey	Dormant	GBP	100%	100%	-	-
Teeba Investment for Developed Food Processing	Jordan	Manufacturing Company	JOD	39%	36%	JOD 49,675,352	49,675,352
Al Rawabi for juice and UHT milk Manufacturing	Jordan	Manufacturing Company	JOD	39%	36%	JOD 500,000	500,000
Al Muthedoon for Dairy Production	Jordan	Manufacturing Company	JOD	39%	36%	JOD 500,000	500,000
Al Atheer Agricultural Company	Jordan	Agricultural Company	JOD	39%	36%	JOD 750,000	750,000
Al Namouthjya for Plastic Production	Jordan	Manufacturing Company	JOD	39%	36%	JOD 250,000	250,000
Blue Yulan S.A.	Luxembourg	Holding Company	EUR	-	100%	USD 58,000,000	58,000,000
Arabian Planets for Trade and Marketing L.L.C.	Oman	Sales Company	OMR	90%	90%	OMR 150,000	150,000
Alyoum for Food Products Company L.L.C.	Oman	Sales Company	OMR	100%	100%	OMR 20,000	20,000
Fondomonte Inversiones S.L.	Spain	Holding Company	EUR	100%	100%	EUR 13,047,134	13,047,134
International Dairy and Juice (Dubai) Limited	United Arab Emirates	Holding Company	AED	52%	48%	USD 22,042,183	22,042,183
Almarai Emirates Company L.L.C.	United Arab Emirates	Sales Company	AED	100%	-	AED 300,000 (Unpaid)	300

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

(a) The consolidated financial statements have been prepared on the accrual basis under the historical cost convention (except for derivative financial instruments and investments that have been measured at fair value) and in compliance with the accounting standards issued by the Saudi Organisation for Certified Public Accountants (SOCPA).

(b) When necessary, prior period comparatives have been regrouped or adjusted on a basis consistent with current period classification.

(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, a 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 financial statements of its subsidiaries, as adjusted by the elimination of all significant inter group balances and transactions. The Company and its Subsidiaries have identical reporting periods. 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. 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.

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

D. 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 selling 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.

E. 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.

F. Investment in Associates and Joint Ventures

The investments in associates and joint ventures are accounted for under the equity method of accounting when the Company exercises significant influence over the entity and where the entity is not a subsidiary. Investments in associates and joint ventures are carried in the consolidated balance sheet at cost, plus post-acquisition changes in the Company's share of net assets of the associates and joint ventures less any impairment in value. The consolidated statement of income reflects the Company's share of the results of its associates and joint ventures. Unrealized gains and losses resulting from transactions between the Company, its associates and joint ventures are eliminated to the extent of the Company's interest in the associates and joint ventures.

G. Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and depreciated on a straight line basis according to the following useful economic lives:

Buildings	5 – 33 years
Plant, Machinery and Equipment	1 – 20 years
Motor Vehicles	6 – 8 years

Land and Capital Work in Progress are not depreciated.

H. 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 on a straight line basis to their estimated residual value based on commercial production periods ranging from 36 weeks to 50 years summarized below:

Dairy Herd	4 years
Plantations	12 – 50 years
Poultry Flock	36 weeks

I. Impairment

The carrying values of property, plant and equipment, biological assets and investments and financial 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.

For property, plant and equipment and biological assets, 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.

J. 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.

K. **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.

L. **Zakat and Income Tax**

Zakat is provided for in the consolidated financial statements on the basis of an estimated Zakat assessment carried out in accordance with Saudi Department of Zakat and Income Tax (DZIT) regulations. Income tax for foreign entities is provided for in the consolidated financial statements on the basis of an estimated income tax assessment carried out in accordance with the relevant income tax regulations of the countries in which they operate. Adjustments arising from final Zakat and income tax assessments are recorded in the period in which such assessments are made.

M. **Deferred Tax**

Deferred income tax is provided for foreign subsidiaries, 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 income 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 income 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 income 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 income tax asset to be utilised.

N. **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 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 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 subject to the hedge.

O. **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.

P. **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.

Q. Treasury Shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and presented as a deduction from equity and are adjusted for any transaction costs, dividends and gains or losses on sale of such shares. No gain or loss is recognised in the consolidated statement of income on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in share premium. Any share options, as contemplated in the following paragraph exercised during a reporting period, are satisfied with treasury shares.

R. Share Based Payment Transactions

Employees of the Company receive remuneration in the form of share based payment transactions under the Employee Stock Participation Program, whereby employees render services as consideration for the option to purchase equity instruments at a predetermined price (equity settled transactions).

The cost of equity settled transactions is recognised, together with a corresponding increase in other capital reserves, in equity, over the period in which the service conditions are fulfilled. The cumulative expense recognised for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The consolidated statement of income expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in Employee Costs.

