

# PROSPECTUS

Sale of 4,500,000 shares representing 30% of Almarai Company Through an Initial Public Offering at an Offer Price of SAR 5.12 per share



## ALMARAI COMPANY

A Saudi Joint Stock Company (under conversion) in accordance with Ministerial Resolution No. 773 dated 6/5/1426H (Corresponding to 13/6/2005G)

Offering Period: 27/5/1426H to 7/6/1426H (Corresponding to 4/7/2005G to 13/7/2005G)

Almarai Company Limited ("Almarai" or the "Company") was formed as a Saudi limited liability company with Commercial Registration Number 1010084223, dated 19/12/1411H (corresponding to 1/7/1991G). The Minister of Commerce and Industry has, pursuant to resolution No. 773 dated 6/5/1426H (corresponding to 13/6/2005G), authorized the conversion of the Company from a limited liability company into a joint stock company. The share capital of the Company is SAR 750 million consisting of fifteen (15) million shares with a nominal value of SAR 50 each. Following completion of the Offering (as defined below) and the conclusion of the Conversion General Assembly, an application will be submitted to the Minister of Commerce and Industry requesting him to announce the conversion of the Company. The Company will be considered duly converted into a joint stock company from the date of issuance of the Ministerial Resolution declaring its conversion.

The Initial Public Offering (the "Offering") of 4,500,000 shares (the "Offer Shares") with a nominal value of SAR 50 each, all of which are fully paid, and representing 30% of the issued share capital of Almarai, is directed at and may be accepted by Saudi nationals only. The Offer Shares are being sold by HH Prince Sultan bin Mohammed bin Saud Al Kabeer, the Savola Group, Abdulaziz bin Ibrahim Al Muhanna, Abdulrahman bin Abdulaziz Al Muhanna and HRH Princess Aljawhara bint Saad bin Abdulaziz Al Saud (referred to collectively hereinafter as the "Selling Shareholders"), who collectively owned 100% of the Shares of Almarai Company. Upon completion of the Offering, HH Prince Sultan bin Mohammed bin Saud Al Kabeer, the Savola Group, Abdulaziz bin Ibrahim Al Muhanna, Abdulrahman bin Abdulaziz Al Muhanna and HRH Princess Aljawhara bint Saad bin Abdulaziz Al Saud will own collectively 70% of the Shares and will consequently retain a controlling interest in the Company. The net proceeds from the Offering will be distributed to the Selling Shareholders pro rata based on each Selling Shareholder's percentage ownership in the Shares being sold in the Offering. The Company will not receive any part of the proceeds from the Offering. The Offering is fully underwritten. (See "Underwriting" section)

The Offering will commence on 27/5/1426H (corresponding to 4/7/2005G) and will remain open for a period of 10 days up to and including 7/6/1426H (corresponding to 13/7/2005G) (the "Offering Period"). Subscription to Offer Shares can be made through branches of each of the Lead Manager (as defined in the "Important Notice" section) and the co-managers ("Co-Managers") during the Offering Period.

Each individual subscriber to the Offer Shares ("Subscriber" and collectively referred to as the "Subscribers") must apply for a minimum of 10 Offer Shares. Each Subscriber may not apply for more than 5,000 Offer Shares. In the event of the Offering being oversubscribed, each Subscriber will be allocated a minimum of 10 Offer Shares with the remaining Offer Shares being allocated on a pro-rata basis. The Company does not guarantee the minimum allocation of 10 Offer Shares in the event that the number of Subscribers exceeds 450,000. In that case, the Offer Shares will be allocated equally between all Subscribers. If the number of Subscribers exceeds the number of Offer Shares, the allocation will be left to the discretion of the Capital Market Authority ("CMA"). Excess of subscription monies, if any, will be refunded to Subscribers without any charge or withholding by the relevant bank. Notification of the final allotment and refund of subscription monies, if any, will be made no later than 12/6/1425H (corresponding to 18/7/2005G).

Each Share entitles the holder to one vote and each shareholder ("Shareholder") with at least 20 Shares has the right to attend and vote at the general assembly meeting (the "General Assembly Meeting"). The Offer Shares will be entitled to receive dividends declared by the Company in respect of its 2005G fiscal year and subsequent fiscal years. The Company's net income amounted to SAR 370 million for the fiscal year 2004, of which SAR 250 million was declared as dividends and paid to the Selling Shareholders. (See "Dividend Record and Policy" section).

Prior to the Offering, there has been no public market for the Shares in Saudi Arabia or elsewhere. An application has been made to the CMA for the admission of the Shares to the Official List and all relevant approvals pertaining to this Prospectus and all other supporting documents requested by the CMA in addition to all relevant regulatory approvals required to conduct the Offering have been granted. Trading in the Shares is expected to commence on the Exchange soon after the final allocation of the Shares (See "Key Dates for Investors" section). Subsequent to Shares commencing trading, Saudi nationals as well as Saudi companies, banks and funds, will be permitted to trade in the Shares.

The "Important Notice" and "Risk Factors" sections in this Prospectus should be considered carefully prior to making an investment decision in the Shares offered hereby.

Financial Adviser



Lead Manager



Co-Managers



This Prospectus includes details given in compliance with the Listing Rules of the Capital Market Authority of Saudi Arabia ("CMA" or the "Authority"). The directors, whose names appear on page iii; collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading. The Authority and the Saudi Arabian Stock Exchange take no responsibility for the contents of this document, make no representations as to its accuracy or completeness, and expressly disclaim any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this document.

This Prospectus is dated 12/5/1426H (Corresponding to 19/6/2005G)

**English Translation of the Official Arabic Prospectus**

# Important Notice

***This Prospectus provides full details of information relating to Almarai Company and the Shares being offered. In applying for Offer Shares, investors will be treated as applying on the basis of the information contained in the Prospectus, copies of which are available for collection from the Lead Manager (as defined below) and Co-Managers or by visiting both the Company's website ([www.almarai.com](http://www.almarai.com)) and the Capital Market Authority of Saudi Arabia ("CMA" or the "Authority") - CMA's website ([www.cma.org.sa](http://www.cma.org.sa)).***

HSBC Financial Services (Middle East) Limited ("HSBC") has been appointed by the Company to act as Financial Adviser and the Saudi British Bank has been appointed by the Company to act as Lead Manager and Lead Underwriter ("Lead Manager") in relation to the Offer Shares described herein.

This Prospectus includes details given in compliance with the Listing Rules of the CMA. The directors, whose names appear on page iii; collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading. The Authority and the Saudi Arabian Stock Exchange take no responsibility for the contents of this document, make no representations as to its accuracy or completeness, and expressly disclaim any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this document.

While the Company has made all reasonable enquiries as to the accuracy of the information contained in this Prospectus as at the date hereof, substantial portions of the market and industry information herein are derived from external sources, and while neither HSBC nor the Company's advisers has any reason to believe that any of the market and industry information is materially inaccurate, such information has not been independently verified and no representation is made with respect to the accuracy or completeness of any of this information.

The information contained in this Prospectus as at the date hereof is subject to change. In particular, the actual financial state of the Company and the value of the Shares may be adversely effected by future developments in inflation, interest rates, taxation, or other economic, political and other factors, over which the Company has no control. Neither the delivery of this Prospectus nor any oral, written or printed interaction in relation to the Offer Shares is intended to be, or should be construed as or relied upon in any way as, a promise or representation as to future earnings, results or events.

The Prospectus is not to be regarded as a recommendation on the part of Almarai, the Selling Shareholders or any of their advisers to participate in the Offering. Moreover, information provided in this Prospectus is of a general nature and has been prepared without taking into account individual investment objectives, financial situation or particular investment needs. Prior to making an investment decision, each recipient of this Prospectus is responsible for obtaining independent professional advice in relation to the Offering and for considering the appropriateness of the information herein, that the information is with regard to individual objectives, financial situations and needs.

The Offering is being made to, and is only capable of acceptance by, nationals of Saudi Arabia. The distribution of this Prospectus and the sale of the Offer Shares in any jurisdiction is expressly prohibited. The Company, Selling Shareholders, and Lead Manager require recipients of this Prospectus to inform themselves about and to observe all such restrictions.

## IMPORTANT NOTICE

### **Financial Information**

The audited financial statements for the years ended 31 December 2002, 2003 and 2004 and the notes thereto, which is incorporated elsewhere in the Prospectus, have been prepared in conformity with the accounting principles issued by the Saudi Organization for Certified Public Accountants. The Company publishes its financial statements in Saudi Arabian Riyals.

### **Forecasts and Forward Looking Statements**

Forecasts set forth in this Prospectus have been prepared on the basis of certain stated assumptions. Future operating conditions may differ from the assumptions used and consequently no representation or warranty is made with respect to the accuracy or completeness of any of these forecasts.

Certain statements in this Prospectus constitute “forward-looking-statements”. Such statements can generally be identified by their use of forward-looking words such as “plans”, “estimates”, “believes”, “expects”, “may”, “will”, “should”, or “are expected”, “would be”, “anticipates” or the negative or other variation of such terms or comparable terminology. These forward-looking statements reflect the current views of the Company with respect to future events, and are not a guarantee of future performance. Many factors could cause the actual results, performance or achievements of the Company to be significantly different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Some of the risks and factors that could have such an effect are described in more detail in other sections of this Prospectus (see “*Risk Factors*” section). Should any one or more of the risks or uncertainties materialize or any underlying assumptions prove to be inaccurate or incorrect, actual results may vary materially from those described in this Prospectus.

Subject to the requirements of the Listing Rules, Almarai does not intend to update or otherwise revise any industry or market information or forward-looking statements in this Prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Prospectus might not occur in the way the Company expects, or at all. Prospective investors should consider all forward-looking statements in light of these explanations and should not place undue reliance on forward-looking statements.

# Corporate Directory

## Directors

Name	Title
HH Prince Sultan bin Mohammed bin Saud Al Kabeer .....	Chairman
Abdulrahman bin Abdulaziz Al Muhanna .....	Managing Director
Dr. Abdulraouf Mohammed Mannaa .....	Director
Mohammed Al Damer .....	Director
Nasser Al Muttawa .....	Director
HH Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer .....	Director
Dr. Majed M. Al Gassabi .....	Director
Ibrahim M. Alissa .....	Director

## Registered Office

Almarai Company  
Exit 7, North Circle Road  
Al Izdihar District  
PO Box 8524  
Riyadh 11492  
Kingdom of Saudi Arabia

## Board of Directors' Secretary

Dr. Abdulrahman Al Turaigi  
Almarai Company  
PO Box 8524  
Riyadh 11492  
Kingdom of Saudi Arabia

## Share Registrar

TADAWUL  تداول

Tadawul  
Abraj Attuwenya  
700 King Fahad Road  
P.O. Box 60612  
Riyadh 11555  
Saudi Arabia

# Advisers

## Financial Adviser



HSBC Financial Services (Middle East) Limited  
PO Box 4604  
Dubai, United Arab Emirates

## Legal Advisers to the Transaction



Legal Advisors, Torki A. Al-Shubaiki in association with Baker & McKenzie Limited  
PO Box 4288  
Riyadh 11491, Kingdom of Saudi Arabia

## Legal Advisers to the Lead Underwriter



Clifford Chance, Limited Liability Partnership  
PO Box 9380  
Dubai, United Arab Emirates

## Registered Auditors and Reporting Accountants



Aldar Audit Bureau – Member Firm of Grant Thornton International  
PO Box 2195  
Riyadh 11451, Kingdom of Saudi Arabia

## Media Consultant



Targets Leo Burnett  
PO Box 295797  
Riyadh 11351, Kingdom of Saudi Arabia

## Public Relations Consultant



MS&L  
PO Box 295797  
Riyadh 11351, Kingdom of Saudi Arabia

## Lead Manager & Lead Underwriter



The Saudi British Bank  
PO Box 9084  
Riyadh 11413  
Kingdom of Saudi Arabia

## Co-Managers & Co-Underwriters



Arab National Bank  
PO Box 9802  
Riyadh 11423  
Kingdom of Saudi Arabia



Banque Saudi Fransi  
PO Box 56006  
Riyadh 11554  
Kingdom of Saudi Arabia



Riyad Bank  
PO Box 22622  
Riyadh 11614  
Kingdom of Saudi Arabia



Samba Financial Group  
PO Box 833  
Riyadh 11421  
Kingdom of Saudi Arabia

# The Offering

<b>Offer Price</b> .....	SAR 512
<b>Total number of issued Shares</b> .....	15,000,000 Shares fully paid ordinary shares
<b>Number of Offer Shares</b> .....	4,500,000 fully paid ordinary shares
<b>Percentage of Offer Shares</b> .....	The Offer Shares represent 30% of the Company's issued share capital
<b>Nominal Value</b> .....	SAR 50 per share
<b>Total value of Offer Shares</b> .....	SAR 2,304,000,000
<b>Number of Offer Shares Underwritten</b> .....	4,500,000 shares
<b>Amount Underwritten</b> .....	SAR 2,304,000,000
<b>Minimum number of Offer Shares to be applied for</b> .....	10 shares
<b>Minimum subscription amount</b> .....	SAR 5,120
<b>Maximum number of Offer Shares to be applied for</b> .....	5,000 shares
<b>Maximum subscription amount</b> .....	SAR 2,560,000

Selling Shareholders	Pre-Offering		Post-Offering	
	Shares	Percent	Shares	Percent
	SAR 50 par value /share		SAR 50 par value/share	
HH Prince Sultan bin Mohammed bin Saud Al Kabeer .....	7,972,500	53.15%	5,580,750	37.21%
The Savola Group .....	6,049,500	40.33%	4,234,650	28.23%
Abdulaziz bin Ibrahim Al Muhanna.....	573,000	3.82%	401,100	2.67%
Abdulrahman bin Abdulaziz Al Muhanna .....	255,000	1.70%	178,500	1.19%
HRH Princess Aljawhara bint Saad bin Abdulaziz Al Saud .....	150,000	1.00%	105,000	0.70%
<b>Total</b> .....	<b>15,000,000</b>	<b>100.00%</b>	<b>10,500,000</b>	<b>70.00%</b>

**Use of Proceeds**..... The net proceeds of the Offering will be paid to the Selling Shareholders pro rata based on each Selling Shareholder's percentage ownership in the Shares being sold in the Offering. The Company will not receive any proceeds from the Offering.

**Allocation of Offer Shares**..... Allocation of the Offer Shares is expected no later than 12/6/1426H (corresponding to 18/7/2005G). In the event of the Offering being oversubscribed, each Subscriber will be allocated a minimum of 10 Offer Shares with the remaining Offer Shares being allocated on a pro-rata basis. The Company does not guarantee the minimum allocation of 10 Offer Shares in the event that the number of Subscribers exceeds 450,000. In that case, the Offer Shares will be allocated equally between all Subscribers. If the number of Subscribers exceeds the number of Offer Shares, the allocation will be left to the discretion of the CMA.

**Offering Period**..... The Offer will commence on Monday 27/5/1426H (corresponding to 4/7/2005G) and will remain open for a period of 10 days up to and including Wednesday 7/6/1426H (corresponding to 13/7/2005G)

**Dividends**..... The Company's net income amounted to SAR370 million for the fiscal year 2004, of which SAR 250

## THE OFFERING

million was declared as dividends and paid to the Selling Shareholders. The Offer Shares will be entitled to receive dividends declared by the Company in respect of its 2005G fiscal year and subsequent fiscal years. For a discussion of the Company's dividend policy, see "*Dividend Policy*" section.

<b>Voting Rights</b> .....	The Company has only one class of Shares and no Shareholder has any preferential voting rights. Each Share entitles the holder to one vote and each Shareholder holding at least 20 Shares has the right to attend and vote at the General Assembly Meeting. For a discussion of the Company's voting rights, see " <i>Voting Rights</i> " section.
<b>Share Restrictions</b> .....	Selling Shareholders may not dispose of any Shares during the period of 6 months from the date on which trading on the Offer Shares commences on the Exchange. After the 6-month lock up period has elapsed, the Selling Shareholders may only dispose of their Shares after obtaining CMA approval.
<b>Listing of Shares</b> .....	Prior to the Offering, there has been no public market for the Shares in Saudi Arabia or elsewhere. An application has been made to the CMA for the admission of the Shares to the Official List and all relevant approvals pertaining to this Prospectus and all other supporting documents requested by the CMA in addition to all relevant regulatory approvals required to conduct the Offering have been granted. Trading is expected to commence on the Exchange soon after the final allocation of the Shares (See " <i>Key Dates for Investors</i> " section)
<b>Risk Factors</b> .....	There are certain risks relating to an investment in this Offering. These risks can be categorized into (i) Risks related to the Company's operations; (ii) Risks related to the market; and (iii) Risks related to the ordinary shares. These risks are described in the " <i>Risk Factors</i> " section of this Prospectus which should be considered carefully prior to making an investment decision in the Shares Offered hereby.



# Key Dates for Investors

Offering Timetable	Date
Offering period .....	From Monday 27/5/1426H (corresponding to 4/7/2005G) to Wednesday 7/6/1426H (corresponding to 13/7/2005G)
Last date for submission of application form and subscription monies .....	Wednesday 7/6/1426H (corresponding to 13/7/2005G)
Notification of final allotment and refund of funds (in the event of over-subscription) .....	No later than 12/6/1426H (corresponding to 18/7/2005G)
Start date of trading of Offer Shares .....	Upon completion of all related procedures

The above timetable and dates therein are indicative. Actual dates will be communicated through national press announcements.

## How to Apply

Subscription Application Forms will be available during the Offering Period at the branches of the Lead Manager and Co-Managers. The forms must be completed in accordance with the instructions described in the “*Subscription Terms & Conditions*” section of this Prospectus.

# Summary of Key Information

*This summary of key information aims to give an overview of the information contained in this Prospectus. As it is a summary, it does not contain all of the information that may be important to interested Subscribers. Recipients of this Prospectus should read the whole Prospectus before making a decision to invest in the Company. Capitalized and abbreviated terms have the meanings ascribed to such terms in the “Definitions and Abbreviations” section and elsewhere in this Prospectus.*

## The Company

Almarai Company Limited was formed as a Saudi limited liability company with Commercial Registration Number 1010084223<sup>1</sup>, dated 19/12/1411H (corresponding to 1/7/1991G). The Minister of Commerce and Industry has, pursuant to resolution No. 773 dated 6/5/1426H (corresponding to 13/6/2005G), authorized the conversion of the Company from a limited liability company into a joint stock company. The share capital of the Company is SAR 750 million consisting of fifteen (15) million shares with a nominal value of SAR 50 each. Following completion of the Offering and the conclusion of the Conversion General Assembly, an application will be submitted to the Minister of Commerce and Industry requesting him to announce the conversion of the company. The Company will be considered duly converted into a joint stock company from the date of issuance of the Ministerial Resolution declaring its conversion.

### Almarai's Ownership Structure

	Pre-Offering			Post-Offering		
	Shares	%	Capital (SAR)	Shares	%	Capital (SAR)
Shareholders	SAR 50 par value per share			SAR 50 par value per share		
HH Prince Sultan bin Mohammed bin Saud Al Kabeer	7,972,500	53.15	398,625,000	5,580,750	37.21	279,037,500
The Savola Group	6,049,500	40.33	302,475,000	4,234,650	28.23	211,732,500
Abdulaziz bin Ibrahim Al Muhanna	573,000	3.82	28,650,000	401,100	2.67	20,055,000
Abdulrahman bin Abdulaziz Al Muhanna	255,000	1.70	12,750,000	178,500	1.19	8,925,000
HRH Princess Aljawhara bint Saad bin Abdulaziz Al Saud	150,000	1.00	7,500,000	105,000	0.70	5,250,000
Offering Subscribers	-	-	-	4,500,000	30.00	225,000,000
Total	<u>15,000,000</u>	<u>100.00</u>	<u>750,000,000</u>	<u>15,000,000</u>	<u>100.00</u>	<u>750,000,000</u>

Source: Almarai

<sup>1</sup> In 1996, the Company changed its name from Almarai Trading Company Limited to Almarai Company Limited.

## SUMMARY OF KEY INFORMATION

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 some non-dairy products. Almarai is an integrated organisation spanning the food supply chain from dairy farms through to retail stores.

The origins of the Company date back to 1977 when HH Prince Sultan bin Mohammed bin Saud Al Kabeer, recognising the potential to transform traditional dairy farming in Saudi Arabia to meet the needs of a rapidly growing country, developed a number of agricultural projects which began with the processing of fresh milk and laban and soon thereafter expanded into dairy farms, fresh processing plants and cheese processing plants.

In 1991, the *Restructuring and Reinvestment* phase started with the establishment of Almarai Company Trading Limited at which point the Almarai brand had already achieved market leadership. Almarai was well positioned to benefit from the economic upturn in the region during that period.

Recognising the long-term strategic competitive advantages that would accrue to low cost fresh dairy producers, Almarai undertook a major investment programme involving a total capital expenditure in excess of SAR 1,100 million in the five years from 1993 to 1997.

A single large fresh processing plant, CPP, was commissioned with capacity for both existing and new products for ten years forward, and allowance for further expansion. Four large dairy farms, each with capacity for 10,000 animals, were built incorporating the latest technology.

By 1998, Almarai entered the *Growth and Utilising Competitive Advantages* phase with a strengthened market leadership position being a low cost producer, as witnessed by its margins and profitability. The Company was now in a strong position to face an increasingly competitive market situation.

In 1999, Almarai initiated a major fresh milk and laban price promotion in Saudi Arabia. Consumer demand proved extremely responsive and Almarai made very significant market share gains without adverse effect on overall profitability. The price sensitivity of milk and laban in Saudi Arabia was again in evidence as retail prices of milk and laban fell once more in the summer of 2001. Almarai continued to experience growth in volume and market share mitigating the negative impact of lower sale prices on margins.

