Almarai Company

Annual Report 2005

2005 at a glance

Sales
Increased by 14% to SAR 2,146 million

Net Profit
Increased to SAR 386 million

Commercial Borrowings
Converted all commercial borrowings to Islamic borrowings (Murabaha)

Initial Public Offering
Successfully floated 30% of the Company's Share Capital on the Saudi Stock Exchange

New Production Facility
Completed the construction of our second production facility at a cost of SAR 700 million

Sales Distribution Network
We now operate 31 Sales Depots – 22 in Saudi Arabia and 9 in the other GCC countries – delivering to over 27,000 retail customers daily

Employees
Employ over 5,685 of which approximately 1,500 are GCC nationals

contents

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to our esteemed shareholders

It gives us great pleasure to write to you in this, the first Annual Report of Almarai Company, which comes after 30 years of the Company's foundation. We have achieved a significant amount in 2005; a record net profit of SAR 386 million and net assets amounted to over SAR 1,429 million.

Indeed, 2005 has been a significant year for Almarai. Our sales figures this year amounted to SAR 2,146 million, representing an increase of 14% compared to last year; giving you an ongoing assurance that your Company continues to grow from strength to strength.

In August this year, the Company placed 30% of its paid-up share capital on the Saudi Arabian Stock Exchange. Since then, the shareholders have approved to increase the Company's paid-up capital by 33% from SAR 750 million to SAR 1 billion, by granting one free share for every 3 shares held. The floatation of Almarai's shares on the stock exchange gave many people the opportunity to own a part of their favourite dairy company. We are also delighted to see the confidence and faith that the public have in our Company, a fact made apparent by the phenomenal over-subscription of our shares.

In recent years, we have continued to make substantial investments in each Division of the business, purchasing state-of-the-art assets whilst also investing in our key asset – our people.

The Board is committed to the continued success of Almarai and to meet shareholders expectations and consumer needs. We are also fully committed and stand by our slogan "Quality You Can Trust"

Finally, we would like to thank all Almarai employees for their timeless effort and excellent achievements.

Board Of Directors
24 January 2006

an overview of the company

The Almarai success story unfolded in 1976, when HH Prince Sultan bin Mohammed bin Saud Al Kabeer recognised the potential to transform traditional dairy farming in Saudi Arabia in order to meet the needs of a burgeoning domestic market. Under his visionary guidance and patronage, numerous agricultural projects were developed towards achieving this objective, and what began with the processing of fresh milk and laban soon expanded into modern dairy farms and state-of-the-art processing plants.

In 1991, having already achieved significant market leadership, Almarai entered a Restructuring and Reinvestment Phase. Recognising the long-term strategic competitive advantages, Almarai also undertook a major investment programme involving a total capital expenditure in excess of SAR 1,100 million between the years 1993 and 1997. It was during this period that the first Central Processing Plant was commissioned with a large capacity potential for both existing and new products whilst allowing room for further expansion in the years to come. Almarai also set up four large dairy farms, each with capacity for 10,000 animals; these were built and equipped with the latest technology.

By 1998, Almarai entered the Growth and Utilising Competitive Advantages Phase with a strengthened market leadership position and consequently as a low-cost producer achieving remarkable margins and profitability, the Company was now in a strong position to face an increasingly competitive market situation.

Between 2002 and 2005 Almarai has invested more than SAR 3,000 million in the expansion of its farming, operations and distribution activities. The most significant development has been the commencement of its second production facility (CPP2) at a cost of approximately SAR 700 million. This facility which was completed in 2005 consists of three production facilities: for fresh dairy liquid, fruit juices and cheese. Utilizing modern storage technologies and sophisticated processing facilities, this new facility has been designed to deliver long-term benefits to the business.

One of the mainstays of its success is the Company's unique ability to maintain and deliver high quality products. With this intrinsic attribute combined with a strong understanding of consumer tastes and preferences - acquired through intensive consumer research - Almarai today continues to establish itself as a leader in dairy and dairy-related sectors in the GCC countries.

anoverviewofthecompany

Today, Almarai is an integrated organisation spanning the food supply chain from dairy farms through to retail stores. The Company markets a range of food and beverage products under the Almarai brand, principally through retail outlets. The product range includes fresh and long-life dairy products, which are made primarily from fresh milk, as well as fruit juices, cheese, butter and a range of non-dairy products.

vision statement

To be the preferred choice in food products, promoting nutrition, health and well being in the GCC.

mission statement

Almarai will constantly exceed consumer expectations by providing the highest quality food products and superior customer service through continuous development and investment in its human and technical resources.

board of directors report

To our esteemed shareholders,

2005 has been a year of challenges and successes for Almarai; we have continued to increase our profits for the last fifteen years. It has been a year in which the foundations for continued growth have been laid.

The Company achieved record sales of SAR 2,146 million and a net income of SAR 386 million, a significant increase of 14% and 4% respectively over last year's figures. These substantial results were achieved despite the Company absorbing a 5% increase in Direct Material Costs; had these costs remained in line with the increase in sales, or had they been passed on to our customers, we would have achieved an increase in net profit of 14% on last year.

2005: A Productive Year

Almarai witnessed some of the most significant business developments in 2005. In August, we successfully floated 30% of the Company's Share Capital on the Saudi Stock Exchange; we would like to take this opportunity to thank all those involved for their invaluable contribution and tireless efforts in making this possible. We presented our first quarterly results to Tadawul in October 2005, and are delighted to note that despite the increase in responsibilities and workload the Company has made a smooth transition from a private company to a public company. The Company reached yet another significant milestone at an Extraordinary General Assembly Meeting held in December 2005, where our Shareholders approved the distribution of a bonus issue of shares. By granting one free share for every 3 shares held, the Company's paid-up capital increased by one third - from SAR 750 million to SAR 1 billion. We would like to thank our Shareholders for their farsightedness and overwhelming response.

Amongst other significant developments in 2005 was the construction of our latest farming project, the Al Badiah Super Farm, which has the capacity to accommodate 15,000 milking cows and 12,500 youngstock. In addition to this, and in anticipation of future growth, the Company also acquired a new site with similar capacity, Al Danah Super Farm; the first phase of this project is to be completed in early 2007.

2005 also witnessed the consolidation of our processing and distribution facilities through the completion of our second production facility, the Central Processing Plant 2, at a total cost of approximately SAR 700 million. Located on the same site as Central Processing Plant 1, approximately 130 kilometres from Riyadh, Central Processing Plant 2 consists of three new production facilities: for fresh dairy liquid, fruit juices and cheese. Utilizing modern storage technologies and sophisticated processing facilities, this new facility has been designed to deliver long-term benefits to the business. In addition to this, the Company has also installed a state-of-the-art Automated Storage and Retrieval System (ASRS) with a remarkable capacity to store up to 15,000 pallets of products. The new facility also has the infrastructure to support transportation and distribution activities.

المراعي
Almarai

Yet another ambitious venture was launched in September 2005, when Almarai introduced PET bottles in the Saudi Arabian and other GCC markets, following the successful launch of PET bottles in the UAE and Oman markets in 2004. As market leader, we are the first dairy company to launch such a major initiative in Saudi Arabia, and we believe that we have set the trend and the standards for others to follow. 2005 also witnessed the expansion of our excellent Sales Distribution Network with the opening and redevelopment of our depots. We now operate 31 Sales Depots - 22 in Saudi Arabia and 9 in the other GCC countries - delivering to over 27,000 retail customers and making more than 100,000 individual calls every week. The number of distribution vehicles to service the expansion was increased by 15%.

Significant investments were also made in the retail arena in 2005. We increased the number of fresh dairy display coolers placed with our retail customers. Special emphasis was placed on placing these coolers in prime positions in outlets, thus ensuring ‘first-in-floor’ positioning ahead of the chilled soft drinks.

In 2005, a major change took place in the marketplace with the continued expansion of large multinational and local retailers. Recognising this development, the Company established a dedicated Key Account Customer Team and provided them with all the support and resources they need to respond effectively to the ever-changing needs of our consumers.

We operate in the GCC countries (except for Bahrain and Oman) through distribution agreements, which are managed by us. On 1 January 2005, we commenced trading in Bahrain through a subsidiary, Almarai Bahrain W.L.L.. During the year, we commenced the process of establishing a subsidiary in Oman. This company, Arabian Planets for Trade and Marketing LLC was established in May and started trading in June. These transitions were managed very successfully.