When the terms of an equity settled transaction award are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share based payment transaction, or is otherwise beneficial to the employee as measured at the date of the modification.

When an equity settled award is terminated, it is treated as if it vested on the date of termination, and any expense not yet recognised for the award is recognised immediately. This includes any award where non vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the terminated award, and designated as a replacement award on the date that it is granted, the terminated and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

S. Conversion of Foreign Currency Transactions

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

The functional currencies of foreign subsidiaries are listed in note 1. As at the reporting date, the assets and liabilities of these subsidiaries are translated into the functional and presentation currency of the Group, Saudi Riyal (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 period. Components of equity, other than retained earnings, are translated at the rate ruling at the date of occurrence of each component. Translation adjustments in respect of these components of equity are recorded as a separate component of shareholders' equity.

T. 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.

U. 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.

V. Selling, Distribution, General and Administration Expenses

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

W. Management Fees

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

X. Operating Leases

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

Y. Borrowing Costs

Borrowing costs that are directly attributable to the construction of an asset are capitalized up to stage when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed and, thereafter, such costs are charged to the consolidated statement of income.

Z. 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. BUSINESS COMBINATION

Acquisition of Blue Yulan S.A.

On 23 Muharram 1433 A.H. (19 December 2011) the company, through its subsidiary Almarai Investment Holding Company W.L.L., acquired 100% of the outstanding share capital of Blue Yulan S.A. for a cash consideration of SAR 313.8 million (USD 83.5 million).

The assets and liabilities of Blue Yulan S.A. as at acquisition date are consolidated by the Group. The net assets recognised in the 31 December 2011 financial statements were based on a provisional assessment and after the final purchase price allocation carried out by management the balances have been restated. The final purchase price allocation was based on audited financial statements. The Group has restated and accounted for the transaction based on the carrying values of the assets and liabilities (with the exception of land) as of the acquisition date which is summarised below. There is no change to the prior year net income.

	Fair Value Recognized on Acquisition Dec 2011 (Final)	Fair Value Recognized on Acquisition Dec 2011 (Provisional)
	SAR '000	SAR '000
Assets		
Land and Buildings	352,592	352,518
Other Property, Plant and Equipment	1,405	1,405
Biological Assets	916	916
Deferred Tax Asset	9,940	8,630
Inventories	11,554	11,341
Receivables and Prepayments	10,182	13,270
Bank Balances and Cash	5,913	5,913
	392,502	393,993
Liabilities		
Payables and Accruals	(8,057)	(7,193)
Short Term Loans	(432)	(432)
Deferred Tax Liability	(97,983)	(97,983)
	(106,472)	(105,608)
Total Identifiable Net Assets at Fair Value	286,030	288,385
Goodwill Arising on Acquisition	27,795	33,108
Purchase Consideration Transferred	313,825	321,493
Total Acquisition Cost:		
Cash Consideration	313,825	312,080
Costs Associated with the Acquisition	-	9,413
Total	313,825	321,493
Cash Outflow on Acquisition:		
Net Cash Acquired with the Subsidiaries	5,913	5,913
Cash Paid	(313,825)	(321,493)
Net Cash Outflow	(307,912)	(315,580)

Step Acquisition of International Dairy and Juice Limited ("IDJ")

On 5 Jumad Awal 1433 A.H. (28 March 2012) the Company, through its subsidiary Almarai Investment Holding Company W.L.L., increased its shareholding in IDJ from 48% to 52% through an equity contribution of USD 22.4 million (SAR 83.8 million). These consolidated financial statements include the results of IDJ from 1 March 2012, as the Company effectively obtained control of IDJ from that date. If the combination had taken place at the beginning of the period, the net operating income would have been lower by SAR 6.4 million and the net income of the Group would have been lower by SAR 0.3 million.

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

	Fair Value Recognized on Acquisition Mar 2012 (Final)	Fair Value Recognized on Acquisition Mar 2012 (Provisional)
	SAR '000	SAR '000
Assets		
Property, Plant and Equipment	640,468	659,757
Biological Assets	22,838	22,941
Intangible Assets - Goodwill	443,212	517,355
Deferred Tax Asset	-	3,457
Inventories	115,557	109,288
Receivables and Prepayments	76,799	136,306
Bank Balances and Cash	108,718	100,821
	1,407,592	1,549,925
Liabilities		
Short Term Loans	(248,473)	(225,527)
Payables and Accruals	(66,976)	(98,033)
Deriviative Financial Instruments	(3,829)	(3,829)
Deferred Tax Liability	(28,861)	(47,811)
	(348,139)	(375,200)
Non Controlling Interest of Teeba	(40,870)	(129,522)
Total Identifiable Net Assets at Fair Value	1,018,583	1,045,203
Non Controlling Interest of IDJ	(522,990)	(522,990)
Goodwill Arising on Acquisition	70,980	44,360
Purchase Consideration Transferred	566,573	566,573
Total Acquisition Cost:		
Cash Consideration	83,813	83,813
Fair Value of Previously Held Equity Interest	482,760	482,760
Total	566,573	566,573
Cash Inflow on Acquisition:		
Net Cash Acquired with the Subsidiaries	108,718	100,821
Cash Paid	(83,813)	(83,813)
Net Cash Inflow	24,905	17,008