## Mission Statement

Almarai's mission is to make its food and beverage products the preferred choice of families throughout its target markets. Almarai's mission statement clearly positions it in the consumer food business in the Middle East. It has established itself as a leader in the dairy and related sectors in the GCC region.

## Competitive Advantages

The Almarai brand is instantly recognisable throughout the GCC. Consumers view the brand as a symbol of quality, value and freshness and within the industry and wider business community Almarai is renowned for quality, technical superiority, efficiency and brand awareness.

Almarai has avoided dependence on individual aspects of its business and is not excessively dependent on any one of the following:

## SUMMARY OF KEY INFORMATION

- ▶ Country or Regional Market
- ▶ Product or Product Category
- ▶ Retail Group, Customer Category or Distribution Channel
- ▶ Milk Source or Third Party Supplier

Almarai is a vertically integrated enterprise, covering such diverse activities as marketing creativity, sales and distribution, food processing, and dairy farming. Daily availability of high quality, fresh, short shelf-life dairy products across a vast area in an environment of high ambient temperatures is critically dependent on high quality inputs, the highest standards of excellence throughout all processes and an effective chilled distribution network. Almarai ensures this through direct control of all aspects of its integrated food supply chain.

Almarai believes that it has established a reputation as one of the foremost milk producers in the world despite operating in an arid environment with extremely high ambient temperatures. The Company's herd productivity is exceptional, well ahead of local rivals and comparable to the highest yields being achieved by commercial dairy herds anywhere in the world. Almarai currently estimates that its average cow yields 12,400 litres annually.

Almarai's profitability has grown consistently over a number of years, with a net profit margin exceeding 20% in the years 1997 to 2003. Almarai has maintained this high level of return, while also maintaining its market share, sales volumes and sales prices, thus resulting in high levels of cash generation. In 2004, Almarai achieved a net profit margin of 19.6%. This slight decrease reflects a change in Almarai's product mix, as it diversifies its portfolio and can also be attributed to increased costs as a result of significantly higher commodity prices and the relative weakness of the US dollar.

The Company has established and sustained an extremely profitable dairy business in difficult physical circumstances by its ongoing commitment to excellence in its people, processes and technologies. As a result Almarai has attained a high level of capability and expertise throughout its diverse range of activities, including:

- ▶ Marketing expertise, particularly in identifying and satisfying consumer needs
- ▶ Sales expertise, particularly in providing cost-effective customer service
- ▶ Coverage and effectiveness of chilled distribution network
- ▶ Integrated food supply chain with proven planning and information capability
- ▶ Modern and advanced asset base
- ▶ Proven sophisticated processing and farming technologies supported by access to proven technical experts in all major disciplines - farming, processing and engineering

Almarai is managed by a skilled and experienced senior team, with strength in depth across the organisation. Senior personnel are drawn from a variety of backgrounds and nationalities and combine expertise, experience and local knowledge. Key aspects of Almarai's management expertise include:

- ▶ Skilful planning particularly in balancing product demand with raw milk supply
- ▶ Management of the chilled chain and its impact on delivered product quality
- ▶ Field sales management information and know-how
- ▶ Accurate short and long-term sales forecasting
- ▶ Integrated financial, information, planning and control systems

# Summary Financial Information

*The selected financials presented below should be read in conjunction with the audited financial statements for the fiscal years 2002, 2003 and 2004, including in each case, the notes thereto, included elsewhere in this Prospectus.*

## Key Financial Highlights (SAR M)

	Year ended 31 December		
	2004	2003	2002
<b>Operational Performance</b>			
Total sales.....	1,885.1	1,753.9	1,600.8
Cost of Sales.....	1,126.6	1,018.6	913.4
Gross Margin .....	758.5	735.3	687.4
Selling and distribution expenses.....	275.6	257.7	234.9
Financing cost and bank charges .....	16.9	18.8	9.1
Income before Zakat .....	379.7	378.1	361.7
Zakat .....	9.4	9.8	9.7
Net income .....	370.3	368.3	352.1
<b>Financial Condition</b>			
Total assets.....	2,400.0	2,007.2	1,641.2
Inventories .....	243.2	193.1	141.4
Fixed assets.....	1,909.2	1,563.8	1,243.2
Intangibles.....	-	22.6	40.9
Total borrowings .....	767.4	506.3	236.9
Shareholders' Equity .....	1,292.7	1,222.3	1,134.0
<b>Key Indicators</b>			
Return on sales (%) .....	19.6	21.0	22.0
Debt to equity ratio (%) .....	59.4	41.4	20.9
Return on Equity ratio (%).....	28.6	30.1	31.0
Total costs to sales (%).....	80.4	79.0	78.0
Debt ratio (%).....	32.0	25.2	14.4
Revenue growth rate (%) .....	7.5	9.6	12.6
Dividends payout ratio (%).....	67.5	81.5	79.5
Earnings per Share (SAR) <sup>2</sup> .....	4.9	736.6	1,760.4
Adjusted Earnings per Share (SAR) <sup>3</sup> .....	24.7	24.6	23.5

Source: Almarai Audited Financial Statements

<sup>2</sup> In 2002 the number of issued shares was 200,000 at a nominal value of SAR 1,000. On 1<sup>st</sup> April 2003 the number of shares issued increased to 500,000 at a nominal value of SAR 1,000 (due to an increase in share capital of SAR 300 million). On 1<sup>st</sup> August 2004 the number of shares issued increased to 75 million at a nominal value of SAR 10 (due to an increase in share capital of SAR 250 million and a shares split of 100 to 1).

<sup>3</sup> In order to arrive at comparable earnings per share figures for the years 2002, 2003 and 2004, Adjusted Earnings per Share is calculated assuming the total number of issued shares are equal to the post IPO total number of issued shares of 15 million for the three consecutive years.

# Contents

1. Definitions and Abbreviations .....	1
2. Risk Factors.....	4
2.1 Risks Relating to the Company's Operations .....	4
2.2 Risks Related to the Market .....	7
2.3 Risks Related to the Ordinary Shares .....	9
3. Industry Overview .....	11
3.1 World Dairy Markets.....	11
3.2 Dairy Markets in the GCC .....	12
3.3 Milk Production in Saudi Arabia and the GCC.....	15
3.4 The Retail Market in the GCC .....	16
4. The Company .....	18
4.1 Introduction .....	18
4.2 Company Evolution .....	19
4.3 Mission and Overall Strategy .....	20
5. Key Products and Markets .....	22
5.1 Key Brand and Product Groups .....	22
5.2 Market Segments and Shares.....	24
5.3 Key Markets and Trading Arrangements.....	26
6. Operational and Support Functions .....	28
6.1 Organisation Structure .....	28
6.2 Distribution and Sales .....	28
6.3 Operations and Farming.....	30
6.4 Marketing .....	32
6.5 Research and Development of New Products and Processes .....	32
6.6 Finance, Information and Support .....	33
6.7 Human Resources and Administration .....	34
7. Facilities .....	35
8. Quality, Safety and Environmental Management .....	36
8.1 Quality Management .....	36
8.2 Health and Safety Management.....	36
8.3 Environmental Management .....	36
9. Trademarks, Patents and Other Intellectual Properties .....	38
9.1 Trademark Registrations Classes .....	38
9.2 Trademark Registrations Within the GCC Countries.....	38
9.3 Trademark Registrations Outside of the GCC.....	38
9.4 Trademark License Agreements .....	39
9.5 Trademark Rights Infringement.....	39
10. Government Licenses .....	40
11. Corporate Structure .....	41
11.1 Directors and Management .....	41
11.2 Certain Relationships and Related Party Transactions .....	44
11.3 Corporate Governance.....	45
11.4 Declaration in Respect of Directors and Key Officers .....	46
11.5 Remuneration of Directors and Management.....	46
11.6 Employees .....	46
12. Competitive Advantages .....	48
12.1 A Strong Established Brand with a Diversified Portfolio .....	48
12.2 Integrated Food Supply Chain - A Proven Business Model.....	48
12.3 High Quality Milk Supply .....	49
12.4 Strong Earnings and Cash Generation .....	49
12.5 Production and Technical Capability and Expertise .....	49
12.6 Change Management Skills - Sustaining Long-Term Growth.....	50

## CONTENTS

13. Future Prospects.....	51
14. Accountants Report .....	53
15. Management's Discussion & Analysis of Financial Condition & Results of Operations .....	71
15.1 Director's Declaration for Financial Information.....	71
15.2 Overview .....	71
15.3 Results of Operations.....	77
15.4 Financial Condition and Liquidity.....	86
15.5 Current Trading and Prospects .....	89
15.6 Market Risk .....	89
15.7 Statement of Management's Responsibility for Financial Information ....	90
16. Dividend Record and Policy .....	91
17. Capitalization and Indebtedness .....	92
18. Use of Proceeds .....	93
19. Description of the Shares.....	94
19.1 Share Capital .....	94
19.2 Shareholders' Rights.....	94
19.3 Shareholders Assemblies.....	95
19.4 Voting Rights.....	96
19.5 The Shares.....	96
19.6 Duration of the Company .....	96
19.7 Dissolution and Winding-up of the Company .....	97
20. Summary of the Company's By-Laws .....	98
21. Summary of Material Contracts .....	106
21.1 Construction Agreements.....	106
21.2 Financing Agreements .....	107
21.3 Information Technology Agreements .....	107
21.4 Customer Agreements .....	108
21.5 Supply and Packaging Agreements .....	108
21.6 Dairy Association Agreements .....	109
22. Litigation .....	110
23. Underwriting.....	111
23.1 Underwriters.....	111
23.2 Summary of Underwriting Arrangements .....	111
24. Subscription Terms & Conditions.....	113
24.1 Subscription to Offer Shares .....	113
24.2 Allocation and Refunds .....	115
24.3 Acknowledgements .....	115
24.4 Miscellaneous .....	116
24.5 The Saudi Arabian Stock Exchange (Tadawul).....	116
24.6 Trading on Tadawul .....	117
25. Documents Available for Inspection.....	118

## Exhibits

Exhibit 3-1: GCC Dairy Markets 2004 – by Country .....	12
Exhibit 3-2: GCC Dairy Markets 2004 – by Product .....	13
Exhibit 3-3: GCC Dairy Consumption 2004.....	14
Exhibit 3-4: Selected Countries Dairy Consumption 2004 .....	14
Exhibit 3-5: GCC Dairy Markets 2004 – Dairy Consumption by Product.....	15
Exhibit 3-6: Estimated Raw Milk Production in Saudi Arabia 2003 .....	16
Exhibit 3-7: Retail Structure in Saudi Arabia 2004 .....	17
Exhibit 4-1: Almarai's Ownership Structure.....	18
Exhibit 5-1: Sales 1995-2004 (SAR M) .....	23
Exhibit 5-2: Sales Growth (1995-2004) .....	24
Exhibit 5-3: GCC Markets 2004 – Almarai Market Share .....	25

## CONTENTS

Exhibit 5-4: Almarai Level of Dependency by Country and Channel – 2004 .....	26
Exhibit 5-5: Almarai Sales by Category & Territory 2004 (SAR M) .....	26
Exhibit 5-6: Almarai Distributors .....	27
Exhibit 6-1: Almarai Distribution Depots .....	29
Exhibit 6-2: New Products 2002-2004 .....	33
Exhibit 7-1: Almarai Land, Buildings, Plant, Machinery & Equipment by Facility .....	35
Exhibit 10-1: Principal Government Licences – Saudi Arabia .....	40
Exhibit 11-1: Almarai's Management Team .....	42
Exhibit 11-2: Almarai Employees and Remuneration .....	47
Exhibit 15-1: Almarai's Ownership Structure .....	72
Exhibit 15-2: Almarai Sales, Net Income and Operating Cash Flows 1995-2004 .....	72
Exhibit 15-3: Annual Year-on-Year Growth Rates (%) .....	73
Exhibit 15-4: Sales Volume by Product Group 1995-2004 (Litres/Kg. millions) .....	73
Exhibit 15-5: Sales Value by Product Group 1995-2004 (SAR M) .....	74
Exhibit 15-6: Average Sale Prices and Volumes by Product Group 1995-2004 .....	74
Exhibit 15-7: Sales Percentage by Product Group 1995-2004 (%) .....	75
Exhibit 15-8: Estimated Capital Expenditure 2003-2007 (SAR M) .....	75
Exhibit 15-9: Income Statements (SAR M) .....	77
Exhibit 15-10: Income Statements as % of Sales .....	78
Exhibit 15-11: Sales by Product Group (SAR M) .....	78
Exhibit 15-12: Fresh Dairy Volumes and Sale Prices .....	79
Exhibit 15-13: Long-life Dairy Volumes and Sale Prices .....	80
Exhibit 15-14: Fruit Juice Volumes and Sale Prices .....	80
Exhibit 15-15: Cheese & Butter Volumes and Sale Prices .....	81
Exhibit 15-16: Operating Costs (SAR M) .....	82
Exhibit 15-17: Operating Costs .....	83
Exhibit 17-1: Almarai Capitalization .....	92
Exhibit 17-2: Almarai's Ownership Structure .....	92
Exhibit 23-1: Underwriting Proportions Among Underwriters .....	111



# 1. Definitions and Abbreviations

Term	Definition
<b>Advisers</b> .....	The Company's and Selling Shareholders' advisers with respect to the Offering whose names appear on page iv
<b>Almarai or the Company</b> .....	Almarai Company Trading Limited, Almarai Company Limited, and upon its conversion into a joint stock company, Almarai Company
<b>Board of Directors or Board</b> .....	The Company's Board of Directors
<b>CMA or the "Authority"</b> .....	The Capital Market Authority, including where the context permits any committee, sub-committee, employee or agent to whom any function of the Authority may be delegated
<b>Co-Managers</b> .....	Arab National Bank, Banque Saudi Fransi, Riyad Bank and Samba Financial Group appointed by the Company to act as the Co-Managers in relation to the Offering
<b>Companies Regulations</b> .....	The Companies Regulations, issued under Royal Decree No. M/6, dated 22/3/1385H, as amended
<b>Conversion</b> .....	the conversion of Almarai from a limited liability company to a joint stock company.
<b>Co-Underwriters</b> .....	Arab National Bank, Banque Saudi Fransi, Riyad Bank and Samba Financial Group appointed by the Lead Underwriter in relation to the Offering
<b>CPP</b> .....	Central Processing Plant
<b>CPP2</b> .....	New processing facility adjacent to the existing fresh processing plant in Al Kharj
<b>EBCZDA</b> .....	Earnings before Bank Charges, Zakat, Depreciation and Amortization
<b>ERP</b> .....	Enterprise Resource Planning
<b>ESIS</b> .....	Electronic Securities Information System
<b>Exchange</b> .....	The Saudi Stock Exchange including where the context permits any committee, sub-committee, employee, officer, servant or agent to whom any function of the Exchange may for the time being be delegated, and "on the Exchange" means any activity taking place through or by the facilities provided by the Exchange. Pending the establishment of the Exchange, any reference to the Exchange shall be construed as a reference to Tadawul.
<b>Financial Adviser</b> .....	HSBC Financial Services (Middle East) Limited appointed by the Company to act as the Financial Adviser in connection with the Offering
<b>FMCG</b> .....	Fast Moving Consumer Goods
<b>GCC</b> .....	Gulf Cooperation Council
<b>GDP</b> .....	Gross Domestic Product

## DEFINITIONS AND ABBREVIATIONS

Term	Definition
<b>Government</b> .....	Government of Saudi Arabia
<b>GOSI</b> .....	The General Organization for Social Insurance
<b>HACCP</b> .....	Hazard Analysis and Critical Control Point, a system which identifies, evaluates and controls hazards which are significant for food safety
<b>HSBC</b> .....	HSBC Financial Services (Middle East) Limited
<b>IAS 41</b> .....	International Accounting Standard 41 (Agriculture)
<b>IMD</b> .....	International Management Development
<b>ISO</b> .....	International Organization of Standardization
<b>IT</b> .....	Information Technology
<b>Kingdom</b> .....	Kingdom of Saudi Arabia
<b>Lead Manager</b> .....	The Saudi British Bank appointed by the Company in relation to the Offering
<b>Listing Rules</b> .....	The Listing Rules issued by the CMA pursuant to Article 6 of the Capital Market Regulations promulgated under Royal Decree No. M/30 dated 2/6/1424H (corresponding to 31/7/2003G)
<b>Livestock Appreciation</b> .....	The gradual increasing value representing the cost of rearing and maturing the youngstock herd
<b>LME</b> .....	Liquid Milk Equivalents – the approximate amount of liquid milk used in a dairy product
<b>Local Agents</b> .....	Commercial agents and distributors of Almarai outside Saudi Arabia
<b>Lead Underwriter</b> .....	The Saudi British Bank appointed by the Company in relation to the Offering
<b>Management</b> .....	The management of Almarai Company Limited
<b>MBA</b> .....	Masters of Business Administration
<b>NBV</b> .....	Net Book Value
<b>Offer Price</b> .....	SAR 512 per share
<b>Offer Shares</b> .....	4,500,000 ordinary shares of Almarai
<b>Offering or IPO</b> .....	The initial public offering of 4,500,000 ordinary shares representing 30% of the issued share capital of Almarai
<b>Offering Period</b> .....	The period starting from 27/5/1426H (corresponding to 4/7/2005G) for a period of 10 days up to and including 7/6/1426H (corresponding to 13/7/2005G)
<b>Official Gazette</b> .....	Um Al Qura, the official Gazette of the Government of Saudi Arabia
<b>Official List</b> .....	The list of securities maintained by the CMA in accordance with the Listing Rules
<b>Person</b> .....	A natural Person
<b>Prospectus</b> .....	This document prepared by the Company in relation to the Offering
<b>SAAB</b> .....	Saudi Arabian Agricultural Bank
<b>SABB</b> .....	The Saudi British Bank
<b>SAR</b> .....	Saudi Arabian Riyal

## DEFINITIONS AND ABBREVIATIONS

Term	Definition
<b>SASO</b> .....	Saudi Arabian Standards Organization
<b>Saudi Arabia or KSA</b> .....	Kingdom of Saudi Arabia
<b>Saudi GAAP</b> .....	Generally Accepted Accounting Principles of Saudi Arabia
<b>Selling Shareholders</b> .....	HH Prince Sultan bin Mohammed bin Saud Al Kabeer, the Savola Group, Abdulaziz bin Ibrahim Al Muhanna, Abdulrahman bin Abdulaziz Al Muhanna and HRH Princess Aljawhara bint Saad bin Abdulaziz
<b>Shareholders</b> .....	The holders of the shares as of any particular time
<b>Shares</b> .....	15,000,000 fully paid ordinary shares of the Company with a nominal value of SAR 50 each
<b>SIDF</b> .....	Saudi Industrial Development Fund
<b>SOCPA</b> .....	Saudi Organization for Certified Public Accountants
<b>Subscriber</b> .....	Each Saudi citizen subscribing to the Offer Shares
<b>Tadawul</b> .....	Automated system for trading of Saudi shares.
<b>UAE</b> .....	United Arab Emirates
<b>UHT</b> .....	Ultra High Temperature used to process long-life milk products
<b>UK</b> .....	United Kingdom
<b>Underwriters</b> .....	Lead Underwriter and Co-Underwriters
<b>Underwriting Agreement</b> .....	The underwriting agreement among the Selling Shareholders, the Company and the Underwriters
<b>USA</b> .....	United States of America

## 2. Risk Factors

*In considering an investment in the Offer Shares, prospective investors should carefully consider all the information contained in this Prospectus, including the risks described below. Almarai's business, prospects, financial condition, results of operations and cash flows could be adversely and materially affected if any of the following risks which management (the "Management") currently believes to be material, or any other risks that the Management has not identified or that it currently considers not to be material, actually occur or become material risks. The trading price of the Company's Offer Shares could decrease due to any of these risks, and prospective investors may lose all or part of their investment.*

### 2.1 Risks Relating to the Company's Operations

#### 2.1.1 Product Risk

The Company's operations are subject to certain risks related to the potential contamination of ingredients or products by external agents, and any such contamination could adversely impact sales and profitability.

The Company manages this risk by (1) testing and monitoring milk intake continually during and at completion of the production process; (2) performing external audits of operation systems by the Saudi Arabian Standards Organization ("SASO") in compliance with international quality standards of Hazard Analysis and Critical Control Point ("HACCP") and ISO 9002; and (3) maintaining insurance cover against any third party claim. Nevertheless, the possibility of such contamination cannot be entirely eliminated. (See "Quality, Safety and Environmental Management" section).

#### 2.1.2 Unexpected Business Interruption

Like all businesses, Almarai is dependent on the ongoing, efficient operations of its systems and infrastructure. Inherent risks include natural disasters, failure of critical machinery, power, water supply and computer equipment.

While the Company has put in place sophisticated safety and protective measures to minimize the effects of such risks, there can be no assurance that the Company's business operations would not be interrupted or materially impacted should any of these risks materialize. This risk is particularly relevant since the Company's main processing facilities are concentrated on a large site in the Al-Kharj area consisting of the CPP and CPP2 plants, (for a discussion of the CPP and CPP2 plants, please see "The Company" and "Future Prospects" sections), although the risk is alleviated since the Company has duplicate utility facilities capable of servicing the needs of both plants in an emergency.

The Company maintains appropriate insurance policies in accordance with normal commercial practice.

## RISK FACTORS

### 2.1.3 Protection of Intellectual Property

The inability to retain control over and protect, or in some cases the need to take actions necessary to protect Almarai's intellectual property may adversely affect Almarai's business.

Almarai maintains a strong brand name supported by its "Almarai", "Al Youm" and "Zady" trademarks, which are registered in various countries under one or more of Classes 29, 30, 31 or 32 of the international trademark classification system. The Company's competitive position depends, inter alia, upon its ability to continue to utilize the trademarks used on its products in the jurisdictions where the products are sold, and to protect those trademarks from infringement.