As part of our growth strategy and to meet our increased demand for raw milk, we acquired the Riyadh Dairy and Green Dairy Farms during the year.

Almarai continues to be the largest dairy company in the Middle East. In 2005, as part of our expansion plans, the Company also witnessed an increase in the total workforce to 5,685 employees. In light of this, we were honoured to receive the HRH Prince Naif bin Abdulaziz Award for achieving the highest Saudisation targets in our industry.

As we look back at a glorious past and towards a promising future, we reiterate our commitment to continue to develop new products and seek new business opportunities with the objective of increasing Stakeholders wealth and offering improved products and services to our customers and consumers. To this end, we have approved further capital expenditure of approximately SAR 500 million for our Farming and Operations Divisions and the expansion of our Sales Distribution Network.

This will complete the Company's Capital Expenditure Program of over SAR 2.5 billion that was presented and subsequently approved by us in June 2002.

We are confident that with the favourable and productive economic environment of Saudi Arabia and the GCC, and the visionary initiatives undertaken by Almarai in 2005, we will continue to excel on the path to progress and we look forward to even more successful years ahead.

We take this opportunity to thank our Management Team and their staff for their continued support, dedication and commitment to the development of the Company, and we look forward with renewed confidence to another promising year of meeting and exceeding our Shareholders' expectations.

Board Of Directors
24 January 2006

board of directors

HH Prince Sultan bin Mohammed bin Saud Al Kabeer
Chairman of the Board

Holds a Bachelor Degree in Economics and Political Science from King Saud University, Saudi Arabia. He is also Chairman of the Board of Arabian Union for Cement Industries, Al Mashreq Commercial and Contracting Company, Samamah Company and Arabian Shield Insurance Company EC. He is the Managing Director of Yamama Cement Company, Board Member of ARASCO and Al Farabey Chemical Company Limited, founding member of Kingdom Schools, and a member of the Council of Trustees of King Abdulaziz of Men Foundation for Supporting the Talents, Board of Equestrian Club and the Board of Graduates Committee for Maahad Al Asima Al Namouthaji Institute.

Dr. Abdulraouf M. Mannaa
Director

Holds a Bachelor Degree in Mechanical Engineering from King Fahd University of Petroleum and Minerals in Saudi Arabia, in addition he holds a Master's Degree and a Ph.D. in Mechanical Engineering from California University, Berkley, USA and Washington University, Seattle, USA respectively. He joined Savola Group in 1990 and is currently the Managing Director of the Savola Group. He is also Managing Director of Savola Egypt Sime and Chairman of Savola in Morocco, Sudan, Kazakhstan, Jordan and Iran.

Abdulrahman bin Abdulaziz Al Muhanna
Managing Director

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

Mohammed Al Damer
Director

Holds a Bachelor Degree in Political Science from the University of the Pacific in Stockton, California, USA. He worked with the Ministry of Foreign Affairs from 1976 to 1981. He is active in businesses specializing in stocks and real estate. He is the Founder and Chairman of Mirnah Technology Limited, an Information Technology solutions company founded in 1992.

Nasser Al Muttawa
Director

Holds a Bachelor Degree in Civil Engineering from Marquette University, California, USA. He has worked in the Government sector from 1973 to 1979 and in the private sector from 1980 to present. He has major business interests in various companies in the Middle East. He is also an active member of charitable organisations such as Saudi Orphans Foundation, The Handicapped Children Foundation, The Patients Friends Foundation, The Taibah Charity Foundation and The Saudi Red Crescent Foundation.

HH Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer
Director

A business administration graduate of King Saud University, Saudi Arabia, is Chairman of Projects and Technical Contracting Corporation and a director of the Savola Group.

Dr. Majed M. Al Gassabi
Director

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

Ibrahim M. Alissa
Director

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

key milestones

With a commitment to optimise the Shareholders' value in the Company, and a vision to establish and strengthen our position as the leader in the dairy and dairy-related sectors in the Middle East, we had set towering goals for our Company to achieve throughout 2005. Today, having ended the fiscal year of 2005, we look back with pride on our major achievements, and are confident that they will provide us with the impetus to outperform ourselves in the year ahead. Some of the milestone achievements in 2005 are listed below.

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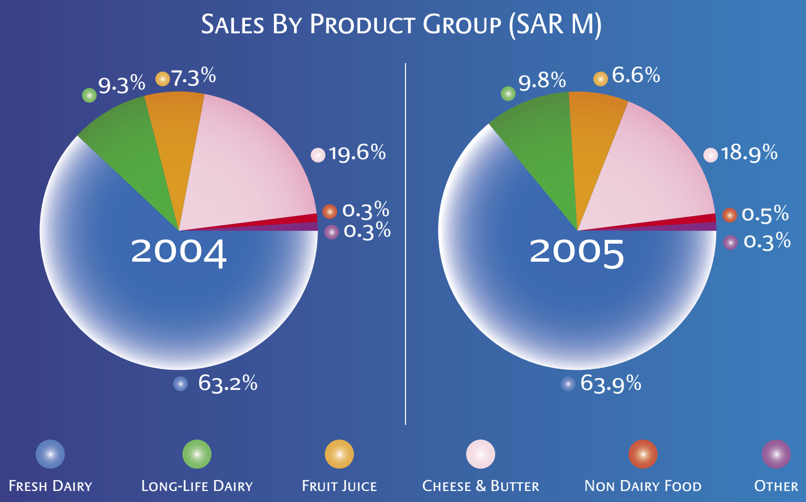
- Almarai achieved record sales of SAR 2,146 million and a net income of SAR 386 million.
- Almarai successfully floated 30% of its paid-up capital on the Saudi Arabian Stock Exchange.
- The Company reached yet another significant milestone at an Extraordinary General Assembly Meeting held in December 2005, where our Shareholders approved the distribution of a bonus issue of shares. By granting one free share for every 3 shares held, the Company's paid-up capital increased by one third - from SAR 750 million to SAR 1 billion.
- During the year, we converted all of our commercial borrowings to Islamic borrowings (Murabaha)
- Almarai continues to be the largest dairy company in the Middle East and now employs over 5,685 employees. In light of this, we were honoured to receive the HRH Prince Naif bin Abdulaziz Award for achieving the highest Saudisation targets in our industry.
- Almarai's Board of Directors have approved further capital expenditure of approximately SAR 500 million for our Farming and Operations Divisions and the expansion of our Sales Distribution Network. This will complete the Company's Capital Expenditure Program of over SAR 2.5 billion that was presented and subsequently approved by the Board of Directors in June 2002.
- Almarai completed the construction of the Al Badiah Super Farm and in anticipation of future growth acquired a new site for our new Al Danah Super Farm.
- Almarai completed the construction of our second production facility, Central Processing Plant 2 at a total cost of approximately SAR 700 million, thus consolidating its production and long-haul distribution facilities.
- As market leader Almarai was the first dairy Company to introduce PET bottles in the Saudi Arabian and other GCC markets, following their successful launch in the UAE and Oman markets in 2004.
- Almarai expanded its excellent Sales Distribution Network with the opening and redevelopment of our sales depots. We now operate in 31 Sales Depots – 22 in Saudi Arabia and 9 in the other GCC countries. We now deliver to over 27,000 retail customers and make over 100,000 individual calls per week.
- As part of its growth strategy and to meet the increased demand for fresh raw milk Almarai acquired the Riyadh Dairy and Green Dairy Farms during the year.
- In November 2005, Almarai was awarded with the International European Award (New Millenium Award) for Quality.

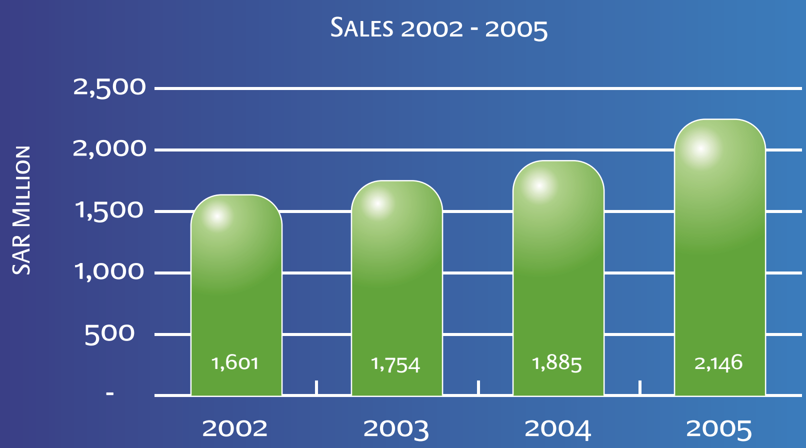
management discussion and analysis

Our Sales for 2005 amounted to SAR 2,146.1 million, which represents an increase of 13.8% on the previous year.