	2012	2011
	SAR '000	SAR '000

5. CASH AND CASH EQUIVALENTS

	2012 SAR '000	2011 SAR '000
Cash at Bank	308,831	178,607
Cash in Hand	108,473	93,372
Total	417,304	271,979

6. RECEIVABLES AND PREPAYMENTS

		2012 SAR '000	Restated 2011 SAR '000
Trade Accounts Receivable	- Third Parties	591,649	499,912
	- Related Parties (Refer note 27)	72,736	37,781
		664,385	537,693
Less: Provision for impairment of trade receivables		(38,939)	(23,786)
Less: Provision for sales returns		(26,570)	(24,315)
Net Accounts Receivable		598,876	489,592
Prepayments		192,812	134,164
Total		791,688	623,756

(a) The Group's policy is to provide 100% impairment provision for all trade receivables due over three months. As at 31 December 2012, trade receivables more than three months due and impaired were SAR 38.9 million (2011: SAR 23.8 million). Movement in the group provision for impairment of trade receivables was as follows:

Provision for Impairment of Trade Accounts Receivables	2012 SAR '000	2011 SAR '000
Balance at 1 January	23,786	38,135
Provisions released during the year	(3,953)	(14,433)
On acquisition of subsidiary	19,106	84
Balance at 31 December	38,939	23,786

Trade Accounts Receivable	2012 SAR '000	2011 SAR '000
Up to 3 months	620,556	513,907
More than 3 months	38,939	23,786
Total	659,495	537,693

(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.

7. INVENTORIES

	2012 SAR '000	Restated 2011 SAR '000
Raw Materials	1,783,060	1,312,655
Finished Goods	254,375	194,421
Spares	166,771	114,175
Work in Progress	112,891	75,747
Total	2,317,097	1,696,998

8. INVESTMENTS AND FINANCIAL ASSETS

The Investments in associated companies, joint ventures and securities comprise of the following:

			2012 SAR '000	2011 SAR '000
Investments in Associates and Joint Ventures	2012	2011		
International Dairy and Juice Limited	52.0%	48.0%	-	489,500
Pure Breed Company	21.5%	21.5%	36,886	34,723
International Pediatric Nutrition Company	50.0%	50.0%	11,679	10,318
Almarai Company W.L.L.	50.0%	50.0%	204	204
			48,769	534,745
Investments in Securities	2012	2011		
Zain Equity Investment	2.1%	2.5%	181,394	194,250
Zain Subordinated Founding Shareholders' Loan	-	-	-	109,587
Jannat for Agricultural Investment Company	10.0%	10.0%	7,000	7,000
National Company for Tourism	1.1%	1.1%	4,500	4,500
National Seeds and Agricultural Services Company	7.0%	7.0%	2,064	2,064
United Dairy Farms Company	8.3%	8.3%	600	600
			195,558	318,001
Total			244,327	852,746

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

	2012	2011
	SAR '000	SAR '000
International Dairy & Juice Limited		
Opening Balance	489,500	513,485
Less : Share of Results for the year	(6,740)	(23,985)
Less : Transfer to consolidated subsidiary (Refer note 4)	(482,760)	-
Closing Balance	-	489,500
Pure Breed Company		
Opening Balance	34,723	32,764
Add : Share of Results for the year	4,297	5,098
Less : Distributions	(2,134)	(3,139)
Closing Balance	36,886	34,723
International Pediatric Nutrition Company		
Opening Balance	10,318	16,229
Add : Capital Introduced	23,501	17,500
Less : Share of Results for the year	(22,140)	(23,411)
Closing Balance	11,679	10,318
Almarai Company W.L.L.		
Opening Balance	204	204
Closing Balance	204	204

(b) On 5 Jumad Awal 1433 A.H. (28 March 2012) the Company increased its shareholding in IDJ from 48% to 52% through an equity contribution of USD 22.4 million (SAR 83.8 million). This step acquisition results in the Group fully consolidating IDJ's financial statements as a subsidiary instead of equity accounting its investment in an associate. The carrying value of the associate must be revalued to fair value with any variance being recognised in the consolidated statement of income. Accordingly, the Group has recognised a revaluation gain of SAR 27.2 million which has been included in Share of Results of Associates and Joint Ventures.