Almarai is the registered owner of all classes of trademarks used in connection with its business, except for certain Class 29 trademarks outside of the GCC Countries which are in the name of two offshore companies owned and controlled by the Selling Shareholders. Almarai has entered into licensing arrangements for the use of many of the Class 29 registrations outside the GCC countries and is in the midst of a restructuring process whereby the offshore companies would become wholly owned by Almarai. The Company's business could be adversely affected if it were to cease to have the right to utilize trademarks to which it does not have complete ownership rights.

The Company may not always be in a position to register its trademarks or prevent unauthorized use or alleged infringement of its trademarks. Almarai has been precluded from using the "Almarai" trademark for Class 32 (used for juices) in one country, although the Company has managed to successfully market those products under the "Al Youm" trademark. The Company is aware that third parties, from time to time, use the word "Almarai" in their trademarks. The inability to register trademarks or prevent infringement in jurisdictions where the Company operates may adversely affect the brand and may make it more expensive to do business thus adversely affecting the Company's operating results.

Almarai also seeks to maintain and protect its trade secrets, however the unauthorized disclosure of the Company's trade secrets could cause the Company to lose a competitive advantage. The Company has taken preventative measures to reduce the risks of unauthorized disclosure of its trade secrets. (See "*Trademarks, Patents and Other Intellectual Properties*" section).

### 2.1.4 Principal Shareholders

The value of the Shares could be adversely affected if a major shareholder, such as HH Prince Sultan bin Mohammed bin Saud Al Kabeer or the Savola Group were to dispose of his or its shareholding in the Company following the share-restriction period referred to in the "*Future Sales and Offerings*" section of the Risk Factors.

### 2.1.5 Almarai Brand

Almarai's business is supported by a strong brand. The Company believes that the brand identity that it has developed has significantly contributed to the success of its business and that maintaining and enhancing the Almarai brand, which will depend, in turn, largely on the success of the Company's marketing efforts and ability to provide its customers with high-quality products, is important to growing the business.

Maintaining and enhancing its brand will depend largely on its ability to be a market leader and to continue to provide high quality products and services, which the Company may not do successfully. (See "*Key Products and Markets*" section).

## RISK FACTORS

### 2.1.6 Expansion Strategy

The Company's financial condition and results of operations could be adversely affected if its expansion strategy is unsuccessful.

Almarai has grown over recent years and intends to continue to expand the volume and variety of products on offer. The Company is close to completing the Capital Investment Programme to support its expansion strategy and will also need to invest in promotional and marketing activities. Almarai's ability to manage this expansion will depend on the Company's ability to continue to implement and improve operational, financial and management information systems on a timely basis and to expand, train, motivate and manage the workforce. Failure to increase sales in existing and/or new markets may result in Almarai not being able to recover production, distribution, promotional and marketing expenses, as well as administrative costs incurred in developing such markets.

In addition, while the Company has no plans currently to expand its operations outside the GCC countries, it could face a number of risks should it decide to do so in the future primarily due to its inexperience in operating outside the GCC. Such risks include legal and regulatory restrictions, foreign exchange controls, political and economic instability and challenges caused by distance, language and cultural differences. These risks could adversely affect the Company's expansion efforts, which would in turn harm the Company's business and operating results.

### 2.1.7 Exchange and Interest Rate Risk

Fluctuations between the value of the Saudi Riyal and foreign currencies may have an adverse effect on the costs and profits of the Company.

The Company's operations involve the purchase of goods denominated in currencies other than the Saudi Riyal, principally the US Dollar and Euro. The Company does not hedge all of its currency exposure. In addition, interest payments under the Company's debt facilities are calculated by reference to a floating interest rate. An unfavourable shift in exchange rates or interest rates would have a negative impact. (See "*Management's Discussion & Analysis of Financial Condition & Results of Operations*" section).

### 2.1.8 Commodity Prices

Increases in commodity prices could have a material adverse effect on the Company's profits.

A significant portion of the Company's costs derives from purchases of commodity products particularly for feed, dairy and juice ingredients on the international market, mainly dominated in the US Dollar. The prices of such commodities have been subject to fluctuations in the past and may be subject to fluctuations in the future. The price of certain commodities could also be affected by a poor harvest in the Company source markets or a change in government intervention policies.

The Company attempts to manage this risk in part by including, in any long-term purchase contracts, provisions for the periodic review of the price of the product by reference to market conditions prevailing at the time.

### 2.1.9 Dependence on Suppliers

The Company's operations may be interrupted or otherwise adversely affected by delays in the supply of utilities or materials from third party suppliers or any change in the terms on which they are available. Similarly, a change in a supplier could interrupt supply continuity or result in additional cost, adversely affecting the Company's business.

## RISK FACTORS

The Company purchases a substantial proportion of the packaging, utilities and raw materials necessary to produce its products from third party suppliers.

### 2.1.10 Dependence on Key Personnel

Almarai's sales, business, financial condition and results of operations could be materially and adversely affected if the Company is unsuccessful in either retaining qualified employees or replacing them with equally qualified personnel.

Almarai is dependent upon the abilities and experience of its executive officers and other key personnel. The Company may be adversely affected by the loss of key personnel in the short to medium term. While the Company has been implementing strategies to reduce the risk of staff losses and to minimise the impact of any loss of key staff, should several of these key officers and key employees leave the Company, its operations could be adversely affected. Almarai has been traditionally capable of finding qualified, skilled and professional replacements for key staff leaving the Company. The average period of employment for key officers has historically been 8 years. Nevertheless, there can be no assurance that the Company will be able to retain the services of its existing key management employees or to attract and retain additional qualified personnel as and when needed.

### 2.1.11 Agency and Distributorship Arrangements

The disruption to the agency or distributorship arrangements through which Almarai's business is conducted in the UAE, Qatar, Oman<sup>4</sup> and Kuwait or the termination of such arrangements could have a significant negative impact on profitability.

Almarai products are marketed in these countries through agency or distributorship arrangements, which collectively account for a significant portion of Almarai's business. Many of these arrangements have been in place for a considerable period. Almarai has structured these arrangements in a manner that gives it substantial management control over the local operations, and retains ownership of the key assets used in these operations. Such arrangements, however, require the business to be conducted through and assets to be held in the name of the local agent or distributor, and these arrangements therefore entail an inherent degree of legal and commercial risk, particularly if the agent or distributor (or a successor or heir) should choose not to give effect to the arrangements. Moreover, if an agent or distributor chooses not to cooperate in the event Almarai elects to terminate an agency or distributorship, local legislation may make it difficult to have a smooth transition to a new agent or distributor. (See "*Key Products and Markets*" section).

## 2.2 Risks Related to the Market

### 2.2.1 Forage Supply

Profit margins and profitability may be affected if Almarai were required to import forage from abroad due to a shortage in water supply.

The Company currently procures forage from local farms and has a philosophy of continually reducing water usage throughout the organization. The Company may need to import forage

---

<sup>4</sup> Arabian Planets for Trade and Marketing, an Omani limited liability company with commercial registration number 1/68882/5 dated 22/5/2005 controlled by Almarai, was recently established to distribute its products in Oman. It is expected that the existing distributorship arrangement in Oman will be terminated shortly and that Almarai's business in Oman will be transferred to the new company.

## RISK FACTORS

from abroad, if so deemed necessary, for reasons relating to water shortage, resulting in an increase in production costs. Should the company be unable to increase product prices to offset the increased costs it could suffer a reduction in profit margins and profitability.

### 2.2.2 Outbreak of Disease

A major outbreak of disease within the herd could have a material adverse effect on the Company.

The Company believes the risk of such an outbreak are mitigated by the fact that Saudi Arabia and the UAE are officially recognised by the Ministry of Agriculture in the Kingdom and the Ministry of Agriculture and Fisheries in the United Arab Emirates as free of disease and the Company sources over 90% of its milk from its own dairy herd. Contingency plans are in place, which involve government bodies, milk processors and milk suppliers, to mitigate the consequences should an outbreak of disease occur. The Company manages disease risk by:

- (i) strict bio-security procedures, supported by a closed herd policy;
- (ii) regular approved vaccination programmes;
- (iii) routine surveillance of dairy herd by an experienced veterinarian team; and
- (iv) HACCP and ISO 9001-2000 compliance and accreditation.

Nevertheless, a major outbreak of any illness or disease within the herd could lead to significant shortfalls in the supply of milk and other dairy products. Furthermore, adverse publicity about these types of concerns, whether or not valid, may discourage consumers from buying dairy products consequently which could lead to a substantial decline in sales for the Company.

### 2.2.3 Market Share for New Products

Consumer preferences change, and Almarai's failure to anticipate, identify or react to these changes could result in reduced demand for the Company's products, which in turn could result in Almarai not being able to recover development, production and marketing costs, thereby leading to a decline in profitability.

The success of new products introduced depends on Almarai's ability to anticipate the tastes and dietary habits of consumers and to offer products that appeal to their preferences. There can be no assurance that Almarai will be able to gain market acceptance or significant market share for its new products.

### 2.2.4 Competitive Environment

There can be no assurance that Almarai will be able to compete effectively against current and future competitors, and changes in the competitive environment may result in price reductions, reduced margins or loss of market share, any of which could materially adversely affect the Company's profit margins.

Competition may lead competitors to increase their advertising expenditures and promotional activities and/or to engage in irrational or predatory pricing behaviour. Almarai's ability to compete against regional and international companies is, to a certain extent, dependent on its ability to distinguish its products from those of competitors by providing high quality products at reasonable prices that appeal to consumers' tastes and preferences.

Almarai cannot make any assurances that current or potential competitors will not provide products comparable or superior to those provided by Almarai or adapt more quickly to the evolving industry trends or changing market requirements.



## RISK FACTORS

It is also possible that there will be significant consolidation in the dairy industry; alliances may develop among competitors and these alliances may rapidly acquire significant market share. In addition, concentration within the retail sector or moves by major retailers to centralized buying/distribution could increase their buying and negotiating strength.

### 2.2.5 Potential Pricing Pressure

Almarai's profitability may be adversely affected if a price war is instigated by the dairy industry.

The Saudi dairy sector witnessed two consecutive price wars during 2000 and 2001 primarily due to excess supply, leading to a significant downward pressure on the pricing for dairy products. Despite prices remaining flat and not increasing since that time, Almarai's extensive processing, farming, marketing and financial resources have enabled it to consistently grow its net income year over year thereby demonstrating the Company's ability not only to withstand but to take advantage of such market practices.

The Company believes that the likelihood of further price wars being initiated by its current or future competitors is low, because raw material costs have increased substantially in the intervening period along with demand while production capacity has remained below demand growth. Although the Company believes that the broad geographical spread of its business coupled with the diversity of its product portfolio will significantly reduce the overall impact of such an event on the Company's business, there can be no assurance that the Company's profitability would not be impacted negatively.

## 2.3 Risks Related to the Ordinary Shares

### 2.3.1 Effective Control by the Selling Shareholders

The Selling Shareholders will remain in a position to exert control over all matters requiring shareholder approval, including the election of directors and significant corporate transactions.

Following this Offering, the Selling Shareholders will effectively own 70% of the Company's Shares. Therefore, the Selling Shareholders acting together will be able to influence all matters requiring Shareholder approval, and they may exercise this ability in a manner that could have a significant effect on the Company's business, financial condition and results of operations.

### 2.3.2 Absence of a Prior Market for the Shares

Currently, there is no public market for the Company's Shares, and there can be no assurance that an active trading market for the Company's Shares will develop or be sustained after this Offering.

The Offer Price has been determined based upon several factors, including the history of and prospects for the Company's business and the industry in which it competes and an assessment of the Company's management, operations and financial results. Various factors, including the Company's financial results, general conditions in the industry, health of the overall economy or other factors beyond the Company's control could cause significant fluctuations in the price and liquidity of the Company's Shares.

## RISK FACTORS

### 2.3.3 Future Sales and Offerings

Sales of substantial amounts of the Shares in the public market following the completion of the Offering, or the perception that these sales will occur, could adversely affect the market price of the Shares.

Upon the successful completion of the Offering, the Selling Shareholders may not dispose of any Shares during the period of 6 months from the date on which trading on the Offer Shares commences on the Exchange. Moreover, the Company does not currently intend to issue additional shares immediately following the Offering. Nevertheless, the issuance by the Company or sale by any of the Selling Shareholders following the share-restriction period of a substantial number of Shares could have an adverse effect on the market for the Shares and result in a lower market price of the Shares.

### 2.3.4 Economic Risks

Any oil price fluctuations will have a direct impact on Saudi Arabia's economy and would subsequently be felt at all micro levels, including Almarai and its market value.

The contribution of the oil sector to Saudi Arabia's Gross Domestic Product continues to be substantial despite the Government's successful and continuous diversification policies.

### 3. Industry Overview

The source for a significant portion of the market information used in the section below is IMES Consulting ("IMES"), which is an independent international marketing consultancy specialising in the food and beverage sector. Since its foundation in 1971, IMES has achieved a track record of successful marketing projects in over 120 countries around the World. Its head office is located in London and its headquarters for the Middle East and North Africa Region is in Dubai. It has offices in other parts of the world including Jeddah, Moscow and Dublin.

IMES has long been associated with the Middle East and international dairy markets, which has led to the creation of an extensive database on fourteen countries in the Middle East. It publishes regular studies for the dairy and beverages markets in these fourteen countries and offers limited specialist consultancy services to individual clients. The IMES data used in this section has been derived using reports published by IMES, which were not conducted individually and solely for the Company.

IMES does not in itself, nor any of its affiliates, shareholders, directors or their relatives hold any shareholding or interest of any kind in the Company. IMES has given and not withdrawn its written consent to the use of its market data and research in this way in the Prospectus.

#### 3.1 World Dairy Markets

Most countries have an indigenous dairy industry, but in many instances are not capable of fully satisfying local demand. The countries in the Arabian Peninsula, have made great strides over the last three decades in developing dairy production and in reducing dependence on imports.

Milk is an extremely versatile product and may be used in a variety of ways. As a food, it is typically consumed in liquid form, as a yoghurt or dessert or as butter or cheese. Liquid milk may be used as a drink, either on its own or in other beverages such as tea or coffee. It is frequently consumed with breakfast cereal and may be used in cooking. Yoghurt may be used as either a savoury or as a dessert; it is used extensively in South Asian cooking. Butter is also used in cooking and in many countries as a spread. There are a large variety of cheeses, with many different possible food uses. Cheese may be sold to consumers in its natural format or processed into easy-to-use formats such as slices or spreads.

While raw milk may be viewed as a single input, its composition may also impact its revenue generating ability and typically higher butterfat levels offer higher returns.

As milk is a perishable product, international trade in dairy products tends to focus on longer life dairy commodity products such as milk powder, frozen butter and hard cheeses. These products can be produced in bulk at relatively low cost, particularly during periods of milk surpluses and can be stored for long periods.

Countries which can produce milk cheaply, regardless of when it is needed, are the most active traders in dairy commodity markets. These countries tend to have low input, low output, grass-based dairy farming systems.

Fresh perishable dairy products, such as short-life liquid milk, require a constant, all year round milk supply, matching market demand. The milk must be produced relatively close to market and be of consistently high quality and appropriate composition. Costs are therefore higher.

The likely elimination or reduction of subsidies, which effectively support dairy surpluses from developed countries, will make imported milk powder and products reconstituted or recombined locally from imported milk powder (recombined products) less competitive in the future.

## 3.2 Dairy Markets in the GCC

Saudi Arabia and the neighbouring countries of Kuwait, Bahrain, Qatar, the United Arab Emirates and Oman comprise the Gulf Cooperation Council ("GCC or GCC Countries").

The population, approximately 34 million people, is large and growing, with a relatively high proportion of young people. This demographic profile is a major plus for the dairy industry, as its products are considered important to growing families. If current trends continue, the GCC population, growing at approximately 4% annually, will approach 50 million in ten years time.

The per capita disposable income of all GCC countries compares very favourably to other Middle Eastern markets and to the income levels of many European countries. Per capita consumption of dairy products in the GCC is growing strongly but remains relatively low by international standards, particularly compared to countries with similar levels of income.

Almarai is the only fresh dairy company that operates in all six GCC countries. It is also the only GCC fresh dairy company with an extensive range of cheese and butter products.

In comparing dairy consumption levels, liquid milk equivalents

**Exhibit 3-1: GCC Dairy Markets 2004 – by Country**

	Population Millions	LME <sup>5</sup> Millions	LME/Head Litres	Value SAR M	Value/Head SAR
Saudi Arabia .....	22.70 .....	3,196.7 .....	141 .....	8,034 .....	354 .....
Kuwait .....	2.74 .....	470.8 .....	172 .....	1,174 .....	428 .....
Bahrain.....	0.77 .....	160.4 .....	208 .....	390 .....	506 .....
Qatar .....	0.74 .....	141.2 .....	191 .....	375 .....	507 .....
UAE.....	4.30 .....	682.3 .....	159 .....	1,800 .....	419 .....
Oman .....	2.37 .....	346.9 .....	146 .....	618 .....	261 .....
<b>GCC .....</b>	<b>33.62 .....</b>	<b>4,998.3 .....</b>	<b>149 .....</b>	<b>12,391 .....</b>	<b>369 .....</b>

Source: IMES Consulting, Almarai

The total GCC dairy market in 2004 amounted to over SAR 12.4 billion valued at retail selling prices, of which the fresh dairy sector was SAR 4.4 billion. The total dairy market includes a wide variety of products including canned milk and cream, butter, cheese and ice cream:

<sup>5</sup> (LME – the approximate amount of liquid milk used in the product) are a more useful measure than conventional weights.

**Exhibit 3-2: GCC Dairy Markets 2004 – by Product**

	Ltr M	Average Annual Growth 2000-2004	LME Ltr M	SAR M
<b>Fresh Dairy</b>				
Milk - Short-life .....	289.1	6.2%	289.1	1,159
Laban .....	458.9	4.7%	433.5	1,538
Yoghurt .....	192.9	5.6%	192.9	1,018
Labneh .....	12.6	9.9%	25.3	219
Cream .....	14.3	6.1%	99.8	274
Dairy Desserts .....	15.2	99.4%	15.3	143
Fresh Dairy .....	<u>983.0</u>	<u>5.7%</u>	<u>1,055.9</u>	<u>4,351</u>
<b>Dairy Foods &amp; Beverages</b>				
Milk - Long-life .....	404.5	5.8%	404.5	1,513
Evaporated Milk .....	140.8	3.8%	351.9	1,047
Condensed Milk .....	5.2	9.1%	13.0	54
Canned Cream .....	23.9	2.4%	167.6	375
Retail Milk Powder .....	72.1	0.6%	577.1	1,375
Retail Butter .....	17.2	-0.1%	395.6	312
Butter Ghee .....	9.3	2.8%	240.5	179
Processed Cheese .....	88.9	5.1%	1,244.4	2,227
White Cheese .....	36.9	2.0%	369.0	546
Natural Cheese .....	14.9	6.7%	178.8	412
Dairy Foods & Beverages .....	<u>813.7</u>	<u>4.3%</u>	<u>3,942.4</u>	<u>8,040</u>
<b>Total .....</b>	<b><u>1,796.7</u></b>	<b><u>5.1%</u></b>	<b><u>4,998.3</u></b>	<b><u>12,391</u></b>

Source: IMES Consulting, Almarai

Until the 1970s, GCC dairy markets were dependent on imported milk powder and recombined products, made locally using imported milk powder. Thereafter long-life recombined milk products, utilising imported milk powder and processed using ultra-high temperature ("UHT") process gained a sizeable share of the liquid milk market. With the establishment of large-scale commercial dairy farming in the region, consumers were offered the third more attractive option of fresh products made with locally produced raw milk.

In 1980, canned concentrated dairy products represented 49% of Saudi dairy consumption. By 2004 this had declined to 24%, while liquid and non-canned products grew from 4% to 31% of the Saudi dairy consumption<sup>6</sup>.

There has been a steady movement in all product categories towards fresh products. In Saudi Arabia fresh products accounted for 52% of the total liquid milk volumes (short-life and long-life)<sup>7</sup>. Initially, consumers were attracted by the taste and quality of fresh products and more recently by competitive pricing.

UHT milk made from locally produced raw milk is gaining an ever-increasing share of the long-life market as recombined continues to decline. In 2004 products made from fresh milk accounted for 32% of the Saudi long-life milk market<sup>8</sup>.

Despite rapid change in recent years, per capita dairy consumption in the GCC remains well below the levels in Western countries and in Eastern Europe.

<sup>6</sup> Source: IMES Consulting

<sup>7</sup> Source: IMES Consulting

<sup>8</sup> Source: IMES Consulting

**Exhibit 3-3: GCC Dairy Consumption 2004**

	Annual Consumption in Litres Per Head			
	Fluid Milk & Laban	Fluid Milk Only	Cheese	Butter
Saudi Arabia .....	35.9	20.0	4.1	0.4
Kuwait .....	28.0	19.7	5.8	0.6
Bahrain.....	36.9	29.2	6.4	0.6
Qatar .....	37.3	28.7	4.2	0.8
UAE.....	36.5	25.2	3.9	0.6
Oman .....	20.6	14.5	2.9	0.8
<b>GCC Average .....</b>	<b>34.3</b>	<b>20.6</b>	<b>4.2</b>	<b>0.5</b>

Source: IMES Consulting

**Exhibit 3-4: Selected Countries Dairy Consumption 2004**

	Annual Consumption in Litres Per Head		
	Fluid Milk Only	Cheese	Butter
United States .....	89.1	14.3	2.0
Mexico.....	40.1	2.0	1.1
Argentina.....	53.2	7.9	1.1
Brazil .....	65.9	2.6	0.4
European Union (25).....	72.2	12.8	4.6
Romania.....	163.4	1.1	0.5
Russia .....	87.5	3.5	3.0
Egypt.....	20.8	6.0	0.8
Japan .....	37.8	2.0	0.7
Australia.....	98.3	11.9	2.9
New Zealand.....	87.3	7.0	6.5

Source: Canadian Dairy Information Centre

Laban, a traditional fermented milk drink is extremely popular among Arab consumers. Traditionally, laban was made in the home using either locally produced milk or milk powder. Consumer packs of high quality fresh laban, made from locally produced raw milk, rapidly gained acceptance in the marketplace. Recombined laban products have never gained acceptance and fresh laban continues to be an important product for fresh dairy companies.