This exceptional growth is mainly attributed to the strength of the Almarai brand, the quality of our product and the initiatives launched in 2005, such as route expansion, the investment and placement of fresh dairy display coolers and the introduction of new PET bottles.

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





Fresh Dairy

Fresh dairy includes short-life products made with locally produced fresh raw milk, of which we produce in excess of 90% of our requirements. Our range includes fresh laban, milk, natural and fruit yoghurts, fresh cream and dairy desserts.

Sales for our fresh dairy products, which is the largest product category, amounted to SAR 1,370.9 million, which represents an increase of 15.1% on the previous year.

Long-life Dairy

Long-life dairy, also made from locally produced raw milk, includes UHT milk and cream, evaporated milk and sterilised cream.

Sales for long-life dairy amounted to SAR 209.9 million, which represents an increase of 19.8% on the previous year.

Fruit Juice

The fruit juice market has proven to be very competitive in recent years, and in response to competitor activity, our average sale prices have fallen. However, we have been able to maintain our market share across the GCC.

Sales for fruit Juice amounted to SAR 142.4 million, which represents an increase of 3.3% on the previous year.

Cheese and Butter

Sales from cheese and butter have grown dramatically, driven in particular by the successful revitalisation of the processed cheese range and 'value for money' pricing. Our cheese and butter prices are, however, heavily influenced by world dairy commodity prices, which have increased our costs and consequently, reduced our profits in this product category. As of today, these costs have been absorbed by the Company.

Sales for cheese and butter amounted to SAR 405.1 million, which represents an increase of 9.6% on the previous year.

Non-dairy Food

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

operating costs

Operating Costs (SAR M)	Year Ended 31 December	
	2005	**2004**
Direct Material Costs	891.1	752.1
Other Cost of Sales	408.2	374.5
Cost of Sales	**1,299.3**	**1,126.6**
Selling & Distribution Expenses	322.3	275.6
General & Administration Expenses	92.5	86.3
Total Operating Costs	**1,714.1**	**1,488.5**

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

	Year Ended 31 December			
Operating Costs (SAR M)	**2005**	**% of Sales**	**2004**	**% of Sales**
Direct Material Costs	891.1	41.5%	752.1	39.9%
Employee Costs	354.9	16.5%	310.6	16.5%
Marketing Expenses	114.5	5.3%	104.0	5.5%
Insurance	13.1	0.7%	12.1	0.7%
Other Expenses	213.5	9.9%	182.8	9.7%
Depreciation & Amortisation	127.0	6.0%	126.9	6.7%
Total Operating Costs	**1,714.1**	**79.9%**	**1,488.5**	**79.0%**

The increase in Operating Costs in 2005 over 2004 was principally due to an increase in overall volumes and to a very significant rise in the level of input costs driven by large increases in world commodity prices and fluctuation in currencies.

Higher prices of world commodities increased direct material costs in 2005. This is particularly relevant in respect of animal feeds, ingredients and packaging for our products. In keeping with our policy of offering value to consumers, we try to avoid price increases whenever possible, or to reduce their impact by alternative sourcing or by other methods. The other Operating Costs have increased in line with our volume growth.

Depreciation and Amortisation

Net livestock appreciation represents the growth in our dairy herd, which is capitalised as a fixed asset in accordance with our accounting policy for livestock which is in line with International Accounting Standards. Our accounting policy is outlined in our Financial Statements.

The Depreciation of Fixed Assets increased by SAR 27.3 million, due to the ongoing investment in our farming, production and distribution facilities.

The amortisation of intangible assets in 2005 relates to the goodwill arising on the acquisition of Riyadh Dairy Company. The amortisation of intangible assets in the previous year relates to the goodwill arising from the acquisition of Tawdah Dairy Farm Company Limited in 1999.

Payments to Government Agencies

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

	Year Ended 31 December	
Payments to Government Agencies (SAR M)	**2005**	**2004**
Customs duty	22.0	14.9
Zakat	10.2	9.4
G.O.S.I.	8.0	6.7
Ministry Costs - visas	5.5	4.5
Others	4.7	4.3
Total Payments to Government Agencies	**50.4**	**39.8**

net income

Net income increased from SAR 370.3 million in 2004 to SAR 386.1 million in 2005. Net income as a percentage of sales decreased from 19.6% to 18.0%. These strong results were achieved after experiencing an increase in Direct Material Costs of 5%; had these costs remained in line with the increase in sales, or had they been passed on to our customers, we would have achieved an increase in net profit of 14.0 % on last year.

cash flows

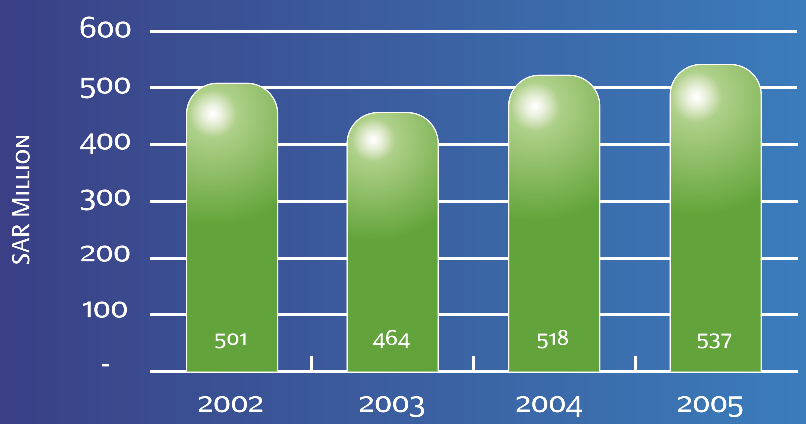
Cash Flow Statement (SAR M)	Year Ended 31 December	
	2005	**2004**
From Operating Activities	536.7	517.7
Used in Investing Activities	(614.0)	(449.7)
From/(Used) in Financing Activities	58.0	(55.8)
(Decrease)/Increase in Cash	**(19.3)**	**12.2**
Cash at beginning of period	61.0	48.8
Cash at end of period	**41.7**	**61.0**

Our business operations generate very strong cash flows, which are primarily utilised in maintaining and developing the asset base, servicing debt and, until recently, paying dividends to Shareholders.

We continue to invest heavily in order to be able to serve future market demand. The level of investment required will continue to remain high to meet this growth in demand for our products and to continue to be the market leader in the industry. We will consider alternative dividend policy options in the future, which are in the best interest of the Company and its Shareholders.

Cash Flows from Operating Activities (SAR M)	Year Ended 31 December	
	2005	**2004**
Net Income	386.1	370.3
Depreciation & Amortisation	127.0	126.9
Bank Charges	35.6	16.9
Change in Employees' Termination Benefits	12.7	(1.0)
Net Changes in Working Capital	(24.7)	4.6
Net Operating Cash Flows	**536.7**	**517.7**

Cash Flows From Operating Activities 2002-2005



In general terms, our working capital requirements are relatively low compared to our sales in view of the short shelf-life of many of our finished products and the significant proportion of sales undertaken on a cash basis. However, the increases in commodity prices, debtors and stock levels (which are in line with sales growth) have resulted in an increased working capital requirement of SAR 24.7 million.

Investing Cash Flows (SAR M)	**Year Ended 31 December**	
	2005	**2004**
Capital Expenditure	(666.0)	(493.6)
Proceeds from disposals	52.0	43.9
Net Investing Cash Flows	**(614.0)**	**(449.7)**

The high level of capital expenditure in 2005 reflects the ongoing investment in our farming, production and distribution facilities.