(c) The Zain equity investment of 23.0 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 2012 of SAR 7.9. This has resulted in an unrealised loss of SAR 122.4 million which is shown within other reserves in Shareholders' Equity. On 14 Shabaan 1433 A.H. (4 July 2012), the Board of Directors' of Zain agreed to decrease the share capital from SR 14.0 billion to SR 4.8 billion and accordingly to decrease the number of shares from 1.4 billion to 480.1 million to offset the Company's accumulated deficit up to 30 September 2011. As a result the Company's shares in Zain decreased from 35.0 million shares to 12.0 million shares. Further, the founding shareholders of Zain agreed to convert their respective founding Shareholders' loans from debt into equity by way of a rights issue from Zain. The increased share capital has also been pledged for and on behalf of the preferred creditors. This resulted in the number of shares increasing from 12.0 million shares to 23.0 million shares.

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

9. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings [(a)]	Plant, Machinery & Equipment	Motor Vehicles	Capital Work-in-Progress [(b)]	Total 2012	Restated Total 2011
	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000
Cost						
At the beginning of the year (Restated)	4,429,812	5,540,974	1,237,147	3,188,844	14,396,777	11,141,206
On acquisition of subsidiaries	353,724	428,763	51,124	38,889	872,500	363,504
Additions during the year	-	-	-	3,213,069	3,213,069	3,035,332
Transfers during the year	696,945	1,163,733	387,475	(2,248,153)	-	-
Disposals during the year	(10,755)	(137,862)	(110,676)	-	(259,293)	(202,739)
Reclassification	-	-	-	-	-	59,474
At the end of the year	**5,469,726**	**6,995,608**	**1,565,070**	**4,192,649**	**18,223,053**	**14,396,777**
Accumulated Depreciation						
At the beginning of the year	769,879	2,478,544	640,173	-	3,888,596	3,274,567
On acquisition of subsidiaries	34,574	173,521	23,936	-	232,031	9,507
Depreciation for the year	170,438	569,394	185,029	-	924,861	732,730
Disposals during the year	(5,055)	(130,887)	(102,329)	-	(238,271)	(187,682)
Reclassification	-	-	-	-	-	59,474
At the end of the year	**969,836**	**3,090,572**	**746,809**	**-**	**4,807,217**	**3,888,596**
Net Book Value						
At 31 December 2012	**4,499,890**	**3,905,036**	**818,261**	**4,192,649**	**13,415,836**	
At 31 December 2011 (Restated)	**3,659,933**	**3,062,430**	**596,974**	**3,188,844**		**10,508,181**

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

(b) Capital Work-in-Progress includes SAR 75.1 million of borrowing costs capitalised during the year (2011: SAR 56.7 million).

10. BIOLOGICAL ASSETS

	Mature Dairy	Immature Dairy	Mature Poultry	Immature Poultry	Mature Plantations	Immature Plantations	Total 2012	Total 2011
	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000
Cost								
At the beginning of the year	716,131	313,861	10,330	3,959	35,577	9,704	1,089,562	1,033,156
On acquisition of subsidiaries	25,475	-	-	-	-	-	25,475	916
Additions during the year	188	-	-	42,654	-	1,380	44,222	19,358
Appreciation	76	351,468	-	-	-	-	351,544	337,047
Transfers during the year	258,800	(258,800)	27,237	(27,237)	2,134	(2,134)	-	-
Disposals during the year	(205,213)	(81,302)	(25,964)	-	-	-	(312,479)	(303,265)
Reclassification	-	-	-	-	-	-	-	2,350
At the end of the year	**795,457**	**325,227**	**11,603**	**19,376**	**37,711**	**8,950**	**1,198,324**	**1,089,562**
Accumulated Depreciation								
At the beginning of the year	262,749	-	4,140	-	5,055	-	271,944	263,651
On acquisition of subsidiaries	2,637	-	-	-	-	-	2,637	-
Depreciation for the year	119,826	-	20,276	-	734	-	140,836	123,411
Disposals during the year	(97,094)	-	(21,028)	-	-	-	(118,122)	(117,468)
Reclassification	-	-	-	-	-	-	-	2,350
At the end of the year	**288,118**	**-**	**3,388**	**-**	**5,789**	**-**	**297,295**	**271,944**
Net Book Value								
At 31 December 2012	**507,339**	**325,227**	**8,215**	**19,376**	**31,922**	**8,950**	**901,029**	
At 31 December 2011	**453,382**	**313,861**	**6,190**	**3,959**	**30,522**	**9,704**		**817,618**

11. INTANGIBLE ASSETS – GOODWILL

	2012	Restated Note 4 2011
	SAR '000	SAR '000
Western Bakeries and International Baking Services (WB & IBS)	548,636	548,636
HADCO	244,832	244,832
Fondomonte	27,795	27,795
IDJ	514,192	-
Total	1,335,455	821,263

The goodwill noted above arises from the acquisition of Western Bakeries Limited and International Baking Services Limited in 2007, HADCO in 2009, Fondomonte in 2011 and IDJ in 2012 ("the Subsidiaries").