Demand for natural set yoghurt, (in Arabic, 'zabadi') in Middle Eastern markets is particularly strong. In Western homes, yoghurt is principally consumed as a stirred dessert, typically sweetened with fruit and flavours. In the Middle East, it is more frequently used in its natural format, either as a savoury or in cooking. Recombined yoghurt products have largely been discontinued except in markets where low cost recombined yoghurt is used in cooking.

Traditional local dairy specialities include 'gishtah'; a breakfast cream and 'labneh'; a fermented soft cheese. Driven by the introduction by Almarai of innovative products, demand for stirred fruit yoghurts and dairy desserts is growing steadily.

**Exhibit 3-5: GCC Dairy Markets 2004 – Dairy Consumption by Product**

LME Litres/head	Saudi Arabia	Kuwait	Bahrain	Qatar	UAE	Oman	Total
<b>Fresh Dairy</b>							
Milk - Short-life .....	6.2	6.7	17.2	20.5	17.3	11.1	8.6
Laban .....	15.9	7.6	7.7	6.8	6.8	4.9	12.9
Yoghurt .....	4.6	5.3	7.1	10.1	10.5	6.6	5.7
Labneh .....	0.7	1.6	1.0	1.4	0.7	0.2	0.8
Cream .....	2.5	9.3	5.4	5.7	2.0	0.4	3.0
Dairy Desserts .....	0.4	0.4	0.6	0.7	0.6	0.2	0.5
Fresh Dairy .....	<u>30.4</u>	<u>30.9</u>	<u>39.0</u>	<u>45.3</u>	<u>38.0</u>	<u>23.4</u>	<u>31.4</u>
<b>Dairy Foods &amp; Beverages</b>							
Milk - Long-life .....	13.7	13.0	12.0	8.3	7.9	3.4	12.0
Evaporated Milk .....	7.9	9.1	15.4	28.2	18.4	15.0	10.5
Condensed Milk .....	0.4	0.4	0.5	0.4	0.3	0.3	0.4
Canned Cream .....	5.7	4.9	4.2	3.8	3.0	2.2	5.0
Retail Milk Powder .....	15.4	22.2	28.1	23.0	17.3	23.0	17.2
Retail Butter .....	10.2	13.5	13.6	19.0	14.0	18.0	11.8
Butter Ghee .....	4.7	7.0	10.6	8.6	10.9	22.5	7.2
Processed Cheese .....	37.6	40.9	67.9	37.6	28.0	32.8	37.0
White Cheese .....	10.5	24.5	5.6	11.5	10.5	2.8	11.0
Natural Cheese .....	4.4	5.4	11.5	5.1	10.4	3.0	5.3
Dairy Foods & Beverages .....	<u>110.5</u>	<u>140.9</u>	<u>169.3</u>	<u>145.5</u>	<u>120.7</u>	<u>123.0</u>	<u>117.3</u>
<b>Total .....</b>	<b><u>140.9</u></b>	<b><u>171.8</u></b>	<b><u>208.3</u></b>	<b><u>190.8</u></b>	<b><u>158.7</u></b>	<b><u>146.4</u></b>	<b><u>148.7</u></b>

Source: IMES Consulting, Almarai

### 3.3 Milk Production in Saudi Arabia and the GCC

In countries outside the GCC, dairy processing companies typically source their milk from a large number of independent farmers. Dairy farming in the GCC, however, is characterised by a small number of large-scale producers.

Integrated dairy processing companies, like Almarai, maintain their own dairy herds and only purchase a small proportion of their total milk requirement. This gives the large dairy processors direct control over the quality, composition and timing of their milk supply.

GCC dairy farms do not have fields of grass pastures on which cows graze. The farms consist of milking parlours and animal housing, with adjacent sand-yards. Animal feed is brought to the cows. High ambient temperatures require a temperature-controlled environment during part of the year to ensure cow comfort and avoid stress.

The industry is particularly concentrated in the central region of Saudi Arabia where humidity levels are lower. In areas of high humidity, such as on the Gulf coast, key aspects of animal husbandry, particularly breeding, are more difficult with a negative impact on milk yield.

The cost of establishing and operating farms and keeping healthy animals of superior genetic merit in comfortable conditions on a high quality diet results in a relatively high cost structure compared to pasture farming as practised in traditional dairy farming countries.

Locally produced raw milk is therefore principally used for fresh products which require constant all year round supply and offer better returns than commodities.

Milk production in the GCC is heavily dependent on imports of animal feeds. There is some local production of animal fodder but this is constrained by its usage of scarce water

resources. Alternative sources of fodder are available, including importation of dehydrated alfalfa silage.

**Exhibit 3-6: Estimated Raw Milk Production in Saudi Arabia 2003**

Company	Number of cows <sup>1</sup>	Tonnes Produced	Yield/Cow (Tonnes)
Almarai.....	25,000.....	325,000.....	13.0 <sup>2</sup>
AlSafi Danone.....	15,000.....	165,000.....	11.0
National Agricultural Development Co. (NADEC).....	11,500.....	125,000.....	10.9
Al Othman Dairy.....	6,500.....	67,000.....	10.3
Others.....	23,710.....	176,550.....	7.4
Saudi Arabia.....	<u>81,710</u> .....	<u>858,550</u> .....	<u>10.5</u>

<sup>1</sup> Excludes youngstock, but assumed to include cows during non-milking (dry) periods.

<sup>2</sup> According to Almarai, the actual average yield of 12.4 tonnes per cow per year.

Source: IMES Consulting

When the local fresh dairy industry was set up thirty years ago, establishment and input costs were relatively high and margins were attractive and there was little pressure for cost efficiency or competitiveness. These market conditions attracted many entrants to the industry.

However with the development of the industry and increased competitiveness, margins throughout the GCC have tightened and all but the most efficient producers experience relatively low margins. Rationalisation of the industry over time must be seen as inevitable.

Industry rationalisation would see the emergence of a smaller number of highly efficient dairy food companies or alliances built on the achievements of the last thirty years.

### 3.4 The Retail Market in the GCC

World retail markets have changed in recent years. An increasing proportion of retail business is controlled by a relatively small number of companies.

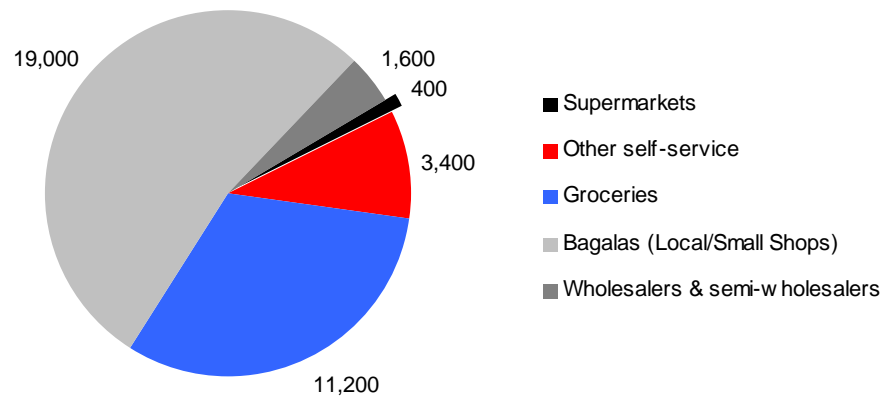
This trend is typified by the emergence of larger outlets in standard format and livery that evolve their own supply chains and brands and source from low cost manufacturers. The combination of easy shopping and lower prices is attractive to consumers.

The retail structure in the GCC countries is also changing. Larger local retailers have begun to adopt new business models and some international retail companies have entered the market.

In many areas, traditional local/small shops (Baggalas) remain a major force. While these have many of the characteristics of international convenience stores, including long opening hours, they enjoy a relatively low cost base and as a result, their price levels remain competitive.



**Exhibit 3-7: Retail Structure in Saudi Arabia 2004**



Source: IMES Consulting

As the retail sector changes, so also will the nature of relationships between producers and retailers, becoming more one of equal partners. To thrive in these changed circumstances, producers must remain clearly focussed on their ultimate consumers, while evolving efficient, effective and competitive supply chains and meeting the needs of their retail customers.

## 4. The Company

### 4.1 Introduction

Almarai Company Limited was formed as a Saudi limited liability company with Commercial Registration Number 1010084223<sup>9</sup>, dated 19/12/1411H (corresponding to 1/7/1991G). The Minister of Commerce and Industry has, pursuant to resolution No. 773 dated 6/5/1426H (corresponding to 13/6/2005G), authorized the conversion of the Company from a limited liability company into a joint stock company. The share capital of the Company is SAR 750 million consisting of fifteen (15) million shares with a nominal value of SAR 50 each. Following completion of the Offering and the conclusion of the Conversion General Assembly, an application will be submitted to the Minister of Commerce and Industry requesting him to announce the conversion of the company. The Company will be considered duly converted into a joint stock company from the date of issuance of the Ministerial Resolution declaring its conversion.

**Exhibit 4-1: Almarai's Ownership Structure**

	Pre-Offering			Post-Offering		
	Shares	%	Capital (SAR)	Shares	%	Capital (SAR)
Shareholders	SAR 50 par value per share			SAR 50 par value per share		
HH Prince Sultan bin Mohammed bin Saud Al Kabeer	7,972,500	53.15	398,625,000	5,580,750	37.21	279,037,500
The Savola Group	6,049,500	40.33	302,475,000	4,234,650	28.23	211,732,500
Abdulaziz bin Ibrahim Al Muhanna	573,000	3.82	28,650,000	401,100	2.67	20,055,000
Abdulrahman bin Abdulaziz Al Muhanna	255,000	1.70	12,750,000	178,500	1.19	8,925,000
HRH Princess Aljawhara bint Saad bin Abdulaziz Al Saud	150,000	1.00	7,500,000	105,000	0.70	5,250,000
Offering Subscribers	-	-	-	4,500,000	30.00	225,000,000
Total	<u>15,000,000</u>	<u>100.00</u>	<u>750,000,000</u>	<u>15,000,000</u>	<u>100.00</u>	<u>750,000,000</u>

Source: Almarai

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 some non-dairy products. Almarai is an integrated organisation spanning the food supply chain from dairy farms through to retail stores.

The Company's head office is in Riyadh, Saudi Arabia, and its production facilities, consisting of the Central Processing Plant ("CPP"), cheese processing plant, dairy farms and other facilities are located within 150 kilometres of Riyadh. CPP is the hub of its extensive distribution network. From there, Almarai products are despatched on a daily basis to distribution centres in all parts of Saudi Arabia and in the other GCC countries. Almarai

<sup>9</sup> In 1996, the Company changed its name from Almarai Trading Company Limited to Almarai Company Limited.

regards the GCC countries as its core market as it is a market leader in the fresh dairy sector in the region<sup>10</sup>.

As the economies of the GCC countries continue to expand, and their populations grow at exceptionally fast rates, demand for consumer food products should remain buoyant and Almarai is positioned to meet this growing demand. The Company has embarked on an investment programme to ensure that the production and distribution facilities are in place to meet anticipated continuing increase in demand for its products.

Currently the Company does not have any plans to undertake any material change to the nature of its business.

## 4.2 Company Evolution

The development of Almarai may be viewed in three distinct phases:

- ▶ Initial growth (1977-1990)
- ▶ Restructuring and reinvestment (1991-1997)
- ▶ Growth and utilising competitive advantages (1998-2005)

### 4.2.1 Initial Growth (1977-1990)

The origins of the Company date back to 1977 when HH Prince Sultan bin Mohammed bin Saud Al Kabeer, recognising the potential to transform traditional dairy farming in Saudi Arabia to meet the needs of a rapidly growing country, developed a number of agricultural projects which began with the processing of fresh milk and laban and soon thereafter expanded into dairy farms, fresh processing plants and cheese processing plants.

The investment in brand development was supported by the reputation rapidly gained by consistently providing consumers with quality products in a timely manner. By the end of this period the Almarai brand had become a key asset and a cornerstone on which to build further growth and development.

By 1990, products were being distributed through 26 distribution depots throughout all regions of the GCC. In addition to milk and laban, the range of fresh products had expanded to include zabadi, gishtah and labneh, as well as low fat products and Almarai branded butter and cheese, imported from Europe.

### 4.2.2 Restructuring and Reinvestment (1991-1997)

In 1991, the *Restructuring and Reinvestment* phase started with the establishment of Almarai Company Trading Limited at which point the Almarai brand had already achieved market leadership. Almarai was well positioned to benefit from the economic upturn in the region during that period.

Almarai initiated a comprehensive efficiency and cost reduction programme. Its food supply chain was developed to anticipate and react to consumer demands in an efficient and cost effective manner, maximising sales and minimising product returns.

---

<sup>10</sup> Almarai estimate (see Section 5.2)

Recognising the long-term strategic competitive advantages that would accrue to low cost fresh dairy producers, Almarai undertook a major investment programme involving total capital expenditure in excess of SAR 1,100 million in the five years from 1993 to 1997.

A single large fresh Central Processing Plant (CPP) was commissioned with capacity for both existing and new products for ten years forward, and allowance for further expansion. Four large dairy farms, each with capacity for 10,000 animals, were built incorporating the latest technology.

Distribution depots were rebuilt on existing or new sites to latest standards. The entire long haul and distribution fleet was re-specified with revised replacement policies introduced.

A more powerful and effective distribution information system was installed, with enhanced depot controls and sales forecasting. Sales vehicles were equipped with hand-held terminals to invoice, record and report sales and market activity on a daily basis.

The foundation was laid for substantial volume growth, significant new product developments and a simplified and more efficient, effective and competitive business model.

#### 4.2.3 Growth and Utilising Competitive Advantages (1998-2005)

By 1998, Almarai had strengthened its market leadership position and had become a low cost producer, as witnessed by its margins and profitability. The Company was now in a strong position to face an increasingly competitive market situation.

In 1999, Almarai initiated a major fresh milk and laban price promotion in Saudi Arabia. Consumer demand proved extremely responsive and Almarai made very significant market share gains without adverse effect on overall profitability. The price sensitivity of milk and laban in Saudi Arabia was again in evidence as retail prices of milk and laban fell again in the summer of 2001. Almarai once again experienced growth in volume and market share mitigating the negative impact of lower sale prices on margins.

Almarai has in recent years added fruit yoghurts and dairy desserts, UHT milk and fruit juices to its list of high volume products. Almarai views the development of fruit yoghurts and dairy desserts, such as crème caramel, as important and believes the markets for such products will continue to grow strongly in the coming years. To stimulate demand and daily purchase, these products are designed to retail at very attractive prices.

The processed cheese market has also been targeted with attractive consumer offers. Almarai believes that its locally produced and therefore fresher product will continue to make sizeable inroads into the substantial market positions developed by international companies.

### 4.3 Mission and Overall Strategy

Almarai's mission is to make its food and beverage products the preferred choice of families throughout its target markets. Almarai's mission statement clearly positions it in the consumer food business in the Middle East. It has established itself as a leader in the dairy and related sectors in the GCC region.

Almarai's business model is to manage an integrated food supply chain which delivers to consumers high quality, value for money food and beverage products. The continuing success of this model is critically dependent on ongoing investment in assets, people, processes and technologies, while managing costs and constraints. The region's economic

## THE COMPANY

prospects, and particularly its young, growing population, offer Almarai excellent growth potential.

In preparation for anticipated volume growth, Almarai has embarked on a further investment programme. The principal component of this programme is a major expansion of processing facilities at its Central Processing Plant. The expansion ("CPP2") will provide sufficient processing capacity for the immediate future and easy access to further capacity for growth. This will be supported by expansion of the distribution network as required.

## 5. Key Products and Markets

### 5.1 Key Brand and Product Groups

The Company's key brand is Almarai, which in Arabic means 'green pastures'. The brand has become a household name throughout the Middle East and its products have become synonymous with freshness and quality. All the company's products are marketed under the Almarai brand, with its blue, white and green 'rhombus' logo prominently displayed. The logo is easily recognisable and serves as a guarantee of the values which the brand represents.

Almarai benefits from the strong recognition of its brand throughout all GCC States. Within these markets, Almarai's brand recognition is comparable to that of major global brands. The Almarai brand is a key competitive advantage and major strength for the Company. The Almarai brand symbolises *quality, freshness and value*.

*Quality* has been designed into Almarai products since its inception, reflecting the vision of its founders to offer quality dairy products to consumers. To Almarai, quality has become a way of life reflected not only in its products, but in its assets and all aspects of its activities.

*Freshness* must, by necessity, be a feature of short-life perishable products. Almarai has extended the concept of freshness to long-life products such as locally produced processed cheese and to a lesser extent UHT processed from locally produced raw milk.

Almarai has sought to establish a competitive position not merely to enhance shareholder value but also to underpin its capability to offer *value* to its consumers. Almarai's record in offering such value has been rewarded by its market share growth. Almarai continually seeks to reduce its cost base so as to enable it to offer its products to consumers at attractive retail prices.

The Company's core business is the manufacture, distribution and sale of its branded range of consumer food and beverage products which may be viewed as consisting of:

#### 5.1.1 Fresh Dairy

Fresh dairy includes laban, milk, zabadi, yoghurts and desserts. Almarai's fresh dairy range accounted for approximately 63% of sales in 2004 and comprises short-life products made from fresh milk. Almarai's original consumer products were fresh milk and laban. Early additions included natural yoghurt (zabadi), gishtah and labneh.

The range was subsequently extended to include stirred and set fruit yoghurts, flavoured milk and laban. Recent additions include ultra-filtrated milk and dairy desserts. Almarai also offers low-fat and no-fat (skimmed) versions of a number of these products. Fresh dairy products are offered in a variety of packaging formats and sizes.

### 5.1.2 Food and Beverages

Food and beverages accounted for approximately 36% of Almarai's sales in 2004, including:

#### Long-Life Dairy

Long-life dairy products include UHT milk, evaporated milk and sterilised cream and accounted for 9.3% of sales in 2004. Long-life dairy products are made from fresh milk and may be distributed through a chilled or ambient system.

#### Fruit Juice

Fruit juice and drink products in both fresh and long-life packaging formats are classified as fruit juice products. Fruit juice was a logical product extension for the Almarai brand. Although not strictly dairy, juice is processed, packed, distributed and retailed in the same way as liquid milk products. Fruit juice accounted for 7.3% of sales in 2004.

#### Cheese and Butter

Cheese and butter includes butter, butter ghee, a range of processed cheese products and natural cheeses such as mozzarella, halloumi and feta. These products accounted for 19.6% of sales in 2004.

As the Almarai brand became identified with dairy products, an extension into cheese and butter products was seen as logical. Initially cheese and butter products were sourced in Europe but progressively the Company has sought to transfer production closer to its market. All processed cheese is now produced in Saudi Arabia using quality imported bulk cheese. Butter is imported in bulk and packed in Saudi Arabia. Almarai has recently commenced in-house production of feta cheese using locally produced raw milk.

These products are then effectively distributed through the same chilled system as fresh products.

#### Non-Dairy Foods

Recent other non-dairy product extensions into tomato paste and jams illustrate the potential for further leveraging of the Almarai brand.

**Exhibit 5-1: Sales 1995-2004 (SAR M)<sup>11</sup>**

Year	Fresh Dairy	F&B	Other	Total	% of Total		
					Fresh Dairy	F&B	Other
1995.....	748.9 .....	223.4 .....	14.9.....	987.2 .....	75.9% .....	22.6% .....	1.5%
1996.....	795.2 .....	237.0 .....	10.0.....	1,042.2 .....	76.3% .....	22.7% .....	1.0%
1997.....	841.5 .....	248.9 .....	18.3.....	1,108.7 .....	75.9% .....	22.4% .....	1.7%
1998.....	904.4 .....	244.7 .....	14.8.....	1,163.9 .....	77.7% .....	21.0% .....	1.3%
1999.....	919.2 .....	256.3 .....	14.1.....	1,189.6 .....	77.3% .....	21.5% .....	1.2%
2000.....	927.1 .....	312.9 .....	9.0.....	1,249.0 .....	74.2% .....	25.0% .....	0.8%
2001.....	980.9 .....	424.6 .....	15.9.....	1,421.4 .....	69.0% .....	29.9% .....	1.1%
2002.....	1,059.8 .....	530.5 .....	10.5.....	1,600.8 .....	66.2% .....	33.1% .....	0.7%
2003.....	1,131.3 .....	617.1 .....	5.5.....	1,753.9 .....	64.5% .....	35.2% .....	0.3%
2004.....	1,190.9 .....	688.0 .....	6.2.....	1,885.1 .....	63.2% .....	36.5% .....	0.3%

Source: Almarai

F&B: Food and Beverage

<sup>11</sup> Please refer to Exhibit 15-2 for details on the Company's sales and profitability for the same period

The significance of recent Food and Beverages sales growth is clearly evident below:

<b>Exhibit 5-2: Sales Growth (1995-2004)</b>			
<b>Year</b>	<b>Fresh Dairy</b>	<b>Food &amp; Beverages</b>	<b>Total</b>
1995.....	5.6% .....	11.1% .....	7.3%
1996.....	6.2% .....	6.1% .....	5.6%
1997.....	5.8% .....	5.0% .....	6.4%
1998.....	7.5% .....	-1.7% .....	5.0%
1999.....	1.6% .....	4.7% .....	2.2%
2000.....	0.9% .....	22.1% .....	5.0%
2001.....	5.8% .....	35.7% .....	13.8%
2002.....	8.0% .....	24.9% .....	12.6%
2003.....	6.8% .....	16.3% .....	9.6%
2004.....	5.3% .....	11.5% .....	7.5%

Source: Almarai

The extension of Almarai's portfolio beyond its original fresh dairy base was undertaken to widen the appeal of the brand and to mitigate risks associated with a narrow product base.