Cash Flows used in Financing Activities (SAR M)	**Year Ended 31 December**	
	2005	**2004**
Dividends Paid	(250.0)	(300.0)
Borrowings from State Financial Institutions		
Repayments	(11.8)	(26.9)
Receipts	127.8	168.0
Net Movement on Commercial Borrowings	227.6	120.0
Bank Charges	(35.6)	(16.9)
Net Financing Cash Flows	**58.0**	**(55.8)**

dividends

In March 2005, we paid a dividend of SAR 250.0 million to our Shareholders for the 2004 fiscal year. At an Extraordinary General Assembly Meeting held in December, our Shareholders approved the distribution of a very generous bonus issue of shares of 1 share for every 3 shares held. This bonus issue was in lieu of a dividend for 2005. This resulted in increasing our issued share capital to SAR 1.0 billion.

As noted above, in the next few years our high level of investment will limit our ability to continue to pay a high dividend to our Shareholders. We will consider alternative dividend policy options in the future, which are in the best interest of the Company and its Shareholders.

borrowings

During the year, we converted all of our commercial borrowings to Islamic borrowings (Murabaha). At the end of the year, our total borrowings amounted to SAR 1,111.1 million.

We have obtained financing in respect of our major investment programs from Government financial institutions in Saudi Arabia, namely the Saudi Industrial Development Fund (SIDF) and the Saudi Arabian Agricultural Bank (SAAB). This financing is not commission-bearing and in the case of SIDF, carries an initial evaluation cost and ongoing follow-up costs. The effective cost of such borrowings from SIDF is typically lower than borrowings from commercial banks and is not subject to commission rate risk.

Due to the increase level and cost of borrowings, bank charges increased by SAR 18.7 million to SAR 35.6 million.

board meetings and directors' remuneration

During the year we held 3 Board Meetings in 2005; majority of these meetings were attended by every Member of the Board.

The remuneration paid to the Board of Directors for the year ended 2005 amounted to SAR 2.0 million.

related party transactions

During the year Sales to related parties amounted to SAR 60.5 million, while Purchases amounted to SAR 146.7 million.

certification

We certify that the internal controls are working effectively, that appropriate accounting records and related documents are maintained and that there are no ongoing concern issues.

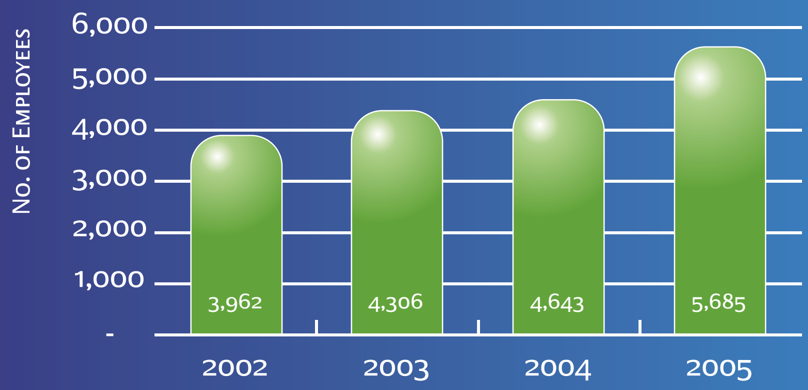
There will be no Ordinary General Assembly Meeting to approve the 2005 Consolidated Financial Statements as the first fiscal year of Almarai as a joint Company will end on December 31, 2006.

our people

One of Almarai's primary objectives is to attract competent employees possessing the required skills, experience levels and qualifications to satisfy the human resource requirements of the Company in a timely and cost effective manner.

As a Company, Almarai views its human resources among its key assets and recognises that their contribution to corporate growth and success will always remain imperative. That's why the Company makes every effort to provide its employees with high standards of employment and working conditions, and constantly offers opportunities to help develop their skills. Almarai is committed to ensuring that all employees are treated fairly, equitably and are given ample opportunities to obtain a sense of satisfaction from their work.

Number of Employees 2002 - 2005



In 2005, Almarai achieved its target of recruiting high calibre Saudi nationals to further localise its workforce. We were honoured to receive the HRH Prince Naif bin Abdulaziz Award for achieving the highest Saudisation targets in our industry. Approximately 1,250 Saudi nationals are employed in the Company today, and are located in different sites and at different levels within the Company.

Almarai does not view its localisation efforts as just figures and numbers, but views it as its contribution to shaping the next generation of professional Saudi employees. To this end, Almarai has set in motion a Management Trainee Development scheme that identifies exceptional university graduates with the tools and knowledge needed to become successful managers. Over the last four years, thirty five employees have enrolled in this scheme and now a number of them hold leading positions in the Company.

In 2005 alone, twelve new Saudi graduates joined this scheme in a range of disciplines. To achieve its objectives even more effectively, the Company also works closely with the Saudi Human Resources Development Fund in providing young Saudi graduates with development opportunities in the Company.

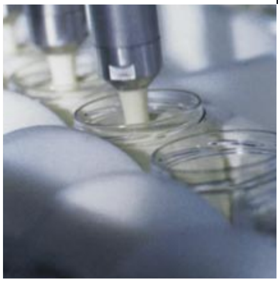
1,250saudinationals are employed in the Company today, and are located in different sites and at different levels within the Company

Almarai believes that investing in its employees is pivotal to its competitive advantage. That's why the Company allocates significant resources to train and develop its workforce, helping them acquire the knowledge, skill and attitude required to achieve its business objectives.

Almarai also has a leading scholarship program where employees are sent to local and international universities to study for graduate and post graduate degrees. Almarai also contributes to employees annual professional memberships in fields such as human resources, finance and information technology.

Almarai also places great importance on the welfare and safety of all its employees, and recognizes that this is crucial in promoting corporate growth and progress.

The Company strives to continually improve employee awareness to Health and Safety issues by providing the required training to them on a regular basis.



quality you can trust

Almarai's Quality Systems are the backbone of the Company's operational strategy. Its philosophy is a documented systematic controlled manufacturing system based on principals of best manufacturing practices. In fact, Almarai was the first vertically integrated dairy business to achieve ISO 9001-2000 accreditation across all its operating divisions, including farms, procurement, processing, technical research and development, distribution and supply chain and sales.

But all these achievements and accreditation have not made the Company complacent in its pursuit for quality. On the other hand, they have given Almarai the impetus to continue to invest in farms, depots, production facilities and distribution fleet using the latest technology of the highest quality wherever possible; the completion of the Company's Central Processing Plant 2 bears testimony to this.

Almarai achieved the highly acclaimed international food safety standard HACCP quality certification. To ensure that every division within the Company continues to maintain high standards of quality, assessment audits are conducted across Almarai farms, production facilities and sales depots at least twice a year. In 2005, Almarai's dairy farms also obtained the Occupational Health and Safety Standard, the coveted OHSAS 18001 certification.

Our Information Technology processes and procedures are accredited with BS7799. This standard specifies the requirement for establishing, implementing & documenting Information Security Management System.

In November 2005, Almarai was awarded with the International European Award for Quality (New Millennium Award). This award recognizes companies that are committed to producing high quality products and dealing with companies from the European Union.

almarai's qualitysystems are the backbone of the Company's operational strategy, its philosophy is a documented systematic controlled manufacturing system based on principals of best manufacturing practices

Almarai marketing

The Company aims at maintaining a consistent brand image as a food and beverage Company that understands consumers' needs and competes on the basis of delivering superior quality and value for money to the consumer.

The Marketing Division comprises dedicated category teams focused on all elements of the marketing mix; including product development, strategic brand management, innovation, market research and public relations.

Almarai's marketing effort is broadly divided onto four product categories: Dairy Liquids, Juice, Pots and Foods. Dairy Liquid is made up of fresh, long life and flavoured laban, milk, and super milk. Juices comprise fresh and long life juices. Pots include yoghurt, ready-to-eat desserts, fruit yoghurts, labneh and ghiste. Finally, Foods cover processed and natural cheese, butter, butter ghee, evaporated milk, sterilised cream and tomato paste. All fresh dairy based products are available in full cream, low fat and skimmed variants.