Goodwill is subject to annual impairment testing. Western Bakeries and International Baking Services Limited form part of the Bakery Products reporting segment, HADCO represents part of both the Arable and Horticulture reporting segment and the Poultry reporting segment while Fondomonte forms part of the Arable and Horticulture reporting segment. IDJ falls under the dairy and juice reporting segment.

Assets are tested for impairment by comparing the residual 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 8.9% and 15.1% 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. The recoverable amount for Fondomonte 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 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 and International Baking Services

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 the key assumptions are discussed below.

(a) Sales Growth Assumption

The current sales growth in 2012 is 20% and in the forecast period has been estimated to be a compound annual growth of 16%. All other assumptions kept the same; a reduction of this growth rate to 12% would give a value in use equal to the current carrying amount.

(b) Cost of Sales Inflation

The current cost of sales in 2012 is 55% and in the forecast period has been estimated at an average of 55%. All other assumptions kept the same; an increase in the rate to an average of 68% 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 14.7. All other assumptions kept the same; a reduction of this multiple to 0.8 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 the key assumptions are discussed below.

(a) Sales Growth Assumption

The current sales growth in 2012 is 58% and in the forecast period has been estimated to be a compound annual growth of 43%. All other assumptions kept the same; a reduction of this growth rate to 38% would give a value in use equal to the current carrying amount.

(b) Cost of Sales Inflation

The current cost of sales in 2012 is 48% and in the forecast period has been estimated at an average of 48%. All other assumptions kept the same; an increase in the rate to an average of 63% 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 20.8. All other assumptions kept the same; a reduction of this multiple to 6.4 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 the key assumptions are discussed below.

(a) Sales Growth Assumption

The current sales growth in 2012 is 27% and in the forecast period has been estimated to be a compound annual growth of 26%. All other assumptions kept the same; a reduction of this growth rate to 25% would give a value in use equal to the current carrying amount.

(b) Cost of Sales Inflation

The current cost of sales in 2012 is 73% and in the forecast period has been estimated at an average of 72%. All other assumptions kept the same; an increase in the rate to an average of 78% 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 16.5. All other assumptions kept the same; a reduction of this multiple to 7.9 would give a value in use equal to the current carrying amount.

Key Assumptions Used in Fair Value Calculations

The recoverable amount for Fondomonte 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 arms length transaction between knowledgeable, willing parties, less the costs of disposal".

Management has reviewed the carrying value of Fondomonte and its underlying assets internally. Based on the current price of cereal grains the market value of these assets is determined to be at least equal to their carrying value.

12. TERM LOANS

	2012	2011
	SAR '000	SAR '000
Islamic Banking Facilities (Murabaha)	6,402,409	5,980,116
Saudi Industrial Development Fund	974,219	941,048
Other Banking Facilities	275,807	-
Agricultural Development Fund	2,126	4,000
	7,654,561	6,925,164
Sukuk	1,000,000	-
	8,654,561	6,925,164

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

B. The borrowings of the Group from the Saudi Industrial Development Fund are secured by a mortgage on specific assets amounting to SAR 974.2 million as at 31 December 2012 (2011: SAR 941.0 million).

C. The other banking facilities represent borrowings of foreign subsidiaries from foreign banking institutions.

D. On 14 Rabi Thani 1433 A.H. (7 March 2012), the Company issued its first Sukuk amounting to SAR 1 billion at a par value of SAR 1,000,000 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 30 Jumad Thani 1440 (7 March 2019).

   As per the terms of the arrangement, the Company is entitled 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.

E. Maturity of Financial Liabilities:

	Facilities available at 31 December 2012	Outstanding Term Loans 2012	2011
	SAR '000	SAR '000	SAR '000
Less than one year	1,138,512	1,399,818	1,208,501
One to two years	5,027,068	2,683,756	2,844,583
Two to five years	3,776,569	3,383,747	2,838,080
Greater than five years	2,067,240	1,187,240	34,000
Total	12,009,389	8,654,561	6,925,164

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

During 2012 the group secured an additional SAR 1,800 million of Islamic Banking Facilities (Murabaha) with maturities Greater than five years (2011: SAR 1,800.0 million with maturities between three to five years).

As at 31 December 2012 SAR 2,658.3 million Islamic Banking Facilities (Murabaha) were unutilized and available for drawdown (2011: SAR 2,435.5 million).

As at 31 December 2012 the Group had SAR 972.3 million of unutilized SIDF facilities available for draw down with maturities predominantly greater than five years (2011: SAR 398.4 million).