## 5.2 Market Segments and Shares

Almarai's wide range of products spread over a number of different countries make the compilation of reliable comprehensive market share statistics extremely difficult. The task is further complicated by classification issues in respect of product categories.

- ▶ Independent market statistics tend to combine fresh and recombined dairy products, while Almarai regards fresh dairy products as its traditional core business
- ▶ Long-life milk is usually shown as a separate category and includes products made from both fresh and recombined milk
- ▶ Market statistics for recombined laban and yoghurt are typically included with the equivalent fresh products. This can be of significance in GCC countries other than Saudi Arabia where sales of recombined laban and yoghurt remain significant
- ▶ Market shares statistics may be further confused by the fact that sales are undertaken on a sale-or-return basis, with the possibility of confusion between products despatched to the market and actual sales. Almarai typically experience lower levels of returned product
- ▶ Inclusion of catering sales at estimated retail value adds further complications

As a result, Almarai uses internally generated market share data, which combines information collected from external and internal sources and seeks to exclude distortions caused by the inclusion of recombined products. On this basis, the Company estimates its overall share of the market for fresh dairy products, excluding recombined, in Saudi Arabia, and in the GCC as a whole, at 40%.

Using independent market data only, which includes recombined and fresh products, Almarai has approximately 29% of the GCC market for dairy products and approximately 13% of the entire dairy sector, as set out below:



**Exhibit 5-3: GCC Markets 2004 – Almarai Market Share**

	<b>Saudi Arabia Share</b>	<b>Other GCC Share</b>	<b>Total GCC Share</b>
Milk – Short-life .....	36%	27%	31%
Laban .....	35%	31%	34%
Yoghurt .....	37%	16%	27%
Labneh .....	5%	6%	5%
Cream/gishtah .....	22%	6%	15%
Dairy Desserts .....	22%	45%	31%
<b>Fresh Dairy .....</b>	<b>33%</b>	<b>22%</b>	<b>30%</b>
Milk – Long-life .....	8%	21%	12%
Evaporated Milk .....	5%	-	3%
Condensed Milk .....	-	-	-
Canned Milk .....	2%	2%	2%
Retail Milk Powder .....	-	-	-
Retail Butter .....	22%	5%	15%
Butter Ghee .....	14%	6%	9%
Processed Cheese .....	17%	10%	15%
White Cheese .....	2%	7%	4%
Natural Cheese .....	6%	8%	7%
<b>Dairy Foods &amp; Beverages .....</b>	<b>10%</b>	<b>6%</b>	<b>9%</b>
<b>Total Dairy .....</b>	<b>15%</b>	<b>10%</b>	<b>13%</b>
Short-life Fruit Juice .....	13%	10%	12%
Long-life Fruit Juice .....	4%	1%	2%
Long-life Drinks .....	-	-	-
<b>Total Fruit Juice/Drinks .....</b>	<b>4%</b>	<b>4%</b>	<b>4%</b>

Source: IMES Consulting, Almarai

Almarai has traditionally held a very strong position in short-life milk and laban. In yoghurt, Almarai has significantly improved its performance over recent years and has established leadership in Saudi Arabia, with strong growth in both natural and fruit products.

Almarai has created a strong position in the growing dairy desserts market and maintains a leadership position in fresh cream (gishtah) and in fresh locally produced labneh in Saudi Arabia.

Almarai is in the process of creating a significant market position in the overall long-life milk market which had been traditionally dominated by recombined products. Also within the overall milk market, the share of long-life products made from fresh milk has been growing rapidly and Almarai continues to vie for market leadership in this sector. The Company has recently entered the evaporated milk and sterilised cream markets.

Almarai's significant growth in the processed cheese sector has seen it move into serious contention with the established international brands. It is the largest cheese processor in the GCC. The cheese and butter market represents a major opportunity for continuing revenue and earnings growth. Almarai's locally produced cheese products are significantly fresher than products imported from Australia and Europe.

Fruit Juice is a relatively new category for Almarai. The Company entered this market in November 1999 by launching juice in fresh packaging format and subsequently added long-life formats to its range. Almarai sold over forty million litres in its fourth full year of operation.

The table below summarises Almarai's core product groups by territory and by channel. From this it is clear that the Company is not dependent on any one region or channel of distribution.

**Exhibit 5-4: Almarai Level of Dependency by Country and Channel – 2004**

	Laban	Milk	Zabadi	Yoghurts & Desserts
KSA.....	79%	48%	77%	63%
Other GCC.....	21%	52%	23%	37%
Total GCC.....	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
Supermarkets.....	24%	37%	30%	52%
Self-Service.....	52%	40%	46%	33%
Mini Markets.....	17%	11%	14%	7%
Small Shops.....	3%	2%	3%	1%
Institutions.....	4%	10%	7%	7%
All Channels.....	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

	Long-life Dairy	Short-life Juice	Long-life Juice	Cheese & Butter
KSA.....	58%	61%	70%	74%
Other GCC.....	42%	39%	30%	26%
Total GCC.....	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
Supermarkets.....	44%	37%	55%	38%
Self-Service.....	22%	41%	16%	32%
Mini Markets.....	5%	12%	4%	9%
Small Shops.....	1%	3%	1%	2%
Institutions.....	28%	7%	24%	19%
All Channels.....	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Source: Almarai

Almarai's largest customer accounts for less than 3.1% of turnover, while the top ten customers account for 11.0%. Key accounts/large customers, represent 33% of turnover overall and 59% in the GCC countries other than Saudi Arabia.

**Exhibit 5-5: Almarai Sales by Category & Territory 2004 (SAR M)**

	Saudi Arabia		Other GCC		Total GCC	
	SAR M	%	SAR M	%	SAR M	%
KSA Key Accounts.....	266.1	20.7%	352.2	58.8%	618.3	32.8%
Other.....	1,019.8	79.3%	247.0	41.2%	1,266.8	67.2%
Total.....	<u>1,285.9</u>	<u>100.0%</u>	<u>599.2</u>	<u>100.0%</u>	<u>1,885.1</u>	<u>100.0%</u>

Source: Almarai

### 5.3 Key Markets and Trading Arrangements

Almarai's initial market was in Riyadh, Saudi Arabia. Gradually operations were extended throughout Saudi Arabia and the GCC countries. Today, Almarai products are marketed in Saudi Arabia, the United Arab Emirates, Qatar, Oman, Kuwait, Bahrain and Lebanon<sup>12</sup>. With the exception of Bahrain, products are marketed under arrangements with local commercial agents or distributors (each, a "Local Agent" and collectively, "Local Agents"). These arrangements have been in place since the commencement of distribution activities in these countries and relationships with the agents and distributors thus far have been satisfactory and stable.

<sup>12</sup> The Company is in the preliminary phases of formulating strategies and is contemplating entering into new non-GCC markets. However, the Company has no imminent plans in this regard.

## KEY PRODUCTS AND MARKETS

In the case of Bahrain, Almarai products are marketed by Almarai Company Bahrain W.L.L., a Bahraini limited liability company formed on 7 December 2003 with Commercial Registration Number 52352. Almarai Company Bahrain W.L.L. commenced operations on 1 January 2004 and is 99% owned by the Company which has no other subsidiaries.

Almarai's Local Agent in each of the GCC countries in which its products are marketed is as follows:

**Exhibit 5-6: Almarai Distributors**

Country	Distributor Name	Type of Engagement	Commencement of Relationship	Validity and Renewal Terms
Kuwait	Al Kharafi Brothers Dairy Products Co. Ltd	Exclusive Commercial Agency Agreement	1988	Through 31 December 2007 renewable for three year term(s)
Qatar	Khalid for Foodstuffs and Trading Company	Exclusive Commercial Agency Agreement	1993	Through 31 December 2005 renewable for three year term(s)
UAE	Bustan Al Khaleej Establishment	Exclusive Commercial Agency Agreement	1984	Through 31 December 2007 renewable for three year term(s)
Oman <sup>13</sup>	Far East Agency Establishment	Exclusive Commercial Distributorship Agreement	1994	Through 31 December 2005 renewable for three year term(s)

Source: Almarai

Almarai's contractual arrangements with Local Agents generally afford it significant management control over distribution activities in the GCC countries. Local employees are sponsored by the Local Agent for visa purposes and contracted or seconded to the Local Agent from Almarai. Almarai retains contractually the beneficial ownership of the key business assets used in these countries, although such assets are in most cases legally held in the name of the Local Agent. The audited financial statements of Almarai reflect all such assets beneficially held by Almarai.

<sup>13</sup> Arabian Planets for Trade and Marketing, an Omani limited liability company with commercial registration number 1/68882/5 dated 22/5/2005 controlled by Almarai, was recently established to distribute its products in Oman. It is expected that the existing distributorship arrangement in Oman will be terminated shortly and that Almarai's business in Oman will be transferred to the new company.

## 6. Operational and Support Functions

### 6.1 Organisation Structure

Almarai has developed a functional organisation structure consisting of three operational and four support divisions. The operational divisions are directly responsible for the various stages of production and distribution and consist of the following:

- ▶ Sales
- ▶ Operations
- ▶ Farming

They are supported at corporate level by the following central support divisions:

- ▶ Marketing
- ▶ Finance, Information and Support
- ▶ Human Resources
- ▶ Administration

Almarai's integrated approach to food production and distribution is one of its strengths. Its component business units are clearly interdependent. Consistency of approach and harmonisation of decision-making are critical to the achievement of overall corporate goals. Central support functions are focused on providing pro-active assistance to operating units and on ensuring harmonisation of operational targets with overall goals.

The senior management of each division consists of a team of experienced, capable professionals, led by a Divisional General Manager. The Divisional General Managers report to the Chief Executive Officer and together form the Management Executive Committee.

Almarai has standardised many policies and procedures and has tended towards a centrally controlled structure. Almarai's managers are clearly focused on agreed financial and non-financial targets at business unit level and are free to manage within those constraints. Annual budgets are presented for approval along with capital expenditure programmes and other significant developments. Actual performance is reported regularly in detail.

The Almarai approach may therefore be regarded as a subtle combination of centralised and decentralised with a strong emphasis on interdependence.

### 6.2 Distribution and Sales

Almarai's Sales Division manages the Company's relationship with its customers and is tasked with meeting customer service requirements, while making Almarai's products available to its consumers. As products are distributed on a sale-or-return basis, the division must optimise distribution so as to maximise sales, while minimising returns and other costs.

The geography and climate of the Arabian Peninsula pose specific difficulties in operating a chilled distribution network as required by perishable fresh dairy products. In order to ensure that products are available to consumers in perfect condition, it is imperative that every link in

the supply chain from milking cows to retail outlet works effectively to maintain raw milk and finished products at appropriate chilled temperatures at all times.

The Company has developed a distribution network covering all GCC countries. The distribution infrastructure includes cold stores, fleet workshops and regional offices and covers all GCC countries with 22 depots in Saudi Arabia and 8 in the other GCC countries.

Almarai products are distributed from the depots to almost 24,000 retail customers throughout the entire GCC region with more than 100,000 individual calls made per week. Only Almarai branded products are produced and distributed by the Company.

Dedicated staff operating in excess of 550 sales routes utilising a fleet of over 650 sales vans conduct sales and distribution activities. Almarai owns and maintains all of its fleet.

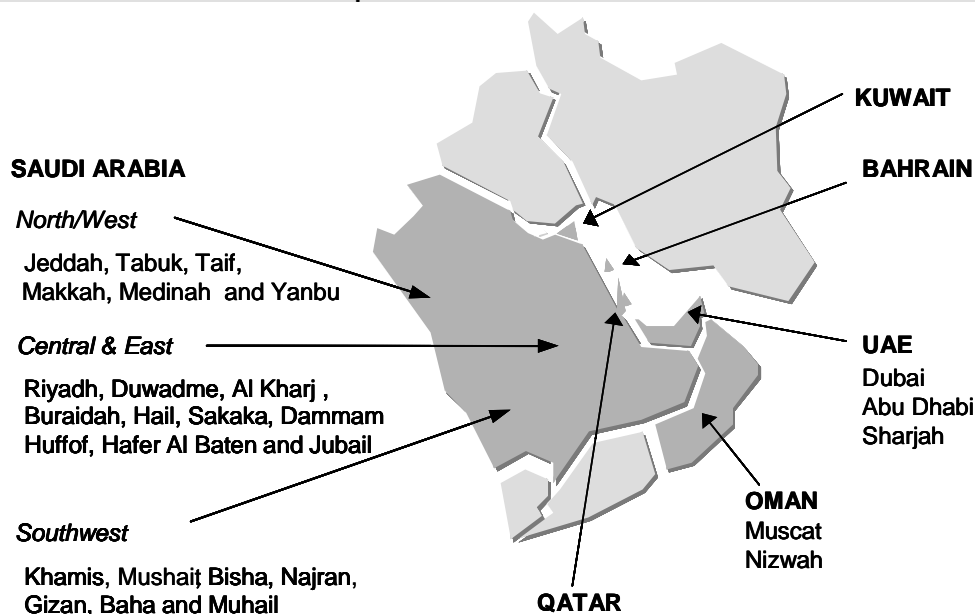
The investment in distribution depots and fleet ensures that products are maintained at chilled temperatures and reach shops and consumers in perfect condition.

Sales in the markets in which Almarai operates are traditionally on a sale-or return basis. This means that the retailer will receive full credit for unsold products returned to Almarai. In stocking retail shelves, Almarai must therefore strike an appropriate balance between the risk of lost sales and excessive returns.

Almarai have invested in modern and advanced technology, including hand-held terminals to secure the accurate and reliable information critical to ensure the efficient management of this process. The deployment of hand-held terminals means that Almarai knows exact sales volumes and replacement levels by product and outlet on a daily basis. This investment in technology and information systems allows Almarai to react quickly to market fluctuations and also to forecast immediate demand more accurately.

Almarai own the sites of the principal depots located in Riyadh, Jeddah and Dammam, as well as the depots at Makkah, Gizan, Hoffuf, Hail and Bahrain. The remaining depots were, in most cases, built by Almarai on land leased on a long-term basis.

**Exhibit 6-1: Almarai Distribution Depots**



Source: Almarai

Almarai's distribution network plays a significant role in its market penetration and in addition constitutes a major obstacle to new entrant competitor activity.

### 6.3 Operations and Farming

Almarai's commitment to offer consumers food and beverage products of superior quality and value begins with the manufacture of those products. As a vertically integrated producer, Almarai controls all aspects of the production process from crop production to dairy farming to processing and packing. Almarai ensures that all phases of production, whether or not directly managed by the Company, use only quality inputs and processes. Its investment in productive assets of the highest quality is manifested in its processing plants and dairy farms.

#### 6.3.1 Operations – Processing and Long-haul Distribution

The Company has many years of experience in producing quality dairy products, including cultured products such as laban and zabadi. This experience has allowed Almarai to continually upgrade its processing and packaging capability.

The Operations Division is responsible for processing and for long-haul distribution. Its focus is the delivery of products to the agreed specification and quality in the required quantity at the designated time and optimum cost to distribution depots throughout the Arabian Peninsula.

The division operates two processing plants, one for fresh products and one for cheese.

The Central Processing Plant (CPP), which was opened in 1996, produces fresh dairy products and juices. CPP is located on a site owned by Almarai and is a sophisticated and modern fully automated facility.

In general, dairy processing consists of two distinct phases. In the primary processing phase, milk is received into the plant and receives basic processing such as pasteurisation, standardisation and homogenisation. In the secondary processing phase, the milk is used to make specific dairy products such as laban and yoghurt.

Processing of fruit juice products is very similar to equivalent liquid dairy products. Products made using ultra-high temperature (UHT) processes are heated at much higher temperatures than pasteurisation and are then packed in aseptic packaging.

Almarai's cheese processing plant produces a range of processed cheese products and is located, together with the long-haul transport maintenance facility, on a rented site at Al Kharj. These operations will be relocated during 2005 to the new production facilities, CPP2.

Almarai sources quality bulk cheese from world markets for use in its cheese processing plant. This is mixed with other food ingredients, processed and packed into required product formats.

Almarai's long-haul fleet transports raw milk from dairy farms to CPP and transports finished product from CPP and the cheese processing plant to sales depots. This fleet comprises 200 tractor units, 30 milk tankers and 180 refrigerated trailers. Almarai owns and maintains all of this fleet, which undertakes approximately 50,000 trips annually covering more than 50 million kilometres.

Almarai has strengthened its position in the UAE and Oman through a co-packing agreement with a local processor.

### 6.3.2 Farming

Almarai's Farming Division is responsible for milk production and seeks to provide milk of the required quality and composition at the time and quantity required and at lowest possible cost.

Spread over five modern dairy farms the herd numbers 30,500 high genetic dairy cows and 25,000 youngstock (female calves being reared to maturity – to join the milking herd after birth of their first calf).

The oldest farm is located on a rented site close to Durma, northeast of Riyadh. The other four farms are located on land owned by the Company in the area of the Central Processing Plant.

After calving, cows produce milk for a period (lactation) typically exceeding eleven months. Milk yield rises during the early part of lactation and then peaks and declines. Matching raw milk production to market demand requires optimising timings of calvings – a breeding process which is complicated by the climatic conditions experienced in the Middle East.

The farming division works closely with forage suppliers in ensuring the quality of its forage requirements with arrangements ranging from contract farm management to close supervision of the growing and harvesting process.

The farming skills developed within Almarai allow it to produce high quality raw milk at low cost. Almarai milk production is matched to consumer demand, peaking during the hot summer months. Continuous improvement in standards of health, breeding, nutrition, farm design, animal husbandry and crop management has resulted in a wealth of technology and know-how, giving Almarai's farmers a clear technical advantage resulting in healthier animals producing superior milk yields and milk quality.

Almarai places great importance on the quality and composition of its milk. Milk quality is ensured by milking the Almarai herd in modern milking parlours built to a high standard combined with rigorous cleaning regimes and regularly maintained equipment. All farms are ISO9001-2000 registered. Milk composition, including butterfat levels and milk yields per cow are determined by a range of factors including genetics, health, feeding regime and day-to-day herd management.

Each Almarai cow currently yields on average 12,400 litres annually. This compares with 11,639 litres (26,424 lbs) in the highest yielding herd in Arizona and New Mexico<sup>14</sup> and an overall average of approximately 8,820 litres in the U.S. and 3,840 litres in New Zealand<sup>15</sup>.

All raw milk produced is transferred to the Almarai fresh processing plant by insulated road tanker. In addition to the primary function of producing raw milk, the dairy farms generate additional revenue from the sale of by-products such as male youngstock and cull cows.

---

<sup>14</sup> University of Arizona Cooperative Extension, Department of Animal Services

<sup>15</sup> United States Department of Agriculture, Foreign Agricultural Service

## 6.4 Marketing

Almarai's Marketing Division is the custodian of the Almarai brands and seeks to stimulate demand for the Company's product range, consistent with the brand's values. The division is based in the Company's head office and includes dedicated teams focused on all marketing and advertising aspects of the major product groupings and issues such as public relations and market research.

Almarai's marketing philosophy derives directly from its mission statement, which describes a branded food and beverage company that competes on the basis of superior quality and value for money. Almarai believes that consumers appreciate superior quality in both product taste and presentation. Value for money is a critical issue in the consumers' mind.

In pursuing its market objectives, Almarai adopts the following key marketing strategies:

- ▶ *Consumer Awareness* - keeping the Almarai brand at the top of consumers' minds
- ▶ *Consumer Offer* - constantly giving our consumers great taste, improved product benefits and value for money
- ▶ *Consumer Choice* - continuously updating our product range to meet changing consumer demands
- ▶ *Market Development* - persistently exploiting available market opportunities to grow market share & sales volume
- ▶ *Quality & Consistency* - only offering products of superior quality and consistency
- ▶ *Product Availability* - making Almarai products available to all consumers
- ▶ *Freshness* - offering fresh locally produced food products
- ▶ *Professionalism & Expertise* - developing our reputation as the best food & beverage supplier to retailers in target markets

Almarai engages in extensive consumer research programmes to ensure consumer needs are satisfied and the platforms for future growth and profitability are created.

The provision of quality and value for money to the consumer has proven a sound long-term business proposition for the Almarai brand and Company.

As market leader, Almarai drives development and innovation in the fresh dairy markets. Its marketing innovations include new packaging formats, products and value for money offerings.

## 6.5 Research and Development of New Products and Processes

Since its foundation, Almarai has constantly sought to extend its product range, by introducing not just new products but also new packaging formats, new product flavours and varieties.

Almarai's new product development process emphasises the identification of consumer needs and viable, cost-effective solutions. New product development is a joint effort between all relevant sections of the Company, particularly Marketing personnel and the Technical Research and Development team.

Recent new products and product variations include:



<b>Exhibit 6-2: New Products 2002-2004</b>			
	<b>2004</b>	<b>2003</b>	<b>2002</b>
<b>Fresh Dairy</b>	Children's Dairy Snack Milk – new packaging format	Skim Laban Evaporated Milk Sterilised Cream Whipping Cream Strawberry Custard Zady Jelly Chocolate Mousse	Super Laban Super Milk Fruit Laban Flavoured Milk Vanilla Custard Chocolate Custard Jelly Custard
<b>Fruit Juice</b>	Pineapple Juice Red Grape	Long-life Drinks	
<b>Foods</b>	Jam Feta Cheese – Low fat	Tomato Paste Slices – Smoked Slices – Low fat Feta – Low salt	Slices – Pizza

Source: Almarai

Innovation is not limited to products and Almarai seeks to improve processes and technologies throughout its wide range of activities.