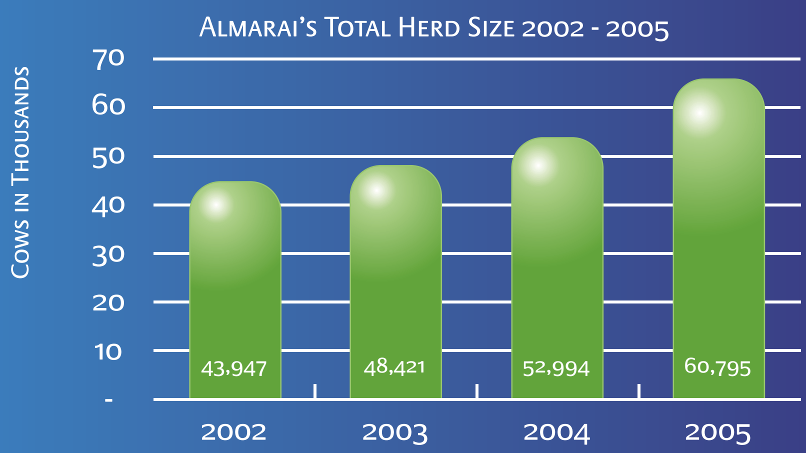
Today, Almarai is one of the best loved and trusted brands in the GCC. This trust, built over many years, provides a competitive advantage to Almarai and gives credibility and a point of differentiation to all consumer offerings. Almarai recognises the overriding importance of maintaining consumer trust in the brand, and, therefore, relentlessly dedicates its resources towards equity and brand building programs that are grounded in market research and are generated from genuine consumer insights.

As market leader, Almarai, with its ongoing investment into extensive consumer research, is well placed to drive category development and innovation in the GCC markets of the future, thus creating platforms for growth and ensuring sustained profitability in the years to come.

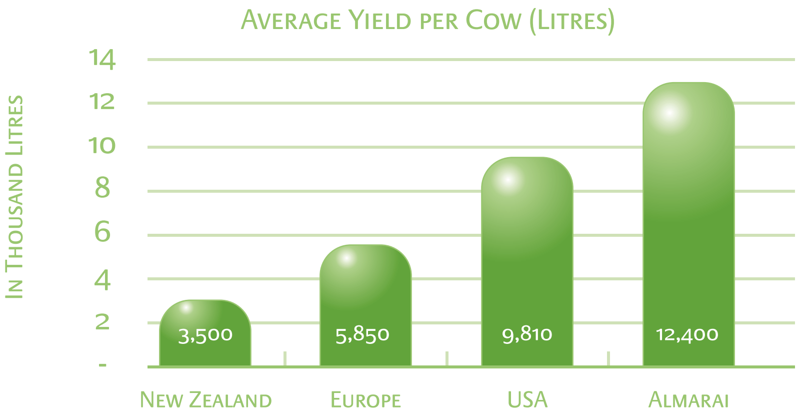
Almarai farming

Almarai's Farming Division plays a very important role in the Company's operations and is a significant contributor to Almarai's success. Responsible for fresh raw milk production, this division undertakes the central task of providing fresh raw milk of the highest quality and composition on a timely basis and in the quantities specified all of this at lowest possible cost. Our Farming Division lays the foundations to enable Almarai to deliver the freshest products to its consumers.

The Farming Division currently operates over six modern dairy farms, accommodating over 34,000 high genetic dairy cows and 27,000 youngstock, which are female calves that are reared to join the milking herd after the birth of their first calf.



One of the inherent strengths of Almarai is its ability to produce high quality fresh raw milk, an achievement made possible through highly developed farming skills. The Company's Continuous Improvement efforts in standards of health, breeding, nutrition, farm design, animal husbandry and crop management has resulted in a wealth of technology and know-how.



Sources: Utritech, Arizona & New Mexico Dairy news letter, Almarai.

Almarai places great importance on the quality and composition of its fresh raw milk: a number of factors help to ensure this; these include sophisticated facilities, rigorous cleaning regimes, and regularly maintained equipment amongst others. Almarai's farmers are also constantly brought up to speed with the latest technological developments in breeding healthier livestock that produce superior milk yields and milk quality. Sparing no efforts to ensure the highest standards of quality, Almarai has built some of the world's most modern milking facilities where well-bred, healthy Almarai herds are milked. Each Almarai cow currently yields an average of 12,400 litres of fresh raw milk annually. All fresh raw milk produced is transferred to the Almarai fresh processing plant by specially-equipped insulated road tankers.

Today, Almarai continues in its pursuit for high standards of excellence; bearing testimony to this is the construction of our latest farm project - the Al Badiah Super Farm - that accommodates 15,000 milking cows and 12,500 youngstock. In addition to this, and in anticipation of future growth, the Company has also acquired a new site with similar capacity, Al Danah Super Farm; the first phase of this project is to be completed in 2007.

Almarai operations

Almarai's commitment to offer consumers dairy and beverage products of superior quality and value begins with the production of fresh raw milk and continues into the Operations Division. The ability to control the main raw material is vital to manufacturing world class dairy products.

thecompanymaintains the highest standards of quality control even at the most basic levels, right from sourcing quality forage for the livestock to processing and packaging of its products.

The Operations Division at Almarai is responsible for the collection of fresh raw milk from our farms in high quality milk collection tankers, manufacturing the complete range of Almarai products and delivering the finished products to our 31 depots throughout Saudi Arabia and the other GCC countries.

All of the Operation's manufacturing facilities are located at one site with two production facilities on the site, referred to as Central Processing Plant 1 (CPP1) and Central Processing Plant 2 (CPP2). The central processing site is located approximately 130 kilometers from Riyadh.

Our first Central Processing Plant (CPP1) is a state-of-the-art fully automated facility opened in 1996 and produces fresh dairy products such as milk, laban and zabadi. It was awarded International Food Plant of the Year by Food Engineering Magazine.

Our second Central Processing Plant (CPP2), which is located on the same site as CPP1 was commissioned in 2005 with an investment of approximately SAR 700 million. This processing plant consists of three new production facilities; fresh dairy liquid, fruit juices and processed cheese.

Its sophisticated processing facilities and warehousing technologies, such as the state-of-the-art Automated Storage and Retrieval System (ASRS), have been designed to deliver long term benefits to the business.

Almarai manufactures the complete range of chilled dairy products such as milk, laban, zabadi and desserts in many different packaging formats. In addition Almarai also manufactures Ultra High Temperature (UHT) dairy products such as milk and flavoured milk. The milk for these dairy products comes from the Almarai farms.

Almarai also produces a range of processed cheese products. The Company sources quality raw materials from world markets to manufacture processed cheese; these are mixed with other quality food ingredients, before they are processed and packed into specific product formats.

Both pasteurised and long life fruit juices are manufactured by Almarai sourcing world class fruit concentrates from around the world

Our long-haul fleet transports raw milk from dairy farms to the Central Processing Plants and transports finished product from the production facilities to designated sales depots. This fleet, which undertakes approximately 50,000 trips annually, covering more than 55 million kilometres, comprises of more than 290 trailers all owned and maintained by Almarai.

Almarai sales

Almarai's Sales Division manages the Company's relationship with its customers and is responsible for meeting all levels of customer service requirements, while making Almarai's products available to them. The Division optimises its distribution network so as to maximise sales whilst minimising returns and other costs.

From an operational perspective, 2005 has been one of the busiest years in the history of the Company. Here are some of the milestone initiatives implemented by the Sales Division during the course of the year:

- Almarai added 15% additional distribution vehicles throughout the GCC;
- The Company pressed into operation an additional 26% retail channels to reach more consumers;
- We made a significant investment in fresh dairy display coolers, which were installed and commissioned in our customer outlets. Special emphasis was placed on placing these in prime positions in outlets, thus ensuring first in flow positioning ahead of the chilled soft drinks;
- Additional resources were added to the sales team by way of strengthening the Key Account Management team and adding an extra employee on every sales delivery vehicle to improve call time and merchandising standards;
- All Almarai food case sizes were revised making them easier to distribute, easier to purchase and, most importantly, ensuring that products are replenished on a more frequent basis.

Almarai continues to invest heavily in modern technology within its Sales Division. This investment in technology and information systems allows Almarai to react quickly to market fluctuations and enables the team to forecast immediate demand more accurately.

Almarai identified a key change in the market place, which was the continued expansion of large multinational and local retailers. Recognising this development, Almarai established a dedicated Key Account Customer Team. This team is responsible for managing all aspects of the day-to-day relationships with the Key Account customers across the GCC.