13. PAYABLES AND ACCRUALS

		2012	Restated 2011
		SAR '000	SAR '000
Trade Accounts Payable	- Third Parties	1,429,075	851,390
	- Related Parties (Refer note 27)	38,465	13,971
Other Payables		636,797	584,519
Zakat and Income Tax Provision (Refer note 20)		72,238	65,892
Total		2,176,575	1,515,772

14. SHARE CAPITAL

The Company's share capital at 31 December 2012 amounted to SAR 4,000.0 million (2011: SAR 2,300.0), consisting of 400 million (2011: 230 million) fully paid and issued shares of SAR 10 each.

On 10 Jumad Awal 1433 A.H. (2 April 2012) the Extraordinary General Assembly Meeting approved an increase in the share capital from SAR 2,300.0 million to SAR 4,000.0 million through the distribution of 1 bonus share for each 1.353 outstanding shares for existing shareholders at the end of the trading on the same day. All legal formalities to effect this increase have been completed.

15. 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, arable and horticultural products as well as other activities. Other activities include the investments in Zain and infant nutrition. Selected financial information as of 31 December 2012 and 2011 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 2012						
Sales	7,988,406	1,290,645	504,350	386,032	-	10,169,433
Third Party Sales	7,972,686	1,290,645	504,350	115,315	-	9,882,996
Depreciation	(481,331)	(114,150)	(50,340)	(68,332)	-	(714,153)
Share of Results of Associates and Joint Ventures	(6,740)	-	4,297	-	(22,140)	(24,583)
Income before Minority	1,371,771	171,820	(96,800)	30,880	(37,761)	1,439,910
Share of Net Assets in Associates and Joint Ventures	204	-	36,886	-	11,679	48,769
Additions to Non-Current Assets	2,594,310	180,457	1,833,192	21,568	109,327	4,738,854
Non-Current Assets	8,184,108	1,786,704	3,559,923	1,433,157	993,733	15,957,625
Total Assets	11,046,963	2,002,505	3,728,592	1,736,202	1,004,386	19,518,648
Total Liabilities	(10,050,022)	(233,468)	(287,503)	(243,693)	(532,972)	(11,347,658)
31 December 2011 (Restated)						
Sales	6,606,206	1,037,019	319,210	321,531	-	8,283,966
Third Party Sales	6,592,805	966,374	319,210	72,600	-	7,950,989
Depreciation	(331,114)	(90,278)	(39,006)	(58,696)	-	(519,094)
Share of Results of Associates and Joint Ventures	(23,985)	-	5,098	-	(23,411)	(42,298)
Impairment Loss	-	-	-	-	(160,237)	(160,237)
Income before Minority	1,204,680	118,032	(33,478)	52,658	(194,955)	1,146,937
Share of Net Assets in Associates and Joint Ventures	489,704	-	34,723	-	10,318	534,745
Additions to Non-Current Assets	1,561,970	242,548	1,184,266	502,171	313,661	3,804,616
Non-Current Assets	7,046,843	1,745,506	1,769,980	1,471,062	1,030,193	13,063,584
Total Assets	9,064,765	1,920,117	1,937,961	1,699,573	1,034,010	15,656,426
Total Liabilities	(7,676,394)	(281,452)	(187,144)	(205,317)	(528,467)	(8,878,774)

The business activities and operating assets of the Group are mainly concentrated in GCC countries, and selected financial information as at 31 December 2012 and 2011 and for the years then ended, categorized by these geographic segments are as follows:

	Sales	Non-Current Assets
	SAR '000	SAR '000
2012		
Saudi Arabia	6,650,596	14,053,017
Other GCC Countries	2,575,357	300,535
Other Countries	657,043	1,604,073
Total	9,882,996	15,957,625
2011 (Restated)		
Saudi Arabia	5,656,415	12,003,293
Other GCC Countries	2,198,470	169,940
Other Countries	96,104	890,351
Total	7,950,989	13,063,584

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

	2012	2011
	SAR '000	SAR '000
Fresh Dairy	4,062,057	3,475,719
Long Life Dairy	1,016,232	761,135
Fruit Juice	1,243,222	888,110
Cheese & Butter	1,601,811	1,446,635
Bakery	1,290,645	966,374
Poultry	504,350	319,210
Arable and Horticulture	115,315	72,600
Other Dairy	49,364	21,206
Total	9,882,996	7,950,989

16. COST OF SALES

	2012	2011
	SAR '000	SAR '000
Direct Material Costs	4,403,588	3,515,647
Government Grants	(124,388)	(82,212)
Employee Costs	725,392	557,932
Share Based Payment Transaction Expense	3,024	504
Depreciation of Property, Plant and Equipment	728,881	572,413
Depreciation of Biological Assets	140,836	123,411
Biological Asset Appreciation	(351,544)	(337,047)
Loss on Sale of Biological Assets	46,758	62,151
Other Expenses	799,372	541,670
Total	6,371,919	4,954,469