In farming, developments are constantly undertaken to improve animal health, diet, breeding, and husbandry. The design of newer farms builds on experience gained with earlier farms and adds improvements to facilitate cow comfort and safety.

Almarai constantly adds to its considerable experience in food processing and packaging by facilitating the introduction of new products and methods. In recent years, such innovations have included technologies such as ultra-filtration, evaporated milk and sterilised cream processing, automated process control and waste management systems. The Company has recently commenced in-house manufacture of Feta cheese, using locally produced raw milk.

As the established leader in chilled distribution, Almarai continually reinforces its capability in areas such as materials handling and refrigeration. The design of its cold stores, distribution depots and sales vans have all been modified to improve ease of handling and the integrity of the cold chain. Almarai has worked with retailers in a programme of in-store fridge placement.

## 6.6 Finance, Information and Support

Almarai established its Finance, Information and Support Division to coordinate those support activities focused on information. The Company has long recognised the role of quality information, both financial and non-financial, in establishing and achieving strategic objectives.

### 6.6.1 Finance, Planning and Treasury

The finance function is responsible for financial control, treasury management and statutory financial reporting. The principal financial controls include the preparation of detailed budgets for each business unit and the monitoring of performance against such budgets through the production of monthly management accounts. Transactions are processed using the SAP enterprise resource planning system. Financial accounting and other back office routines are performed by a centralised shared services team.

## OPERATIONAL AND SUPPORT FUNCTIONS

A planning team coordinates the preparation of budgets and other forward-looking plans, including long-term alignment of milk supply with demand. This team also controls the authorisation of capital expenditure.

A treasury team within the finance function manages the Company's financial requirements and risks in accordance with policies determined by the Board. These policies include the use of derivative financial instruments to manage the Company's exposure to adverse fluctuations in bank commission and currency exchange rates. The Company does not use derivative financial instruments for speculative purposes.

### 6.6.2 Business Information Systems

Almarai's commitment to quality information flows is underpinned by its strong centralised Business Information Systems function. In October 2002, Almarai successfully implemented the internationally acclaimed SAP enterprise resource planning (ERP) system as its financial and logistics backbone. This links to dedicated control systems in each of the operational divisions.

### 6.6.3 Procurement

Almarai has established a central procurement function to coordinate all procurement activity throughout the Company. The function's role is to implement approved procurement policies and to optimise the quality and cost of all inputs. The function has developed a strategic procurement plan, which seeks to develop close business relationships with key suppliers, including a steady two-way flow of relevant information.

## 6.7 Human Resources and Administration

Almarai views its human resources among its key assets. Its large and diverse workforce has many varied requirements. The Human Resources Division is tasked with meeting these needs and aligning them with the requirements of the overall business.

The division is responsible for the implementation of the Company's personnel policies, and for their regular update to reflect changing needs and circumstances. Working closely with personnel managers in each division and the principal business units, the division coordinates activities such as localisation, training and development, health and safety.

The Administration Division liaises with regulatory authorities throughout the GCC countries, including visas, permits and licences. In addition, it handles property rental and acquisition.

## 7. Facilities

The Company has created an unparalleled milk production, processing and distribution capability and operates to standards of efficiency and quality comparable to the world's best food companies. Almarai seeks, where appropriate, to own the assets required for the conduct of its business. Most of its assets are relatively new, principally due to the major investment programme undertaken during the 1990s and the Company's policy of regularly renewing assets.

Reflecting the Company's long-standing commitment to technical excellence, the assets are typically at the leading edge of modern technology. The assets are maintained to the highest standards with planned maintenance programmes in place. Excellent maintenance routines and a timely disciplined replacement policy result in an efficient and low cost operation.

The Company's principal facilities are as follows:

**Exhibit 7-1: Almarai Land, Buildings, Plant, Machinery & Equipment by Facility**

Facility	Location	Asset Type	Date	As at 31 Dec '04 SAR M	
				Cost	NBV
Corporate Head Office .....	Riyadh.....	Office .....	1998 .....	117.0 .....	62.5
Central Processing Plant.....	Al Kharj .....	Plant .....	1996 .....	727.5 .....	338.8
Cheese Plant (r) .....	Al Kharj .....	Plant .....	1989 .....	66.6 .....	10.1
Transport Workshop (r) .....	Al Kharj .....	Workshop .....	1987 .....	44.2 .....	3.1
Al Badiyah Dairy Farm .....	Al Kharj .....	Farm .....	2001 .....	245.1 .....	214.9
Al Rabiah Dairy Farm.....	Al Kharj .....	Farm .....	1997 .....	123.7 .....	79.9
Al Fanar Dairy Farm.....	Al Kharj .....	Farm .....	1995 .....	117.5 .....	61.0
Al Hamra Dairy Farm .....	Al Kharj .....	Farm .....	1994 .....	108.8 .....	49.7
Al Nakheel Dairy Farm (r) .....	Durma .....	Farm .....	1986 .....	104.9 .....	43.2
Maize Flaking Plant.....	Al Kharj .....	Plant .....	2003 .....	23.2 .....	21.3
Todhia Dairy Farm (r).....	Al Kharj .....	Research .....	.....	25.8 .....	1.0
Jeddah Depot.....	Jeddah .....	Depot .....	1999 .....	29.1 .....	20.5
Riyadh Depot 2 .....	Riyadh.....	Site .....	- .....	13.7 .....	13.7
Riyadh Depot 1 .....	Riyadh .....	Depot .....	1999 .....	17.1 .....	9.8
Makkah Depot .....	Makkah .....	Depot .....	2002 .....	12.1 .....	9.5
Dammam Depot.....	Dammam .....	Depot .....	1998 .....	10.5 .....	6.6
Gizan Depot .....	Gizan .....	Depot .....	2002 .....	10.5 .....	7.3
Sharjah Depot (r) .....	Sharjah .....	Depot .....	2003 .....	5.2 .....	4.8
Hoffuf Depot.....	Hoffuf .....	Depot .....	2002 .....	6.7 .....	5.2
Other .....	.....	.....	.....	89.3 .....	47.4
Total.....	.....	.....	.....	<u>1,898.5</u> .....	<u>1,010.3</u>
<b>Per Financial Statements</b>					
Land & Buildings .....	.....	.....	.....	751.2 .....	548.2
Plant, Machinery & Equipment.....	.....	.....	.....	1,147.3 .....	462.1
Total.....	.....	.....	.....	<u>1,898.5</u> .....	<u>1,010.3</u>
Saudi Arabia (%).....	.....	.....	.....	98.6 .....	98.5
Other Countries (%) .....	.....	.....	.....	1.4 .....	1.5
Total (%) .....	.....	.....	.....	<u>100.0</u> .....	<u>100.0</u>

(r): These assets are situated on rented land.

Source: Almarai

## 8. Quality, Safety and Environmental Management

### 8.1 Quality Management

Almarai's unflinching commitment to quality is reinforced by its adoption of quality assurance systems and by the attainment of ISO quality certification. All operational business units have attained this challenging standard, confirming that Almarai's commitment to quality is put into practice throughout the organisation on a daily basis. Almarai's dairy farms were the first in the Middle East to attain accreditation to quality system ISO 9002 (1994). This was upgraded in 2003 to ISO 9001 (2000). Almarai was also the first vertically integrated dairy business to achieve accreditation across all its operating divisions, including farms, processing, technical research and development, distribution and sales.

Almarai 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. All business units are subject to periodic quality audits.

### 8.2 Health and Safety Management

Almarai is committed to creating a safe working environment by implementing policies and procedures to international standards across all areas of business.

Almarai is particularly aware of the dangers of road transport. As a large fleet operator, it has established training programmes and control systems to ensure that its drivers are constantly mindful of all aspects of road safety.

The Company seeks to minimise the number of workplace accidents and has specific programmes in place to suit specific activities and locations, including farms, processing plants, sales depots and construction sites.

### 8.3 Environmental Management

Almarai is fully aware of its environmental responsibilities and its facilities are designed to minimise environmental concerns. The Company's operations are subject to various regulations relating to the protection of the environment. Compliance requires the Company to monitor its operations on an ongoing basis. Almarai believes that it is in compliance with all material aspects of currently applicable environmental regulations.

Water usage at the CPP is minimised by means of fully computer-controlled processes and a cleaning in place system is also used where re-circulation is maximised whilst ensuring no compromise to cleanliness and sanitation.

## QUALITY, SAFETY AND ENVIRONMENTAL MANAGEMENT

Effluent generation is minimised and all effluent is treated to final discharge levels at international standards. Discharged water is used for landscaping and other purposes but not for irrigating crops to be used in feeding the milking herd.

Waste disposal, including disposal of unsold products is undertaken in cooperation with local authorities and in full compliance with local regulations.

## 9. Trademarks, Patents and Other Intellectual Properties

The Company has trademark registrations for the "Almarai", "Al Youm", "Smoothy" and "Zady" trademarks in Saudi Arabia, the GCC countries, Egypt, Syria, Lebanon, Jordan, Yemen, Algeria, Morocco, Iran, Iraq, Cyprus, Tunisia, Sudan, Pakistan and the UK. Furthermore, the Company has pending applications for the registration of certain of these trademarks in Libya (Classes 29 and 32), Sudan (Classes 30 and 31), Iraq (Class 32), and Syria (Class 29).

### 9.1 Trademark Registrations Classes

The trademarks used in connection with Almarai's business are registered in one or more of Classes 29, 30, 31 and 32, which are defined in accordance with international trademark classifications system, as follows:

- ▶ Class 29: covers meat, fish, poultry and game; meat extracts, preserved dried and cooked fruits and vegetables; jellies, jams, fruit sauces; eggs, milk and milk products, edible oils and fats.
- ▶ Class 30: covers coffee, tea, cocoa, sugar, rice, tapioca, sago, artificial coffee; flour and preparations made from cereals, bread, pastry, and confectionery, ices; honey, treacle, yeast, baking-powder; salt, mustard; vinegar, sauces (condiments); spices; ice.
- ▶ Class 31: covers agricultural, horticultural and forestry products and grains not included in other classes; living animals; fresh fruits and vegetable; seeds, natural plants and flowers; foodstuffs for animals, malt.
- ▶ Class 32: covers mineral and aerated waters and other non-alcoholic drinks, fruits drinks and fruits juices, syrups and other preparations for making beverages.

### 9.2 Trademark Registrations Within the GCC Countries

Within the GCC countries, Almarai is the registered owner of all classes of trademarks used in connection with its business.

### 9.3 Trademark Registrations Outside of the GCC

Almarai trademarks are registered outside of the GCC countries in Classes 29, 30 and 32. Most of the registrations outside of the GCC are in the name of the Company, with the exception of certain Class 29 registrations that remain registered in the names of Markley Holdings Limited or Almarai Trademarks Limited (formerly Masstock Northern Ireland Limited), companies that are owned by the Selling Shareholders. The Company and the Selling Shareholders have appointed and instructed legal counsel abroad to effect (i) the transfer of ownership of any Class 29 trademarks outside of the GCC under the name of

Almarai Trademarks Limited to Markley Holdings Limited, and (ii) the acquisition<sup>16</sup> of Markley Holdings Limited by Almarai so that it becomes a wholly owned subsidiary of Almarai. The restructuring process is underway.

### 9.4 Trademark License Agreements

The Company entered into license agreements for the use of selected Almarai brand Class 29 trademarks in Egypt, Yemen and Lebanon, which, as mentioned above, are registered under the name of Markley Holdings Limited<sup>17</sup>. The license agreements tend to follow a standard format and provide the Company with the exclusive right to use the relevant trademarks and also provide for a catch-all termination provision whereby either party may provide six (6) months prior written notice of termination at any time. Following termination, the Company would not be authorized to use the trademarks in question. Furthermore, the license agreements generally provide the third party owner of the trademark with the right to inspect the Company's premises and that the authorization to use the relevant trademark would be conditional on the Company's good manufacturing practice in accordance with standards and specifications approved by the third party.

### 9.5 Trademark Rights Infringement

The Company has entered into negotiations with and in some instances initiated proceedings against companies in Jordan, Turkey and Egypt it believes have infringed Almarai's trademarks registered in those jurisdictions. Proceedings and negotiations with these parties are ongoing and have not yet concluded. In addition, an opposition to the registration of the "Almarai" trademark (under Class 32) was successfully upheld in Qatar, which impacted the use of its main trademark on the marketing of juice products there. This situation was resolved with no negative impact on sales by including these products under the "Alyoum" trademark.

---

<sup>16</sup> This acquisition will be at a nominal cost

<sup>17</sup> For additional clarifications please refer to section 11-2-3 "*Trademark License Agreements with Markley Holdings Limited*"

## 10. Government Licenses

Almarai holds approved licenses for the following commercial activities:

- ▶ Production, processing, marketing and distribution of dairy products and fruit juices
- ▶ Management and operation of dairy farms
- ▶ Manufacture and sale of industrial and agricultural chemicals and animal feed stuffs

New dairy farming projects in Saudi Arabia may only be established on receipt of a licence from the Ministry of Agriculture. While existing facilities may grow organically, licensing of new projects is severely restricted.

**Exhibit 10-1: Principal Government Licences – Saudi Arabia**

Issuing Authority	Licence
Ministry of Industry and Electricity <sup>18</sup>	Central Processing Plant (CPP) Cheese Plant Transfer of Cheese Plant to CPP Dairy Manufacturing – Chemicals Dairy Manufacturing – Feed Improvement
Ministry of Agriculture	Al Hamra Farm Al Fanar Farm Al Rabiah Farm Al Badiyah Farm Al Nakheel Farm
Ministry of Commerce and Industry	Animal Feed Plant Commercial Registration of Head Office & branches
Ministry of Transport	Transport licences for long-haul and local delivery vehicles
Ministry of Municipal and Rural Affairs	Shop Licence

The Commercial Registration certificate for the Company is valid till 18 Dhu Al-Hijja 1428H (corresponding to 28 December 2007G). All of the remaining licenses set out in the table above are valid and irrevocable, as they are connected with each project's existence and require no formal renewals.

<sup>18</sup> The industry functions of the Ministry of Industry and Electricity were shifted to the Ministry of Commerce and Industry in 2003, however licenses issued by the Ministry of Industry and Electricity are still valid.



# 11. Corporate Structure

## 11.1 Directors and Management

### 11.1.1 Board of Directors

Almarai's board of directors (the "Board of Directors") includes representatives of all existing shareholders. HH Prince Sultan bin Mohammed bin Saud Al Kabeer has been a principal shareholder in Almarai and its Chairman since its formation. His commitment, guidance and knowledge of the region and the business have been critical to the growth and development of Almarai.

The Company's Board of Directors will be composed of eight directors. The Board of Directors will have two major sub-committees, an executive committee and an audit committee. These committees extend the role of the Board of Directors in reviewing Company activities and providing guidance to management. The committees meet more regularly than the full Board of Directors and report back to the Board of Directors.

**HH Prince Sultan bin Mohammed bin Saud Al Kabeer, Chairman of the Board of Almarai Company Limited, (Age: 59)**, 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 Namouzaji Institute.

**Abdulrahman bin Abdulaziz Al Muhanna, Managing Director, (Age: 47)**, joined Almarai in 1979 on graduating from King Saud University, Saudi Arabia, with a degree in Agricultural Economics. He was appointed Managing Director in 1997. He is a board of directors member in Arabian Agricultural Services Company and the First Islamic Bank, Bahrain, Vice-President of the National Committee of Fresh Dairy Producers and a member of the Agricultural Committee of Riyadh Chamber of Commerce.

**Dr. Abdulraouf Mohammed Mannaa – Director (Age: 53)**, holds a bachelor degree in mechanical engineering from King Fahd University of Petroleum and Minerals in Saudi Arabia, in addition he holds a Masters 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 senior executive vice president of the edible oils and fat division. He is also managing director of Savola Egypt Sime and chairman of Savola in Morocco, Sudan, Kazakhstan, Jordan and Iran.

**Mohammed Al Damer, Director, (Age: 54)**, 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 specialising 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, (Age: 55)**, 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, (Age: 30)**, 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, (Age: 46)**, holds a master's degree in Civil Engineering from Barclay University, USA, a master's degree and a Ph.D. in Engineering Management from Missouri University, USA. He is a board member of General Ports Authority, Saudi Cable Company, Al-Furouisiya 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, (Age: 48)**, is Managing Director of Tourist and Cargo Services Company and holds a degree in Business Administration from Chapman University, California, USA. He is a director of Saudi Turkish Holding Investment Company, Banque Saudi Fransi and the Savola Group.

### 11.1.2 Senior Management

Almarai's management team consists of a strong combination of experienced Saudi nationals, western expatriates and other nationals combining the best international practices with local knowledge. Almarai has been very successful in retaining its senior managers and developing succession from within. Increasingly, the emphasis is on recruiting and developing nationals of GCC countries and effectively transferring the technology and knowledge built up over the past 25 years.

The Chief Executive Officer has primary responsibility for running of Almarai's business and is directly responsible to the Board for the performance of the Company in line with the objectives and wishes of the directors and shareholders.

#### Exhibit 11-1: Almarai's Management Team

Position	Name	Nationality	Age	Length of Service
Chief Executive Officer.....	Abdulrahman Al Fadley.....	Saudi.....	45.....	9
Chief Financial Officer.....	Georges Schorderet.....	Swiss.....	52.....	1
GM - Marketing <sup>19</sup> .....	Vacant			
GM - Sales.....	Nicholas Jay.....	British.....	51.....	14
GM - Operations.....	William Spence.....	British.....	58.....	12
GM - Farming.....	Andrew Mackie.....	British.....	51.....	28
GM - Human Resources.....	Dr. Abdulrahman Al Turaigi.....	Saudi.....	44.....	6
GM - Administration.....	Abdullah Abdulkarim.....	Saudi.....	52.....	20
Legal Counsel.....	Dr. Mohammed Ahmed Tahir.....	Sudanese.....	47.....	4
Head of Internal Audit.....	Stephen Goodwin.....	Australian.....	48.....	2

<sup>19</sup> The position of General Manager Marketing is vacant and currently Esam Sabr, Deputy General Manager Marketing, is acting as General Manager Marketing until a successor has been appointed. It is Almarai practice to go through a thorough selection process within and outside the Company before proceeding with final appointment.

**Abdulrahman Al Fadley, Chief Executive Officer**, graduated from King Saud University, Saudi Arabia, in 1982 with a degree in Chemical Engineering. He was appointed as Chief Executive Officer in January 2001; having been Deputy Chief Executive Officer since December 1999. His first position with Almarai was as General Manager - Central Processing Plant. He joined Almarai in 1996 from Mahmood Saeed Collective Company, Jeddah where he was Vice-president. Previously he spent thirteen years with Petrolube, an affiliate of Petromin, progressing to the position of Vice-President International Business.

**Georges Schorderet, Chief Financial Officer, General Manager – Finance, Information & Support**, is a Certified Accountant with an MBA from the International Management Development (IMD), Lausanne, Switzerland. Prior to joining Almarai, he worked in Switzerland as an independent consultant for three years, Chief Financial Officer of the SAirGroup for 6 years and Chief Financial Officer of the Alusuisse-Lonza Group for 6 years.

**Nicholas Jay, General Manager - Sales**, holds a B.Sc. (Hons) from the University College of Wales in the UK. He was appointed to his current position in 2004, having previously held a number of positions in Almarai, the most recent of which was as National Sales Manager. Before that Nicholas was General Sales Manager - Gulf based in Dubai. Before joining Almarai he held a number of positions in the agri-business sector in the United Kingdom.

**Willie Spence** has been **General Manager - Operations**, with responsibility for processing and long-haul distribution, since joining Almarai in 1993. He graduated from the West of Scotland Agricultural College in the U.K. He previously worked with Express Foods, a division of Grand Metropolitan, in the dairy processing industry for many years. Immediately before joining Almarai, he was General Manager of a large dairy processing plant in the UK.

**Andrew Mackie** joined Almarai in 1977 after graduating from the West of Scotland Agricultural College in the UK. He has been **General Manager - Farming** since 1998, having previously worked as Regional Manager – Farming for a number of years.

**Dr. Abdulrahman Al Turaigi, General Manager - Human Resources and Company Secretary** was appointed as General Manager - Human Resources in January 2004. He holds a B.Sc. degree in Industrial Engineering, Master of Science in Computer Integrated Manufacturing from University of Michigan, USA and a Ph.D. in Engineering Management from University of Missouri, USA. He worked for 14 years with General Organization for Technical Education as an Instructor, Assistant Professor of Industrial Engineering and Head of Production Engineering Department. He joined Almarai in 1999 as Human Resources Manager – Sales.

**Abdullah Abdulkarim, General Manager - Administration**, joined Almarai in 1985 as Administration Manager and was appointed to his present position in January 2004. He previously worked in the public and private sectors in Saudi Arabia and overseas during and after his education in the field of administration. He completed his university education from the California State University in Sacramento, USA where he majored in Public Administration.

**Dr. Mohamed Ahmed Tahir, Legal Counsel**, holds a Bachelor and Masters degree in law from the University of Khartoum, Sudan. In 2002, he obtained a Ph.D. in Business and Corporate Law from the American University of London in the UK. Mohamed joined Almarai as Legal Counsel in 2001, having previously practised law in Saudi Arabia with Kadasah Law firm (in association with Bryan Cave LLB) and National Company for Glass Industries.

**Stephen Goodwin, Head of Internal Audit**, is an Australian Certified Public Accountant. He holds a Bachelor of Commerce degree from the University of Western Australia and is a member of the Information Systems Audit & Control Association. He took up his current position with Almarai in 2003 having previously worked with the Alshaya Group and with

KPMG in Kuwait since 1997. Prior to moving to the Gulf, he held senior finance and audit roles in Australia with a major bank and a listed FMCG (Fast Moving Consumer Goods) company.