Almarai has developed a robust distribution network covering all GCC countries. This distribution infrastructure includes cold stores, fleet workshops and regional offices and covers the markets within the GCC through 22 depots in Saudi Arabia and 9 depots in the other GCC countries.

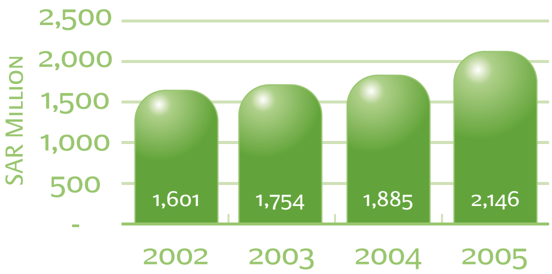
Almarai products are distributed from these 31 depots to almost 27,000 retail customer outlets throughout the GCC region. In order to affect perfect control over product quality, sales, delivery and distribution activities, the Company deploys a dedicated staff operating in over 680 sales routes and utilising a fleet of over 700 temperature-controlled sales vans. This well-maintained fleet is completely owned by Almarai and is used exclusively for Almarai products.

key financial highlights

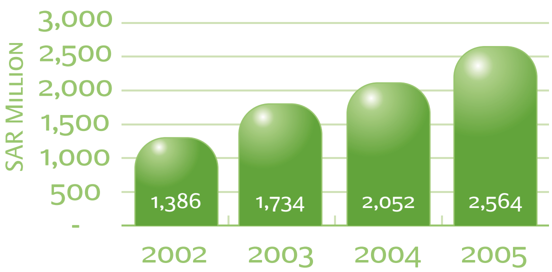
	Year Ended 31 December (SAR M)			
	2002	**2003**	**2004**	**2005**
Operational Performance				
Total sales	1,601	1,754	1,885	2,146
Cost of sales	914	1,019	1,126	1,299
Gross profit	687	735	759	847
Selling and distribution expenses	235	258	276	322
Financing cost and bank charges	9	19	17	36
Income before zakat	362	378	380	396
Zakat	10	10	9	10
Net income	352	368	370	386
Financial Condition				
Operating net working capital	102	148	143	168
Fixed assets	1,284	1,586	1,909	2,396
Net operating assets	1,386	1,734	2,052	2,564
Net debt	189	458	707	1,069
Employee termination benefits	63	54	53	66
Shareholders' equity	1,134	1,222	1,293	1,429
Total assets	1,641	2,007	2,400	2,976
Key Indicators				
Return on sales	22.0%	21.0%	19.6%	18.0%
Return on equity ratio	31.0%	30.1%	28.6%	27.0%
Net debt to equity ratio	16.7%	37.5%	54.7%	74.8%
Current ratio	125.8%	167.6%	159.1%	118.6%
Revenue growth rate	12.7%	9.6%	7.5%	13.8%
Dividends payout ratio [1]	79.5%	81.5%	67.6%	0.0%
Earnings per Share (SAR) [2]	17.6	18.4	18.5	19.3
Dividend paid	257	280	300	250

1. Calculated on previous year's net income.
2. Earnings per Share is calculated on the total number of issued shares at 31 December 2005 (i.e. 20 million shares).

SALES 2002 - 2005



NET OPERATING ASSETS 2002 - 2005



Certified Accountants
Professional Partnership Co. Licence No. 36
Member Firm of
Grant Thornton

Aldar Audit Bureau
Abdullah AlBasri & Co.

AUDITORS' REPORT

To the Shareholders of
Almarai Company
A Saudi Joint Stock Company
Riyadh - Saudi Arabia

We have audited the accompanying consolidated balance sheet of Almarai Company – a Saudi Joint Stock Company as of 31 December 2005 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year ended 31 December 2005 together with notes 1 - 23. These consolidated financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit and information which we obtained and deemed necessary in the circumstances.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

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

- Present fairly, in all material respects, the financial position of Almarai Company – a Saudi Joint Stock Company as of 31 December 2005 and the results of its operations and cash flows for the year ended 31 December 2005, in the light of presentation and disclosure of information contained in the consolidated financial statements and in conformity with generally accepted accounting principles relevant to the Company's underlying circumstances,

- Comply with the requirements of companies' regulations in the Kingdom of Saudi Arabia and the company's articles of association concerning the presentation and disclosure of the consolidated financial statements.

Aldar Audit Bureau
Abdullah Al Basri & Co.

ALDAR AUDIT BUREAU
Licence No. 36
Certified Accountants
Abdullah AlBasri & Co.

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

Riyadh, 24 Dhu'l Hijjah 1426 A.H.
Corresponding to 24 January 2006 A.D.

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http://www.gti.org
Branches - Jeddah , Khobar

consolidated balance sheet

	Notes	2005 SAR '000	2004 SAR '000
CURRENT ASSETS			
Cash and Bank Balances	4	41,675	60,954
Receivables and Prepayments	5	217,502	186,594
Inventories	6	320,981	243,239
Total Current Assets		**580,158**	**490,787**
CURRENT LIABILITIES			
Payables and Accruals	7	370,391	286,471
Short Term Loans	8	118,927	22,074
Total Current Liabilities		**489,318**	**308,545**
NET CURRENT ASSETS		**90,840**	**182,242**
NON CURRENT ASSETS			
Intangible Assets	9	-	-
Fixed Assets	10	2,396,258	1,909,185
Total Non Current Assets		**2,396,258**	**1,909,185**
NON CURRENT LIABILITIES			
Long Term Loans	8	992,138	745,350
Employees' Termination Benefits		66,201	53,420
Total Non Current Liabilities		**1,058,339**	**798,770**
Net Assets		**1,428,759**	**1,292,657**
SHAREHOLDER'S EQUITY			
Share Capital	11	1,000,000	750,000
Statutory Reserve	12	212,470	173,860
Retained Earnings		216,289	368,797
TOTAL SHAREHOLDERS' EQUITY		**1,428,759**	**1,292,657**

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THIS STATEMENT

consolidated statement of income

	Notes	2005 SAR '000	2004 SAR '000
Sales	**13**	2,146,113	1,885,112
Cost of Sales	**14**	(1,299,338)	(1,126,588)
Gross Profit		**846,775**	**758,524**
Selling & Distribution Expenses	**15**	(322,349)	(275,612)
General & Administration Expenses	**16**	(92,523)	(86,294)
Net Income before Bank Charges & Zakat		**431,903**	**396,618**
Bank Charges		(35,564)	(16,872)
Net Income before Zakat		**396,339**	**379,746**
Zakat	**17**	(10,237)	(9,444)
Net Income		**386,102**	**370,302**
Earnings per Share (SAR)*		19.3	18.5

* Earnings per Share is calculated on the total number of issued shares at 31 December 2005 (i.e. 20 million shares).

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THIS STATEMENT

consolidated statement of cash flows

	Notes	2005 SAR '000	2004 SAR '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income		**386,102**	**370,302**
Depreciation & Amortization	**18**	126,985	126,923
Bank Charges		35,564	16,872
Change in Employees' Termination Benefits		12,781	(1,015)
Operating Cash Flows Before Changes in Working Capital		**561,432**	**513,082**
Changes in:			
Receivables & Prepayments		(30,908)	(7,646)
Inventories		(77,742)	(50,102)
Payables & Accruals		83,920	62,371
Cash Flows (used by)/from Changes in Working Capital		**(24,730)**	**4,623**
Cash Flows from Operating Activities		**536,702**	**517,705**
CASH FLOWS USED IN INVESTING ACTIVITIES			
Additions to Fixed Assets and Intangibles		(666,033)	(493,605)
Proceeds from the Sale of Fixed Assets		51,975	43,900
Cash Flows used in Investing Activities		**(614,058)**	**(449,705)**
CASH FLOWS USED IN FINANCING ACTIVITIES			
Increase in Loans		343,641	261,064
Dividends Paid during the Period		(250,000)	(300,000)
Bank Charges		(35,564)	(16,872)
Cash Flows from/(used in) Financing Activities		**58,077**	**(55,808)**
(Decrease)/Increase in Cash and Bank Balances		**(19,279)**	**12,192**
Cash and Bank Balances at 1 January		**60,954**	**48,762**
Cash and Bank Balances at 31 December		**41,675**	**60,954**

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THIS STATEMENT

consolidated statement of changes in shareholders equity

	Notes	2005 SAR '000	2004 SAR '000
SHARE CAPITAL			
Balance at 1 January		750,000	500,000
Transfer from Retained Earnings		250,000	250,000
Balance at 31 December		**1,000,000**	**750,000**
STATUTORY RESERVE			
Balance at 1 January		173,860	136,830
Transfer from Retained Earnings		38,610	37,030
Balance at 31 December		**212,470**	**173,860**
RETAINED EARNINGS			
Balance at 1 January		368,797	585,525
Net Income		386,102	370,302
Transfer to Share Capital	**11**	(250,000)	(250,000)
Transfer to Statutory Reserve		(38,610)	(37,030)
Dividends Paid		(250,000)	(300,000)
Balance at 31 December		**216,289**	**368,797**

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THIS STATEMENT

1. THE COMPANY 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' Hijjah1411 A.H. (1 July 1991) and still operates under Commercial Registration No. 1010084223.