17. SELLING AND DISTRIBUTION EXPENSES

	2012 SAR '000	2011 SAR '000
Employee Costs	756,460	583,209
Share Based Payment Transaction Expense	1,902	306
Marketing Expenses	487,159	397,345
Depreciation of Property, Plant and Equipment	164,362	137,747
Other Expenses	206,866	94,625
Total	1,616,749	1,213,232

18. GENERAL AND ADMINISTRATION EXPENSES

	2012 SAR '000	2011 SAR '000
Employee Costs	287,979	211,089
Share Based Payment Transaction Expense	1,300	217
Insurance	23,710	22,566
Depreciation of Property, Plant and Equipment	31,618	22,570
Profit on Sale of Property, Plant and Equipment	(77,122)	(8,471)
Other Expenses	(46,083)	17,707
Total	221,402	265,678

19. EMPLOYEE STOCK PARTICIPATION PROGRAM

The Company will offer certain employees (the "Eligible Employees") the option (the "Option") for equity ownership ("Restricted Shares") opportunities and performance based incentives which will result in more alignment between the interest of both shareholders and these employees.

The number of Restricted Shares shall not exceed 1,913,043 shares. 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.

The program is effective after adoption by the Board of Directors (the "Effective Date"), on 4 Thul Quada 1432 A.H. (1 October 2011). The program shall continue for a period of three years from the date of its adoption by a resolution of the Board and shall automatically renew in successive three year periods unless otherwise terminated by a resolution of the Board.

As the Eligible Employees have the option to purchase the Restricted Shares on their respective award dates in exchange for cash at a predetermined price, provided vesting conditions are met, this is regarded as an equity settled share based payment transaction.

The vesting of the Option is dependent on meeting or exceeding the requisite annual performance targets set by the Company in accordance with its five year plan. The exercise of the Option is contingent upon the shares of the Company continuing to be listed on the Saudi Stock Exchange.

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 fair value of the Option is 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.

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

	2012	2011
Outstanding at 1 January	1,845,217	-
Granted during the year	-	1,845,217
Forfeited during the year	(17,391)	-
Outstanding at 31 December	1,827,826	1,845,217

Exercise price is SAR 50.74 in the program.

The weighted average remaining contractual life for the options outstanding at 31 December 2012 is 1.2 years (2011: 2.2 years). The weighted average fair value of options granted during the year was SAR nil (2011: SAR 12.5 million).

The following table list the inputs to the model used for the determination of the fair value of the Options for the year ended 31 December 2012:

	2012	2011
Dividend yield (%)	2.5%	2.5%
Expected volatility (%)	20.9%	20.9%
Risk free interest rate (%)	5.0%	5.0%
Expected life of share options (years)	1.2	2.2
Weighted average share price (SAR)	50.74	50.74
Model used	Black Scholes Merton	

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.

20. ZAKAT AND INCOME TAX

A. Zakat is charged at the higher of net adjusted income or Zakat base as required by the Department of Zakat and Income Tax (DZIT). In the current year, the Zakat charge is based on the net adjusted income method.

	2012 SAR '000	2011 SAR '000
Zakat Charge	44,067	28,993
Income Tax Expense for Foreign Subsidiaries	6,879	4,180
Charged to Consolidated Statement of Income	50,946	33,173

B. **Zakat and Income Tax Provisions**

	2012	2011
Balance at 1 January	65,892	65,236
Charged to Consolidated Statement of Income	50,946	33,173
Payments	(44,613)	(32,517)
On acquisition of subsidiarires	13	-
Balance at 31 December	72,238	65,892

C. The Company has filed its Zakat returns for all the years up to 2011 and settled its Zakat liabilities accordingly. The Zakat assessments have been agreed with the DZIT for all the years up to 2006 while the 2007 to 2011 Zakat returns are still under review by the 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 while the 2003 to 2008 Zakat returns are still under review by the DZIT. From 2009 onwards HADCO is not required to file a return as results are consolidated in to the Group's return.

21. EARNINGS PER SHARE

Earnings per Share are calculated on the weighted average number of issued shares at 31 December 2012 and 31 December 2011 amounting to 400 million shares. The weighted average number of shares of issued shares has been retrospectively adjusted for the prior period to reflect the effect of the bonus share issue.