It is worth noting that service contracts of the directors and the CEO of the Company are of unspecified durations and in line with Saudi labour laws.

## 11.2 Certain Relationships and Related Party Transactions

Other than the transactions described below, there is no, and there is not currently proposed, any transaction or series of similar transactions to which Almarai is or will be a party in which any director, executive officer, holder of five percent or more of any of the Company's Shares or any member of their immediate family had or will have a direct or indirect material interest.

Based upon a competitive analysis of comparables, the Management has determined that the transactions set forth below were executed on terms no less favourable to Almarai than it could have obtained from unaffiliated third parties. It is Almarai's intention to ensure that all future transactions between the Company and its officers, directors and principal shareholders and their affiliates, are approved by a majority of the Board of Directors, including a majority of the independent and disinterested members of the Board of Directors, and are on terms no less favourable to the Company than those that it could obtain from unaffiliated third parties.

### 11.2.1 Feed Supply Agreements and Management Agreement with Al Kabeer Arable Farms

Almarai entered into agreements for the procurement of animal feed from Al Kabeer Arable Farms providing for the purchase of hay, grass and maize. The agreements vary in duration, of between one to three years, and value, with certain agreements in excess of SAR 25,000,000.

In addition, Almarai has entered into a management agreement with Al Kabeer Arable Farms, which provides that Almarai shall manage the operation of Al Kabeer Arable Farm in Hail. The duration of the management agreement is one year and the management fee payable to Almarai is SAR 864,000.

HH Prince Sultan bin Mohammed bin Saud Al Kabeer, Almarai's principal shareholder, is the owner of Al Kabeer Arable Farms.

### 11.2.2 Supply and Purchase Agreement with Savola Group

Almarai entered into a supply agreement for the provision of its products to Savola Group's retail division. Under this agreement, Almarai sells products to Savola Group's retail division for a period of one year and extends a progressive rebate on the sales of its products depending on the volume of net purchases.

Savola Group is a major shareholder in the Company.

### 11.2.3 Trademark License Agreements with Markley Holdings Limited

Almarai entered into trademark license agreements for the use of certain Class 29 "Almarai" trademarks registered under the name of Markley Holdings Limited in Egypt, Yemen and Lebanon, all of which are secondary markets with combined sales volume amounting to less than 1% of the total sales of Almarai. The agreements generally provide that Almarai shall

have an exclusive right to use a relevant trademark and that Markley Holdings Limited reserves the right to inspect Almarai's premises and to condition the use of the trademark upon on the Company's good manufacturing practice in accordance with standards and specifications approved by Markley Holdings Limited. The agreements provide for a catch-all termination provision in which either party may provide six (6) months prior written notice of termination of the agreement. Almarai will not be authorized to use trademarks in the three relevant countries following the termination of the trademark license agreement under this class. See "Trademarks, Patents and Other Intellectual Properties" section.

Markley Holdings Limited is an offshore company owned by the following Selling Shareholders: HH Prince Sultan bin Mohammed bin Saud Al Kabeer, the Savola Group, Abdulaziz bin Ibrahim Al Muhanna and Abdulrahman bin Abdulaziz Al Muhanna. Ownership of Markley Holdings Limited is currently in the process of being transferred to Almarai.

### 11.2.4 Insurance Policies

The insurance policies covering the Company's operations in Saudi Arabia, including Property All Risks, Loss of Profits, Public and Products Liability, Commercial Crime, Agricultural Crop, Marine Cargo, Commercial and Private Motor, Group Life, Permanent Health, Group Personal Accident and Contractor's All Risks / Third Party Liability, are issued by Arabian Shield Insurance Company EC. HH Prince Sultan bin Mohammed bin Saud Al Kabeer, a principal shareholder in Almarai, is a majority shareholder in Arabian Shield Insurance Company EC.

## 11.3 Corporate Governance

Almarai is committed to high standards of corporate governance, and sees this as an essential factor in its success to date. Upon completion of the Offering, the Company intends to undertake a full review of the Company's corporate governance framework with a view to ensuring that the Company's corporate governance guidelines meet the high standards.

Almarai has a clear division of responsibilities between the Board of Directors and executive management of the Company and, in keeping with international best practice, the majority of Almarai directors are non-executives. The Company's senior management, under the direction of the Chief Executive Officer, is a highly experienced and skilled team who is given sufficient executive authority to effectively manage the Company within the guidelines laid down by the Board of Directors and the executive committee.

The Company has well established systems and sound internal controls and operates an advanced SAP an integrated Enterprise Resource Planning (ERP) system, with strong inherent internal controls. The Company also has a professionally staffed internal audit function, which undertakes independent reviews across the enterprise. The Company's external auditors provide annual reporting to the Company together with an annual management letter, and do not provide other incompatible services.

### 11.3.1 Executive Committee

The executive committee is a sub-committee of the Board of Directors and meets at least six times a year to review the operational progress of the Company. It is currently comprised of five members, including the Managing Director and Chief Executive Officer. The Chief Financial Officer also attends by invitation.

The Company is currently reviewing the delegation of authority to the Executive Committee, with the intention of formalising the power of the committee to make decisions on agreed

matters on behalf of the Board of Directors and to refer other matters with recommendations as appropriate. The Managing Director chairs meetings of the Executive Committee.

### 11.3.2 Audit Committee

An audit committee will be established to oversee financial, risk management and internal controls aspects of the Company's operations. The committee will regularly review the Company's financial and risk systems and compliance with legal and regulatory requirements. Its responsibilities will include the planning and review of the Company's interim and annual financial statements. The committee will oversee the Company's external auditors and review the effectiveness of external and internal audit and has the authority to engage such external experts as it feels necessary to fulfil its obligations of stewardship on the financial affairs of the Company.

The audit committee will focus particularly on compliance with legal requirements, accounting standards and the rules of the CMA. It will have responsibility for reviewing the effectiveness of the Company's system of internal controls and risk management systems. The ultimate responsibility for reviewing annual financial statements, and recommending them for shareholder approval, remains with the Board.

## 11.4 Declaration in Respect of Directors and Key Officers

The Directors, Chief Executive Officer, Chief Financial Officer and Company Secretary:

- ▶ Have not at any time been declared bankrupt or been subject to bankruptcy proceedings
- ▶ Except as disclosed elsewhere in this document, do not themselves, nor do any relatives or affiliates, have direct or indirect interests in the shares or debt instruments of the Company
- ▶ Except as disclosed elsewhere in this document, do not themselves, nor do any relatives or affiliates, have any material interest in any written or verbal contract or arrangement in effect or contemplated at the time of the Prospectus, which is significant in relation to the business of the Company

## 11.5 Remuneration of Directors and Management

The compensation of the members of the Board of Directors, and members of Board committees, for the years ended 31 December 2003 and 2004 amounted to SAR 3.5 million and SAR 4.4 million respectively. The total remuneration of the executive officers for the years ended 31 December 2003 and 2004 amounted to SAR 6.9 million and SAR 8.6 million respectively. The remuneration of Directors and Management includes board members' fees, basic salaries, bonuses, housing and educational fees.

## 11.6 Employees

At 31 December 2004, Almarai had 4,370 employees of whom 885 were Saudi nationals, representing 23.6% of the total workforce in Saudi Arabia. A further 90 were citizens of other GCC countries, 50% of employees were engaged in production activities, including farming processing and long-haul distribution, 45% were employed in sales and marketing activities with the remaining 5% in corporate administration.

Almarai continuously pursues recruiting and maintaining experienced Saudi nationals. Training programmes are in place to develop the skill and competency of its national employees.

**Exhibit 11-2: Almarai Employees and Remuneration**

	Year Ended 31 December		
	2004	2003	2002
<b>Number of Employees</b>			
Production.....	2,210	2,029	1,877
Sales & Distribution.....	1,970	1,886	1,693
Corporate Administration .....	190	177	156
Total .....	<u>4,370</u>	<u>4,092</u>	<u>3,726</u>
<b>By Country of Deployment</b>			
Saudi Arabia .....	3,744	3,504	3,190
Other .....	626	588	536
Total .....	<u>4,370</u>	<u>4,092</u>	<u>3,726</u>
<b>By Nationality</b>			
Saudi .....	885	759	571
Other GCC .....	90	77	63
Western Expatriate .....	97	101	89
Other Expatriate .....	3,298	3,155	3,003
Total .....	<u>4,370</u>	<u>4,092</u>	<u>3,726</u>
<b>Staff Costs by Department (SAR M)</b>			
Production.....	137.9	117.0	105.2
Sales & Distribution.....	113.1	103.6	93.3
Corporate Administration .....	59.6	55.7	61.3
Total .....	<u>310.6</u>	<u>276.3</u>	<u>259.8</u>
<b>Staff Costs by Type (SAR M)</b>			
Wages & Salaries .....	172.2	156.9	153.3
Employee Termination Benefits .....	17.8	15.6	12.3
GOSI .....	6.7	5.6	4.4
Other .....	113.9	98.2	89.8
Total .....	<u>310.6</u>	<u>276.3</u>	<u>259.8</u>
Staff Costs as % of Sales.....	16.5%	15.7%	16.2%
Sales per Employee (SAR '000) .....	431.4	428.6	429.6
<b>Staff Costs per Employee (SAR '000)</b>			
Production.....	62.4	57.7	56.0
Sales & Distribution.....	57.4	54.9	55.5
Corporate Administration .....	313.7	314.7	392.9
Total Cost per Employee.....	71.1	67.5	69.7
Net Income per Employee (SAR '000) .....	84.7	90.0	94.5

Source: Almarai

## 12. Competitive Advantages

Almarai has a number of particularly strong attributes, which translate into sustainable competitive advantages and superior profitability relative to its competitors.

### 12.1 A Strong Established Brand with a Diversified Portfolio

The Almarai brand is instantly recognisable throughout the GCC. Consumers view the brand as a symbol of quality, value and freshness and within the industry and wider business community Almarai is renowned for quality, technical superiority, efficiency and brand awareness.

Almarai commissioned Conquest AMRB during 2003 to conduct a study on the relative strength of the Almarai brand versus its core competitors in addition to the standing of Almarai against competition in the specific product category of laban and juice. The research showed that Almarai dominates its markets with high scores in each of the following categories: awareness, relevance, performance and bonding. Almarai is the acknowledged market leader in the fresh dairy and short-life fruit juice sectors in most of the GCC markets. In cheese and butter products, its market share is growing rapidly and now challenges the established market leaders.

Conquest AMRB is a brand agency based in the UK. It specialises in conducting market research to evaluate the strengths of brands using a proprietary methodology named BRANDZ™. Conquest AMRB does not itself, nor any of its affiliates, shareholders, directors or any of their relatives have any shareholding or interest of any kind in the Company. Conquest AMRB has given and not withdrawn its written consent to the publication in the Prospectus of the findings of its brand study.

Almarai has avoided dependence on individual aspects of its business and is not excessively dependent on any one of the following:

- ▶ Country or Regional Market
- ▶ Product or Product Category
- ▶ Retail Group, Customer Category or Distribution Channel
- ▶ Milk Source or Third Party Supplier

### 12.2 Integrated Food Supply Chain - A Proven Business Model

Almarai is a vertically integrated enterprise, covering such diverse activities as marketing creativity, sales and distribution, food processing, and dairy farming.

Daily availability of high quality, fresh, short shelf-life dairy products across a vast area in an environment of high ambient temperatures is critically dependent on high quality inputs, the highest standards of excellence throughout all processes and an effective chilled distribution network. Almarai ensures this through direct control of all aspects of its integrated food supply chain.



## COMPETITIVE ADVANTAGES

Almarai has been able to position itself as a low cost producer of fresh dairy and related food and beverage products through the efficiency and effectiveness of its integrated activities, by the investment in advanced and modern facilities and infrastructure and by the benefits of economies of scale.

These capabilities combined with the breadth of its distribution coverage, has given Almarai a particularly strong position among large food retailers. These customers are gaining an ever-increasing share of the retail market and Almarai is well positioned to service this growth.

Almarai's quality milk pool, broad product range and extensive and effective chilled distribution network place the Company in a position that would be difficult for a retailer brand to replicate or improve upon.

### 12.3 High Quality Milk Supply

Almarai's management believe the Company has established a reputation as one of the foremost milk producers in the world despite operating in an arid environment with extremely high ambient temperatures. Almarai's herd productivity is exceptional, well ahead of local rivals and comparable to the highest yields being achieved by commercial dairy herds anywhere in the world. Almarai currently estimates that its average cow yields 12,400 litres annually.

Almarai's dairy farms are relatively capital intensive and include numerous features to ensure cow comfort and safety and to minimise stress, which can depress yields. These features, combined with dairy management expertise, allow Almarai farms to produce a relatively even supply of milk throughout the year, thus matching raw milk production to market demand.

By directly controlling its own milk supply, Almarai can ensure the quality of milk used in producing its products. This contrasts with dairy processors in other countries who must mix raw milk of variable quality sourced from a large number of independent farmers.

### 12.4 Strong Earnings and Cash Generation

Almarai's profitability has grown consistently over a number of years, with a Return on Sales exceeding 20% in the years 1997 to 2003. Almarai has maintained this high level of return, while also maintaining its market share, sales volumes and sales prices, thus resulting in high levels of cash generation. In 2004, Almarai achieved a Return on Sales of 19.6%. This slight decrease reflects a change in Almarai's product mix, as it diversifies its portfolio and can also be attributed to increased costs as a result of significantly higher commodity prices and the relative weakness of the US dollar. Please refer to Exhibit 15-2 in the "*Management's Discussion & Analysis of Financial Condition & Results of Operations*" section for details.

### 12.5 Production and Technical Capability and Expertise

Almarai has established and sustained an extremely profitable dairy business in difficult physical circumstances by its ongoing commitment to excellence in its people, processes and technologies. As a result Almarai has attained a high level of capability and expertise throughout its diverse range of activities, including:

- ▶ Marketing expertise, particularly in identifying and satisfying consumer needs
- ▶ Sales expertise, particularly in providing cost-effective customer service

## COMPETITIVE ADVANTAGES

- ▶ Coverage and effectiveness of chilled distribution network
- ▶ Integrated food supply chain with proven planning and information capability
- ▶ Modern and advanced asset base
- ▶ Proven sophisticated processing and farming technologies supported by access to proven technical experts in all major disciplines - farming, processing and engineering

### 12.6 Change Management Skills - Sustaining Long-Term Growth

Almarai is managed by a skilled and experienced senior team, with strength in depth across the organisation. Senior personnel are drawn from a variety of backgrounds and nationalities and combine expertise, experience and local knowledge.

Almarai has successfully identified key trends in markets and in technology and has successfully implemented change strategies to adjust to these trends.

This change management expertise has allowed the Company to sustain growth and competitive advantage over a long period.

Key aspects of Almarai's management expertise include:

- ▶ Skilful planning particularly in balancing product demand with raw milk supply
- ▶ Management of the chilled chain and its impact on delivered product quality
- ▶ Field sales management information and know-how
- ▶ Accurate short and long-term sales forecasting
- ▶ Integrated financial, information, planning and control systems

The strength in depth of its management skills, experience and technical ability in all disciplines ensures the effective application of these capabilities and makes Almarai one of the most successful food companies in the world.

## 13. Future Prospects

The economies in which Almarai operates are buoyant and the population is young and growing, creating excellent prospects for growth. Per capita consumption of dairy products is rising and demand for fresh product is growing. In addition the juice and beverage markets exhibit many of these properties.

The dairy industry in the GCC has many features that suggest significant growth potential:

- ▶ Dairy products are basic, wholesome, everyday food items
- ▶ Continuing growth in population and in average consumption per head is anticipated
- ▶ The products are affordable by all sectors of society
- ▶ Freshness is a unique selling point and the inexorable trend is towards locally produced products replacing imported milk powder and cheeses and recombined liquid products
- ▶ Opportunities exist for further expansion of the dairy desserts range and other new dairy products and for growth in low fat products

Similar growth features exist in the GCC fruit juice and beverage markets:

- ▶ Juice products are perceived as healthy everyday products and link well to Almarai's freshness credentials
- ▶ Juice products are affordable and are not subject to dramatic fluctuations in taste or preference
- ▶ The total juice category shows double-digit growth over the last five years and this trend is forecast to continue with consumption per capita also rising
- ▶ The long life juice and drinks market exceeds 500 million litres and is growing at the expense of carbonated soft drinks
- ▶ Additional products, flavours and new beverages such as the emerging iced tea and coffee sectors, as well as sports and health drinks, offer further opportunities for Almarai

The Company is also constantly improving existing product offers to ensure that all Almarai branded products satisfy consumers' expectations and reinforce the brand image.

Almarai will continue an aggressive new product development policy to further stimulate growth in the industry, establishing new product categories and continually growing per capita consumption.

Almarai's commitment to offering consumers superior value has proven an ideal response to any pressure on per capita income caused by rapid population growth.

To date Almarai has focussed primarily on the GCC markets with some exports of long life products to surrounding countries. Over the coming decade opportunities are likely to arise for the Company to expand its operations directly into some or all of these countries.

The strength of the Almarai brand will be a major asset in these endeavours.

Almarai is a highly structured organisation, with proven business systems that lend themselves to being franchised and reproduced elsewhere. The rest of the Arab world, in particular, provides an opportunity for the Almarai way of doing business.

Market leaders continually invest to meet demand growth and changes in consumer expectations. Almarai's ongoing development programme involving further investment

## FUTURE PROSPECTS

totalling SAR 2.5 billion for the period 2003-2007 recognises the need to put in place the capacity and resources to service the growth potential discussed above.

A major element in Almarai's current investment programme is the construction of a second processing plant and ancillary facilities on the existing Central Processing Plant site. This project is referred to as CPP2 and will cost in excess of SAR 675 million. It will facilitate the transfer of cheese processing from the existing plant at Al Kharj which will be decommissioned. Processing of fruit juice and UHT milk will be transferred from the existing Central Processing Plant, thereby freeing up capacity for fresh dairy products.

The relocation of cheese processing and the long-haul transport facility to the CPP site will reinforce its effectiveness as the primary hub of Almarai's distribution network. Production at CPP2 is scheduled to commence in the second half of 2005 and commissioning will be completed by October 2005.

The development of Almarai sales depots has been underway for a number of years and will continue in coming years. New depots are currently being constructed in Madinah and Tabouk. Plans are in place for a second Riyadh depot. Improvements are underway or planned for Qatar, Taif and Al Kharj in 2005. New depots are scheduled for Al Ain and Salalah.

Almarai currently has over 15,000 fridges placed in retail outlets throughout the GCC and ongoing programmes will focus on further strengthening this resource.

Construction of the second phase of Almarai's fifth and largest dairy farm is approaching completion. It is envisaged that short-term herd expansion will be accommodated by further increasing capacity at this location. As a result, construction of a further farm will not commence before the middle 2006.

Rationalisation has taken place in all major dairy-producing countries and it is reasonable to expect a similar trend in the Middle East in the medium term. Due to its market position and overall profitability, Almarai is uniquely positioned to lead and benefit from such a trend. Almarai expects that this process is inevitable and will present opportunities for growth by acquisition.

## 14. Accountants Report

The audited financial statements for each of the three years ended 31 December 2004, 2003 and 2002 and the notes thereto incorporated in the Prospectus have been included herein in reliance on the report of Aldar Audit Bureau (Member Firm of Grant Thornton International), independent auditors of Almarai for the above stated period.

It is worth noting that Aldar Audit Bureau (Member Firm of Grant Thornton International) do not themselves, nor do any of their relatives or affiliates have any shareholding or interest of any kind in the Company. In addition, Aldar Audit Bureau (Member Firm of Grant Thornton International) has given and not withdrawn their written consent to the publication in the Prospectus of their Accountants Report.

## ACCOUNTANTS REPORT

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

Aldar Audit Bureau   
Abdullah AlBasri & Co.

### AUDITORS' REPORT

To the Owners of  
Almarai Company Limited  
A Limited Liability Company  
Riyadh - Saudi Arabia

We have audited the accompanying consolidated balance sheets of **ALMARAI COMPANY LIMITED** – a Limited Liability Company – as of 31 December 2004, 2003 and 2002, and the related consolidated statements of income, cash flows and changes in shareholders' equity for the years ended 31 December 2004, 2003 and 2002, and the accompanying notes which are an integral part of these consolidated financial statements which were prepared by the management in accordance with Article 175 of the Companies Regulations and presented to us together with all the information and explanations which we requested. We express our opinion on these consolidated financial statements based on our audits and the information and explanations we obtained which we considered necessary for the purpose of our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of **ALMARAI COMPANY LIMITED** as of 31 December 2004, 2003 and 2002, and the results of its operations and its cash flows for the years ended 31 December 2004, 2003 and 2002 based on the presentation and disclosure of the information included in the consolidated financial statements and in conformity with generally accepted accounting principles in the Kingdom of Saudi Arabia as summarised in Note 3.

We are also of the opinion that the preparation and presentation of the above consolidated financial statements comply with the Commercial Code and the Company's by-laws and are in agreement with the accounting records which are computerised in accordance with the related Commercial Books Regulations.



Abdullah M. Al-Basri  
Certified Accountant  
Licence No. 171  
Aldar Audit Bureau  
Abdullah M. Al-Basri & Co.



Riyadh, 7 D'I Hijjah 1425 A.H.  
Corresponding to 18 January 2005 A.D.