The Company is a major integrated consumer food company in the Middle East with leadership positions in Saudi Arabia and the neighboring Gulf Cooperative Council (GCC) countries. All raw milk production and related processing along with food manufacturing activities are undertaken in Saudi Arabia. Final consumer products are distributed from the manufacturing facilities in Saudi Arabia to local distribution centers by the Company's long haul distribution fleet.

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

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

The Company operates in Bahrain through a subsidiary, Almarai Company Bahrain W.L.L..

During 2005, the Company commenced the process of establishing a subsidiary in Oman. This company, Arabian Planets for Trade and Marketing L.L.C. was established on 16 May 2005 and started trading on 30 June 2005. This development did not impact our business in Oman.

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

The Company successfully commenced trading on the Saudi Arabian stock exchange on 11 Rajab 1426 A.H. (17 August 2005).

In June and December 2005, the Company acquired the trade, assets and liabilities of Al Riyadh Dairy Company and Green Dairy Farms respectively.

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

(a) These consolidated financial statements have been prepared on the accrual basis under the historical cost convention and in compliance with the accounting standards issued by the Saudi Organization for Certified Public Accountants (SOCPA).

(b) Although the Company was converted to a Joint Stock Company on 2 Rajab 1426 A.H. (8 August 2005), these consolidated financial statements have been prepared as if no conversion took place. The Management believes this gives the readers of these consolidated financial statements the best understanding of its activities.

(c) The statutory records are maintained in Arabic.

(d) When necessary, prior year/period comparatives have been regrouped on a basis consistent with current year/period classification.

(e) The consolidated financial statements reflect all business operations undertaken on behalf of the Company and its subsidiaries and the assets and liabilities beneficially held by the Company.

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

3. SIGNIFICANT ACCOUNTING POLICIES

A. Use of Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires the use of estimates and assumptions. Such estimates and assumptions may affect the balances reported for certain assets and liabilities as well as the disclosure of certain contingent assets and liabilities as at the Balance Sheet date. Any estimates or assumptions affecting assets and liabilities may also affect the reported revenues and expenses for the same reporting year/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 recognized on delivery of products to customers by the Company or its Distributors, at which time risk and title passes, subject to the physical return of unsold products. Adjustment is made in respect of known actual returns.

c. Cash and Bank Balances

Time deposits purchased with original maturities of less than three months are included in Cash at Bank.

d. Accounts Receivable

Accounts receivable are carried at the original invoiced amount less any provision made for doubtful debts. Provision is made for all debts for which the collection is considered doubtful.

e. Inventory Valuation

Inventory is stated at the lower of cost and net realizable 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 realizable 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 stockst.

f. Goodwill

Goodwill represents the difference between the cost of businesses acquired and the aggregate of the fair values of their identifiable net assets at the date of acquisition. Goodwill arising on acquisitions is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

g. Fixed Assets

Fixed assets are stated at cost less accumulated depreciation. There is no open market for dairy livestock in the GCC against which to measure fair value. Accordingly, dairy livestock are treated as fixed assets and included in the accounts at their cost of purchase or at the cost of rearing to the point of first calving, less accumulated depreciation. The cost of dairy young stock is determined by the cost of rearing to their respective age.

Cows in the dairy herd are depreciated to their estimated residual value, at rates between 10% - 25%, based on their expected continuing useful life. Other fixed assets are depreciated on a straight line basis at the following annual rates:

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

The carrying values of fixed 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.

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/periods. A reversal of an impairment loss is recognized as income immediately in the consolidated Statement of Income.

h. Conversion of Foreign Currency Transactions

During the financial year 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. Gains and losses on derivative financial instruments used to hedge foreign currency exposures are recognized in the consolidated Statement of Income when the underlying transaction occurs.

i. Employees' Termination Benefits

Employees' termination benefits are payable as a lump sum to all employees employed under the terms and conditions of the Saudi Labor and Workman Law on termination of their employment contracts. The liability is calculated as the current value of the vested benefits to which the employee is entitled, should the employee leave at the Balance Sheet date. Termination payments are based on the employees' final salaries and allowances and their cumulative years of service, in compliance with the conditions stated in the laws of the Kingdom of Saudi Arabia.

j. Selling, Distribution, General & Administration Expenses

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

k. Management Fees

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

l. Zakat

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

m. Operating Leases

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

	2005 SAR '000	2004 SAR '000

4. CASH AND BANK BALANCES

	2005 SAR '000	2004 SAR '000
Cash at Bank	27.800	46.109
Cash in Hand	13.875	14.845
Total	**41.675**	**60.954**

5. RECEIVABLES AND PREPAYMENTS

	2005 SAR '000	2004 SAR '000
Net Accounts Receivable	133,598	124,863
Prepayments	83,904	61,731
Total	**217,502**	**186,594**

6. INVENTORIES

	2005 SAR '000	2004 SAR '000
Raw Materials	231,265	176,382
Work-in-Progress	7,975	1,880
Finished Goods	81,741	64,977
Total	**320,981**	**243,239**

	2005 SAR '000	2004 SAR '000

7. PAYABLES AND ACCRUALS

Accounts Payable	195,293	170,238
Accrued Expenses	164,861	106,552
Zakat	10,237	9,681
Total	**370,391**	**286,471**

8. LOANS

(i)	Saudi Industrial Development Fund	325,878	220,350
(ii)	Saudi Arabian Agricultural Bank	22,572	12,074
(iii)	Islamic Banking Facilities (Murabaha)	762,615	-
(iv)	Commercial Banks	-	535,000
Total		**1,111,065**	**767,424**

a. The borrowings from the Saudi Industrial Development Fund are secured as follows:

(i) in respect of borrowings amounting to SAR 310.5 million for 31 December 2005 and SAR 204.5 million for 31 December 2004 by a mortgage on specific assets;

(ii) in respect of borrowings amounting to SAR 15.4 million for 31 December 2005 and SAR 15.9 million for 31 December 2004 by a bank payment guarantee.

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

c. The borrowings from commercial banks and Islamic banking facilities (Murabaha) are secured by promissory notes given by the Company.

d. Maturity of Financial Liabilities:

Less than one year	118,927	22,074
One to two years	625,678	228,500
Two to five years	284,470	478,220
Greater than five years	81,990	38,630
Total	**1,111,065**	**767,424**

	2005 SAR '000	2004 SAR '000

9. INTANGIBLE ASSETS

	2005 SAR '000	2004 SAR '000
Goodwill		
Cost		
Balance at 1 January	-	103,276
Additions	7,879	-
Disposals	-	-
Balance at 31 December	7,879	103,276
Accumulated Amortization		
Balance at 1 January	-	80,689
Amortization	7,879	22,587
Disposals	-	-
Balance at 31 December	7,879	103,276
Net Book Value		
Balance at 31 December	-	-

10. FIXED ASSETS

	Land & Buildings SAR '000	Plant, Machinery & Equipment SAR '000	Motor Vehicles SAR '000
Cost			
At 1 January 2005	751,198	1,147,282	258,362
Additions during 2005	10,464	1,656	55,071
Livestock Appreciation	-	-	-
Transfers during 2005	286,182	551,645	0
Reclassification during 2005	(23,356)	23,356	-
Disposals during 2005	(30,728)	(155,630)	(24,308)
At 31 December 2005	**993,760**	**1,568,309**	**289,125**
Accumulated Depreciation			
At 1 January 2005	202,992	685,196	137,875
Reclassification during 2005	6,798	(6,798)	-
Disposals during 2005	(43,876)	(138,320)	(18,688)
Charges for 2005	24,838	120,092	38,468
At 31 December 2005	**190,752**	**660,170**	**157,655**
Net Book Value			
At 31 December 2005	**803,008**	**908,139**	**131,470**
At 31 December 2004	**548,206**	**462,086**	**120,487**