22. DEPRECIATION AND DISPOSAL OF ASSETS

	2012 SAR '000	2011 SAR '000
A. Depreciation		
Property, Plant and Equipment		
Depreciation	924,861	732,730
Biological Assets		
Depreciation of Biological Assets	140,836	123,411
Biological Assets Appreciation	(351,544)	(337,047)
Net Biological Assets Appreciation	(210,708)	(213,636)
Total	714,153	519,094
B. (Profit)/Loss on the Sale of Assets		
Property, Plant & Equipment		
Proceeds from the Sale of Property, Plant and Equipment	(98,144)	(23,528)
Net Book Value of Property, Plant and Equipment Sold	21,022	15,057
Profit on Sale of Property, Plant and Equipment	(77,122)	(8,471)
Biological Assets		
Proceeds from Sale of Biological Assets	(147,599)	(123,646)
Net Book Value of Biological Assets Sold	194,357	185,797
Loss on Sale of Biological Assets	46,758	62,151
Total	(30,364)	53,680

23. 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 6,402.4 million at 31 December 2012 (2011: SAR 5,980.1 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
2012	SAR	+30	(20,035)
	SAR	-30	20,035
2011	SAR	+30	(17,910)
	SAR	-30	17,910

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 British Pounds. Other transactions in foreign currencies are not material.

The outstanding foreign currency forward purchase agreements were as follows:

	2012	2011
	SAR '000	SAR '000
Euro	1,002,025	993,670
United States Dollar	734,699	1,320,478
Great British Pound	115,640	61,437
Other	49,058	46,249
Total	1,901,422	2,421,834

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.

The following analysis calculates 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
2012	+10%	(15,753)
	-10%	15,753
2011	+10%	(14,369)
	-10%	14,369

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 accounts receivable 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 27% of outstanding accounts receivable at 31 December 2012 (2011: 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.

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 2012 were 22 days (2011: 24 days). Trade payables are typically settled on a terms basis, the average payables outstanding for 2012 were 67 days (2011: 57 days).

24. 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 2012 the Group had 19 commission rate swap agreements in place covering total notional amounts of SAR 1,450 million and US$ 210 million. At 31 December 2011 the Group had 15 commission rate swap agreements in place covering total notional amounts of SAR 800 million and US$ 210 million. Four new commission rate swaps were taken in 2012 for notional amount of SAR 600 million.

The swaps result in the Group receiving floating SIBOR / US$ LIBOR rates while paying fixed rates of commission or floating US$ LIBOR rates under certain conditions. One had a deferred start of 12 month and another one had a deferred start of 15 months from trade date with total exposure of SAR 200 million. The swaps are being used to hedge the exposure to commission rate changes of the Group's Islamic borrowings. One of the contracts had an option of increasing the notional amount by SAR 50 million on the start date, which was exercised.

At 31 December 2012 and 2011 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 15 months.

All 2012 hedges were considered highly effective and the net gain on cash flow hedges during the year recognised in Other Reserves within equity was SAR 28.2 million (2011: net loss of SAR 23.7 million).

25. COMMITMENTS AND CONTINGENCIES

A. The contingent liabilities against letters of credit are SAR 233.2 million at 31 December 2012 (2011: SAR 342.2 million).

B. The contingent liabilities against letters of guarantee are SAR 381.1 million at 31 December 2012 (2011: SAR 183.0 million).

C. The Company had capital commitments amounting to SAR 1,699.1 million at 31 December 2012 in respect of ongoing projects (2011: SAR 1,930.6 million). The majority of the capital commitments are for new production facilities, sales depot development, distribution fleet, fridges and information technology.

D. Commitments under operating leases expire as follows:

	2012	2011
	SAR '000	SAR '000
Within one year	91,635	72,581
Two to five years	67,217	78,137
After five years	22,821	45,183
Total	181,673	195,901

26. DIRECTORS REMUNERATION

The Directors' remuneration paid to the Board of Directors for year ended 31 December 2012 amounted to SAR 6.6 million (2011: SAR 6.6 million).

27. 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 2012 and 31 December 2011 along with their balances:

Nature of Transaction	Amount	Balance at 31 December
	SAR '000	SAR '000
2012		
Sales	(406,691)	72,736
Purchases	344,568	(38,465)
2011		
Sales	(444,510)	37,781
Purchases	276,022	(55,917)

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

Entity	Relationship
Savola Group	Major Shareholder
Arabian Shield Cooperative Insurance Company	Common Ownership
Managed Arable Farms	Common Ownership
Pure Breed Company	Investment in Associate
International Pediatric Nutrition Company	Investment in Joint Venture

28. DIVIDENDS APPROVED AND PAID

On 10 Jumad Awal 1433 A.H. (2 April 2012) the General Assembly Meeting approved a dividend of SAR 517.5 million (SAR 2.25 per share based on 230 million shares) for the year ended 31 December 2011, which was paid on 19 Jumad Awal 1433 A.H. (11 April 2012).

29. DIVIDENDS PROPOSED

The Board of Directors proposes for approval at the General Assembly Meeting a dividend for the year ended 31 December 2012 of SAR 500.0 million (SAR 1.25 per share based on 400 million shares).

30. 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.

31. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors on 5 Rabi Awal 1434 A.H. (17 January 2013).