Dairy Herd SAR '000	Young Stock SAR '000	Capital Work-in- Progress SAR '000	Total SAR '000
213,207	79,059	548,722	2,997,830
14,658	9,459	566,846	658,154
-	103,351	-	103,351
78,850	(78,850)	(837,827)	0
-	-	-	0
(57,043)	(13,920)	-	(281,629)
249,672	**99,099**	**277,741**	**3,477,706**
62,582	-	-	1,088,645
-	-	-	0
(19,191)	-	-	(220,075)
29,480	-	-	212,878
72,871	**0**	**0**	**1,081,448**
176,801	**99,099**	**277,741**	**2,396,258**
150,625	**79,059**	**548,722**	**1,909,185**

11. SHARE CAPITAL

At an Extraordinary General Assembly Meeting held on 23 Dhu'l Qa' ada 1426 AH (25 December 2005), the Shareholders of the Company approved a bonus issue of 1 share for every 3 shares held. Consequently, the Company's share capital increased from SAR 750.0 million, consisting of 15 million fully paid and issued shares of SAR 50 each to SAR 1.0 billion, consisting of 20 million fully paid and issued shares of SAR 50 each.

12. STATUTORY RESERVE

In accordance with its Articles of Association and the regulations for Companies in the Kingdom of 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.

13. SEGMENTAL REPORTING

Analysis of Sales is given by Product Group as shown below. The disclosure of segmental information by geographical area would, in the opinion of the Board of Directors, be prejudicial to the interest of the Company and accordingly is not disclosed.

	2005 SAR '000	**2004** SAR '000
SALES		
By Product Group:		
Fresh Dairy	1,370,896	1,190,897
Long Life Dairy	209,903	175,217
Fruit Juice	142,424	137,920
Cheese & Butter	405,042	369,559
Non-Dairy Foods	10,619	5,352
Other	7,229	6,167
Total	**2,146,113**	**1,885,112**

	2005 SAR '000	2004 SAR '000

14. COST OF SALES

Direct Material Costs	891,128	752,141
Employee Costs	154,159	137,916
Depreciation & Amortization	173,392	171,325
Livestock Appreciation	(103,351)	(84,865)
Loss on Disposal of Livestock	18,118	17,475
Other Expenses	165,892	132,596
Total	**1,299,338**	**1,126,588**

15. SELLING AND DISTRIBUTION EXPENSES

Marketing Expenses	114,541	103,922
Employee Costs	133,898	113,142
Depreciation & Amortization	39,275	25,072
Other Expenses	34,635	33,476
Total	**322,349**	**275,612**

16. GENERAL AND ADMINISTRATION EXPENSES

Insurance	13,090	12,078
Employee Costs	66,884	59,559
Depreciation & Amortization	8,090	8,273
Profit on Disposal of Other Fixed Assets	(8,539)	(10,357)
Other Expenses	12,998	16,741
Total	**92,523**	**86,294**

	2005 SAR '000	2004 SAR '000

17. ZAKAT

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

	2005 SAR '000	2004 SAR '000
Net Income before Zakat	396,339	379,746
Disallowed Expenses:		
Accrual for Employees' Termination Benefits	12,781	(1,015)
Other Provision	365	8,514
Net Income for Zakat Purposes	409,485	387,245
Zakat Charge @ 2.5%	10,237	9,681
Adjustment in respect of prior year provision	-	(237)
Charged to Consolidated Statement of Income	10,237	9,444

B. Zakat Provisions

	2005 SAR '000	2004 SAR '000
Balance at 1 January	9,681	9,862
Charged to Consolidated Statement of Income	10,237	9,444
Payments	(9,681)	(9,625)
Balance at 31 December	10,237	9,681

C. The Company has paid its Zakat liabilities for all years up to 31 December 2004 and has obtained a Zakat Certificate in respect of the years then ended. The final assessments for 2004, 2003 and 2002 are still under discussion.

	2005 SAR '000	2004 SAR '000

18. DEPRECIATION AND AMORTIZATION

	2005	2004
Livestock		
Depreciation of Dairy Herd	29,480	26,033
Livestock Appreciation	(103,351)	(84,865)
Net Livestock Appreciation	**(73,871)**	**(58,832)**
Depreciation of Fixed Assets	183,398	156,050
Amortization of Intangible Assets	7,879	22,587
Loss on the Disposal of Livestock	18,118	17,475
Profit on the Disposal of Fixed Assets	(8,539)	(10,357)
Total Depreciation and Amortization	**126,985**	**126,923**

(Profit)/Loss on the Disposal of Assets

	2005	2004
Livestock		
Proceeds from Disposal of Livestock	(33,654)	(30,866)
NBV of Dairy Herd Cows Disposed	37,852	36,448
NBV of Youngstock Disposed	13,920	11,893
Loss on the Disposal of Livestock	**18,118**	**17,475**
Fixed Assets		
Proceeds from the Disposal of Assets	(18,321)	(13,034)
NBV of Assets Disposed	9,782	2,677
Profit on the Disposal of Fixed Assets	**(8,539)**	**(10,357)**

19. FINANCIAL INSTRUMENTS

Financial instruments carried on the consolidated balance sheet include cash and bank balances, trade and other accounts receivable, short term bank borrowings, accounts payable, accrued expenses and other liabilities, and long term debt.

Credit Risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Company has no significant concentration of credit risks. Cash and bank balances are placed with national and international banks with sound credit ratings. Trade and other accounts receivable are mainly due from local customers and related parties and are stated at their estimated realizable values.

Interest Rate Risk is the exposure to various risks associated with the effect of fluctuations in the prevailing interest rates on the Company's financial position and cash flows. The Company has no significant interest-bearing assets at 31 December 2005. Islamic banking facilities (Murabaha) amounting to SAR 762.6 million at 31 December 2005 bear financing charges at the prevailing market rates.

Liquidity Risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value.

Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet the Company's future commitments. Also see Note 8.

Currency Risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi Riyals, United States Dollars, Sterling and Euro. Management believe that the currency risk for inventory and capital expenditure purchases is adequately managed primarily through entering into foreign currency forward purchase agreements. Other transactions in foreign currencies are not material.

The outstanding foreign currency forward purchase agreements were as follows:

	2005 SAR '000	**2004** SAR '000
Euro	138,932	121,400
United States Dollar	-	94,055
Sterling	38,383	36,899
Other	23.041	4.946
Total	**200,356**	**257,300**

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

Fair Value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the Company's consolidated financial statements are prepared under the historical cost method, differences can arise between the book values and the fair value estimates. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values.

20. COMMITMENTS AND CONTINGENCIES

a. The contingent liabilities against letters of credit was SAR 6.2 million and SAR 85.7 million for 31 December 2005 and 31 December 2004 respectively.

b. The contingent liabilities against letters of guarantee was SAR 34.8 million and SAR 36.4 million for 31 December 2005 and 31 December 2004 respectively.

c. The Company had capital commitments to SAR 387.6 million and SAR 292.2 million for 31 December 2005 and 31 December 2004 respectively in respect of ongoing projects. The majority of the capital commitments are for new production facilities, sales depot development, distribution fleet, fridges and information technology.

d. Commitments under operating leases expire as follows:

	2005 SAR '000	2004 SAR '000
Within one year	17,452	14,663
Two to five years	57,845	20,952
After five years	10,561	16,109
Total	**85,858**	**51,724**

21. DIRECTORS REMUNERATION

The Directors' fees paid to the Board of Directors for each year ending 31 December 2005 and 31 December 2004 amounted to SAR 2.0 million.

22. RELATED PARTY TRANSACTIONS

During the normal course of its operations, the Company had the following significant transactions with related parties during the years ended 31 December:

	2005 SAR '000	2004 SAR '000
Sales	60,530	65,356
Purchases	146,706	128,075
Due to Related Parties - Net	(10,469)	(5,380)

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

23. SUBSEQUENT EVENTS

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

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