Head Office - Riyadh  
Green Saloon Building  
2nd Floor  
Olaya Main Street  
P.O.Box 2195 Riyadh 11451  
Kingdom of Saudi Arabia  
Tel. : (+ 966) 1 463 0680  
Fax : (+ 966) 1 464 5939  
E-mail: audit@aldarab.com  
http://www.gti.org  
Branches - Jeddah , Khobar

**ALMARAI COMPANY LIMITED**  
**A LIMITED LIABILITY COMPANY**  
**RIYADH - SAUDI ARABIA**

**CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2004, 2003 AND 2002**

	<b>Notes</b>	<b>2004</b> SAR '000	<b>2003</b> SAR '000	<b>2002</b> SAR '000
<b><u>Current Assets</u></b>				
Cash and Bank Balances	<b>4</b>	60,954	48,762	47,999
Receivables and Prepayments	<b>5</b>	186,594	178,948	167,639
Inventories	<b>6</b>	243,239	193,137	141,454
<b>Total Current Assets</b>		<b>490,787</b>	<b>420,847</b>	<b>357,092</b>
<b><u>Current Liabilities</u></b>				
Payables and Accruals	<b>7</b>	286,471	224,100	207,058
Short Term Loans	<b>8</b>	22,074	26,936	76,706
<b>Total Current Liabilities</b>		<b>308,545</b>	<b>251,036</b>	<b>283,764</b>
<b>NET CURRENT ASSETS</b>		<b>182,242</b>	<b>169,811</b>	<b>73,328</b>
<b><u>Non Current Assets</u></b>				
Intangible Assets	<b>9</b>	-	22,587	40,914
Fixed Assets	<b>10</b>	1,909,185	1,563,816	1,243,217
<b>Total Non Current Assets</b>		<b>1,909,185</b>	<b>1,586,403</b>	<b>1,284,131</b>
<b><u>Non Current Liabilities</u></b>				
Long Term Loans	<b>8</b>	745,350	479,424	160,220
Employees' Termination Benefits		53,420	54,435	63,182
<b>Total Non Current Liabilities</b>		<b>798,770</b>	<b>533,859</b>	<b>223,402</b>
<b>NET ASSETS</b>		<b>1,292,657</b>	<b>1,222,355</b>	<b>1,134,057</b>
<b>SHAREHOLDER'S EQUITY</b>				
Share Capital	<b>11</b>	750,000	500,000	200,000
Statutory Reserve	<b>12</b>	173,860	136,830	100,000
Retained Earnings		368,797	585,525	834,057
<b>TOTAL SHAREHOLDER'S EQUITY</b>		<b>1,292,657</b>	<b>1,222,355</b>	<b>1,134,057</b>

"THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THIS STATEMENT"

**ALMARAI COMPANY LIMITED**  
**A LIMITED LIABILITY COMPANY**  
**RIYADH - SAUDI ARABIA**

**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED 31 DECEMBER 2004, 2003 AND 2002**

	<b><u>Notes</u></b>	<b><u>2004</u></b> SAR '000	<b><u>2003</u></b> SAR '000	<b><u>2002</u></b> SAR '000
Sales	<b>13</b>	1,885,112	1,753,939	1,600,760
Cost of Sales	<b>15</b>	(1,126,588)	(1,018,576)	(913,446)
<b>Gross Profit</b>		<b>758,524</b>	<b>735,363</b>	<b>687,314</b>
Selling & Distribution Expenses	<b>16</b>	(275,612)	(257,701)	(234,921)
General & Administration Expenses	<b>17</b>	(86,294)	(80,760)	(81,535)
<b>Net Income before Bank Charges &amp; Zakat</b>		<b>396,618</b>	<b>396,902</b>	<b>370,858</b>
Bank Charges		(16,872)	(18,809)	(9,116)
<b>Net Income before Zakat</b>		<b>379,746</b>	<b>378,093</b>	<b>361,742</b>
Zakat	<b>18</b>	(9,444)	(9,795)	(9,660)
<b>Net Income</b>		<b>370,302</b>	<b>368,298</b>	<b>352,082</b>

"THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THIS STATEMENT"



**ALMARAI COMPANY LIMITED**  
**A LIMITED LIABILITY COMPANY**  
**RIYADH - SAUDI ARABIA**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED 31 DECEMBER 2004, 2003 AND 2002**

	<u>Notes</u>	<u>2004</u> SAR '000	<u>2003</u> SAR '000	<u>2002</u> SAR '000
<b><u>Cash Flow from Operating Activities</u></b>				
<b>Net Income</b>		<b>370,302</b>	<b>368,298</b>	<b>352,082</b>
Depreciation & Amortisation	19	126,923	131,101	113,410
Bank Charges		16,872	18,809	9,116
Change in Employees' Termination Benefits		(1,015)	(8,747)	9,639
<b>Operating Cash Flow Before Changes in Working Capital</b>		<b>513,082</b>	<b>509,461</b>	<b>484,247</b>
Changes in:				
Receivables & Prepayments		(7,646)	(11,309)	(14,898)
Inventories		(50,102)	(51,683)	27,367
Payables & Accruals		62,371	17,042	4,116
<b>Cash Flow from/(used by) Changes in Working Capital</b>		<b>4,623</b>	<b>(45,950)</b>	<b>16,585</b>
<b>Cash Flow from Operating Activities</b>		<b>517,705</b>	<b>463,511</b>	<b>500,832</b>
<b><u>Cash Flow used in Investing Activities</u></b>				
Additions to Fixed Assets		(493,605)	(467,737)	(253,412)
Proceeds from the Sale of Fixed Assets		43,900	34,364	37,587
<b>Cash Flow used in Investing Activities</b>		<b>(449,705)</b>	<b>(433,373)</b>	<b>(215,825)</b>
<b><u>Cash Flow used in Financing Activities</u></b>				
Increase/(Decrease) in Loans		261,064	269,434	(873)
Dividends Paid during the Year		(300,000)	(280,000)	(257,425)
Bank Charges		(16,872)	(18,809)	(9,116)
<b>Cash Flow used in Financing Activities</b>		<b>(55,808)</b>	<b>(29,375)</b>	<b>(267,414)</b>
<b>Increase in Cash and Bank Balances</b>		<b>12,192</b>	<b>763</b>	<b>17,593</b>
<b>Cash and Bank Balances at 1 January</b>		<b>48,762</b>	<b>47,999</b>	<b>30,406</b>
<b>Cash and Bank Balances at 31 December</b>		<b>60,954</b>	<b>48,762</b>	<b>47,999</b>

"THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THIS STATEMENT"

**ALMARAI COMPANY LIMITED**  
**A LIMITED LIABILITY COMPANY**  
**RIYADH - SAUDI ARABIA**

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEARS ENDED 31 DECEMBER 2004, 2003 AND 2002**

	<u>2004</u> SAR '000	<u>2003</u> SAR '000	<u>2002</u> SAR '000
<b><u>Share Capital</u></b>			
Balance at 1 January	500,000	200,000	200,000
Transfer from Retained Earnings	250,000	300,000	-
<b>Balance at 31 December</b>	<b><u>750,000</u></b>	<b><u>500,000</u></b>	<b><u>200,000</u></b>
<b><u>Statutory Reserve</u></b>			
Balance at 1 January	136,830	100,000	100,000
Transfer from Retained Earnings	37,030	36,830	-
<b>Balance at 31 December</b>	<b><u>173,860</u></b>	<b><u>136,830</u></b>	<b><u>100,000</u></b>
<b><u>Retained Earnings</u></b>			
Balance at 1 January	585,525	834,057	731,975
Net Income	370,302	368,298	352,082
Transfer to Share Capital	(250,000)	(300,000)	-
Transfer to Statutory Reserve	(37,030)	(36,830)	-
Dividends Paid	(300,000)	(280,000)	(250,000)
<b>Balance at 31 December</b>	<b><u>368,797</u></b>	<b><u>585,525</u></b>	<b><u>834,057</u></b>

"THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THIS STATEMENT"

**ALMARAI COMPANY LIMITED**  
**A LIMITED LIABILITY COMPANY**  
**RIYADH - SAUDI ARABIA**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

---

**1. THE COMPANY AND ITS BUSINESS DESCRIPTION**

Almarai Company Limited (the "Company") is a Limited Liability Company and was established on 19 Dī' Hijjah 1411 A.H. corresponding to 1 July 1991 and 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 neighbouring 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 centres by the Company's long haul distribution fleet.

The distribution centres in the GCC countries (except for Bahrain) 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
Oman	- Far East Agency

The Company established Almarai Company Bahrain W.L.L., a 100% owned subsidiary in Bahrain on 1st January 2004. Prior to this, the Company conducted its business in Bahrain within an agreement with Al Jawdar Trading Establishment.

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

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

- (a) The 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 Organisation for Certified Public Accountants (SOCPA).
- (b) The statutory records are maintained in Arabic.
- (c) When necessary, prior year comparatives have been regrouped on a basis consistent with current year classification.
- (d) 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.
- (e) The figures in these consolidated financial statements are rounded to the nearest thousand.

**3. SIGNIFICANT ACCOUNTING POLICIES**

**A. Use of Estimates**

The preparation of 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. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

## ACCOUNTANTS REPORT

### B. Revenue Recognition

Products are sold principally on a sale or return basis. Revenue is recognised 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 realisable value. In general, cost is determined on a weighted average basis and includes transport and handling costs. In the case of manufactured products, cost includes all direct expenditure based on the normal level of activity. Net realisable value comprises estimated price less further production costs to completion and appropriate selling and distribution costs. Provision is made, where necessary, for obsolete, slow moving and defective stocks.

### F. 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 capitalised on the consolidated Balance Sheet and amortised to the consolidated Statement of Income in equal annual instalments over its expected useful life, not exceeding twenty years. The carrying value of goodwill is reviewed annually and adjustments are made for any permanent diminution in value.

### 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 youngstock 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	

### 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 recognised 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 Labour 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 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.

## ACCOUNTANTS REPORT

	<b><u>2004</u></b>	<b><u>2003</u></b>	<b><u>2002</u></b>
	<b>SAR '000</b>	<b>SAR '000</b>	<b>SAR '000</b>
<b>4. <u>CASH AND BANK BALANCES</u></b>			
Cash at Bank	46,109	40,660	32,605
Cash in Hand	14,845	8,102	15,394
Total	<u>60,954</u>	<u>48,762</u>	<u>47,999</u>
<b>5. <u>RECEIVABLES AND PREPAYMENTS</u></b>			
Net Accounts Receivable	124,863	134,377	126,629
Prepayments	61,731	44,571	41,010
Total	<u>186,594</u>	<u>178,948</u>	<u>167,639</u>
<b>6. <u>INVENTORIES</u></b>			
Raw Materials	176,382	146,127	102,884
Work-in-Progress	1,880	1,437	2,284
Finished Goods	64,977	45,573	36,286
Total	<u>243,239</u>	<u>193,137</u>	<u>141,454</u>
<b>7. <u>PAYABLES AND ACCRUALS</u></b>			
Accounts Payable	170,238	99,687	84,587
Accrued Expenses	106,552	114,551	112,947
Zakat	9,681	9,862	9,524
Total	<u>286,471</u>	<u>224,100</u>	<u>207,058</u>

## ACCOUNTANTS REPORT

	<b>2004</b>	<b>2003</b>	<b>2002</b>
	<b>SAR '000</b>	<b>SAR '000</b>	<b>SAR '000</b>
<b>8. LOANS</b>			
(i) Saudi Industrial Development Fund	220,350	77,520	70,780
(ii) Saudi Arabian Agricultural Bank	12,074	13,840	15,607
(iii) Commercial Banks	<u>535,000</u>	<u>415,000</u>	<u>150,539</u>
Total	<u>767,424</u>	<u>506,360</u>	<u>236,926</u>
A. The borrowings from the Saudi Industrial Development Fund are secured by several guarantees of the shareholders in proportion to their shareholdings and:			
(i) in respect of borrowings amounting to SAR 204.5 million, SAR 71.5 million and SAR 65.7 million for 2004, 2003 and 2002 respectively by a mortgage on specific assets.			
(ii) in respect of borrowings amounting to SAR 15.9 million, SAR 6.0 million and SAR 5.1 million for 2004, 2003 and 2002 respectively 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 are secured by promissory notes given by the Company.			
D. Maturity of Financial Liabilities			
Less than one year	22,074	26,936	76,706
One to two years	228,500	250,714	73,533
Two to five years	478,220	214,710	86,687
Greater than five years	<u>38,630</u>	<u>14,000</u>	<u>-</u>
Total	<u>767,424</u>	<u>506,360</u>	<u>236,926</u>
<b>9. INTANGIBLE ASSETS</b>			
<b><u>Goodwill</u></b>			
<b><u>Cost</u></b>			
At 1 January	103,276	103,276	103,276
Additions	-	-	-
Disposals	-	-	-
At 31 December	<u>103,276</u>	<u>103,276</u>	<u>103,276</u>
<b><u>Amortisation</u></b>			
At 1 January	80,689	62,362	44,177
Amortisation	22,587	18,327	18,185
Disposals	-	-	-
At 31 December	<u>103,276</u>	<u>80,689</u>	<u>62,362</u>
<b><u>Net Book Value</u></b>			
At 31 December	<u>-</u>	<u>22,587</u>	<u>40,914</u>

Goodwill amortised in the three years consists of an annual charge of SAR 10.3 million. Additional charges of SAR 12.3 million, SAR 8.0 million and SAR 7.9 million in 2004, 2003 and 2002 respectively reflect a permanent diminution in the value of Goodwill as determined on review.

**10. FIXED ASSETS**

	<b>Land &amp; Buildings</b>	<b>Plant, Machinery &amp; Equipment</b>	<b>Motor Vehicles</b>	<b>Dairy Herd</b>	<b>Young Stock</b>	<b>Capital Work-in-Progress</b>	<b>Total</b>
	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000
<b>Cost</b>							
At 1 January 2002	496,567	765,635	203,157	168,503	62,545	176,252	1,872,659
Additions during 2002	-	25,646	23,999	-	-	203,767	253,412
Livestock Appreciation	-	-	-	-	70,160	-	70,160
Transfers during 2002	117,724	73,890	-	57,645	(57,645)	(191,614)	-
Disposals during 2002	(9,298)	(11,523)	(20,024)	(52,641)	(10,340)	-	(103,826)
<b>At 31 December 2002</b>	<b>604,993</b>	<b>853,648</b>	<b>207,132</b>	<b>173,507</b>	<b>64,720</b>	<b>188,405</b>	<b>2,092,405</b>
Additions during 2003	-	22,085	63,304	-	17,549	364,799	467,737
Livestock Appreciation	-	-	-	-	77,827	-	77,827
Transfers during 2003	69,114	131,375	-	75,488	(75,488)	(200,489)	-
Disposals during 2003	(51)	(11,422)	(33,319)	(51,237)	(11,261)	-	(107,290)
<b>At 31 December 2003</b>	<b>674,056</b>	<b>995,686</b>	<b>237,117</b>	<b>197,758</b>	<b>73,347</b>	<b>352,715</b>	<b>2,530,679</b>
Additions during 2004	-	8,235	47,927	2,283	2,754	432,406	493,605
Livestock Appreciation	-	-	-	-	84,865	-	84,865
Transfers during 2004	77,178	159,221	-	70,014	(70,014)	(236,399)	-
Disposals during 2004	(36)	(15,860)	(26,682)	(56,848)	(11,893)	-	(111,319)
<b>At 31 December 2004</b>	<b>751,198</b>	<b>1,147,282</b>	<b>258,362</b>	<b>213,207</b>	<b>79,059</b>	<b>548,722</b>	<b>2,997,830</b>
<b>Accumulated Depreciation</b>							
At 1 January 2002	142,956	439,759	117,129	50,198	-	-	750,042
Disposals during 2002	(8,982)	(10,729)	(19,767)	(18,395)	-	-	(57,873)
Charges for 2002	18,524	87,269	30,410	20,816	-	-	157,019
<b>At 31 December 2002</b>	<b>152,498</b>	<b>516,299</b>	<b>127,772</b>	<b>52,619</b>	<b>-</b>	<b>-</b>	<b>849,188</b>
Disposals during 2003	(51)	(11,022)	(32,355)	(18,372)	-	-	(61,800)
Charges for 2003	22,584	100,686	33,503	22,702	-	-	179,475
<b>At 31 December 2003</b>	<b>175,031</b>	<b>605,963</b>	<b>128,920</b>	<b>56,949</b>	<b>-</b>	<b>-</b>	<b>966,863</b>
Disposals during 2004	(13)	(13,791)	(26,097)	(20,400)	-	-	(60,301)
Charges for 2004	27,974	93,024	35,052	26,033	-	-	182,083
<b>At 31 December 2004</b>	<b>202,992</b>	<b>685,196</b>	<b>137,875</b>	<b>62,582</b>	<b>-</b>	<b>-</b>	<b>1,088,645</b>
<b>Net Book Value</b>							
<b>At 31 December 2004</b>	<b>548,206</b>	<b>462,086</b>	<b>120,487</b>	<b>150,625</b>	<b>79,059</b>	<b>548,722</b>	<b>1,909,185</b>
<b>At 31 December 2003</b>	<b>499,025</b>	<b>389,723</b>	<b>108,197</b>	<b>140,809</b>	<b>73,347</b>	<b>352,715</b>	<b>1,563,816</b>
<b>At 31 December 2002</b>	<b>452,495</b>	<b>337,349</b>	<b>79,360</b>	<b>120,888</b>	<b>64,720</b>	<b>188,405</b>	<b>1,243,217</b>
<b>At 1 January 2002</b>	<b>353,611</b>	<b>325,876</b>	<b>86,028</b>	<b>118,305</b>	<b>62,545</b>	<b>176,252</b>	<b>1,122,617</b>



<u>2004</u>	<u>2003</u>	<u>2002</u>
SAR '000	SAR '000	SAR '000

**11. SHARE CAPITAL**

The Company's share capital of SAR 750.0 million at 31 December 2004 consists of 75 million fully paid and issued shares of SAR 10 each. The Company's share capital of SAR 500 million at 31 December 2003 and SAR 200 million at 31 December 2002 consist 500,000 and 200,000 fully paid and issued shares respectively of SAR 1,000 each.

H. H. Prince Sultan Bin Mohammed Bin Saud Al Kabeer	398,625	270,750	108,302
The Savola Group	302,475	201,650	80,660
Abdulaziz Ibrahim Al Muhanna	28,650	19,100	7,642
Abdulahman Abdulaziz Al Muhanna	12,750	8,500	3,396
Princess Joharra Bint Saad Bin Abdulaziz	7,500	-	-
Total	<u>750,000</u>	<u>500,000</u>	<u>200,000</u>

During 2003, the Board of Directors of the Company approved an increase in Share Capital of SAR 300 million which was funded from Retained Earnings. All appropriate legal procedures have been completed.

During 2004, the following events occurred:

- A resolution was passed by the Shareholders, allowing a fifth partner to own shares in Almarai Company Limited. An amendment to the Articles of Association was made to reflect this resolution. His Highness Prince Sultan Bin Mohammed Bin Saud Al Kabeer subsequently transferred 5,000 shares from his holding to Her Royal Highness Princess Joharra Bint Saad Bin Abdulaziz.
- The Shareholders of the Company subsequently approved an increase in share capital of SAR 250 million which was funded from Retained Earnings. All appropriate legal procedures have been completed.
- The Company subsequently carried out a 1 for 100 share split such that the Company's share capital of SAR 750 million now consists of 75 million fully paid and issued shares of SAR 10 each. All appropriate legal procedures have been completed.

**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 currently available for distribution to the Shareholders.

## ACCOUNTANTS REPORT

	<b>2004</b>	<b>2003</b>	<b>2002</b>
	<b>SAR '000</b>	<b>SAR '000</b>	<b>SAR '000</b>
<b>13. SALES</b>			
By Product Group			
Fresh Dairy	1,190,897	1,131,302	1,059,779
Long Life Dairy	175,217	132,960	99,932
Fruit Juice	137,920	132,576	118,377
Cheese & Butter	369,559	350,416	312,199
Non-Dairy Foods	5,352	1,172	-
Other	6,167	5,513	10,473
	<u>1,885,112</u>	<u>1,753,939</u>	<u>1,600,760</u>
By Destination			
Saudi Arabia	1,285,883	1,217,433	1,105,410
Other Countries	599,229	536,506	495,350
	<u>1,885,112</u>	<u>1,753,939</u>	<u>1,600,760</u>

## 14. SEGMENTAL REPORTING

Analysis of Sales is given by Product Group as shown in Note 13. The disclosure of segmental information in respect of net income and net assets is not, in the opinion of the Board of Directors, required as the Company operates only in the consumer food business and as such, this information would not add value to the readers of these consolidated financial statements.

The disclosure of segmental information by geographical area, in respect of net income and net assets would, in the opinion of the Board of Directors, be prejudicial to the interest of the Company and accordingly are not disclosed.

## 15. COST OF SALES

Direct Material Costs	752,141	675,677	608,138
Employee Costs	137,916	117,020	105,203
Depreciation & Amortisation	171,325	164,917	147,770
Livestock Appreciation	(84,865)	(77,827)	(70,160)
Loss on Disposal of Livestock	17,475	20,957	18,358
Other Expenses	132,596	117,832	104,137
Total	<u>1,126,588</u>	<u>1,018,576</u>	<u>913,446</u>

## 16. SELLING AND DISTRIBUTION EXPENSES

Marketing Expenses	103,922	98,030	83,824
Employee Costs	113,142	103,617	93,329
Depreciation & Amortisation	25,072	25,050	22,288
Other Expenses	33,476	31,004	35,480
Total	<u>275,612</u>	<u>257,701</u>	<u>234,921</u>

## ACCOUNTANTS REPORT

	<b>2004</b>	<b>2003</b>	<b>2002</b>
	SAR '000	SAR '000	SAR '000
<b>17. GENERAL AND ADMINISTRATION EXPENSES</b>			
Insurance	12,078	11,296	10,058
Employee Costs	59,559	55,658	61,262
Depreciation & Amortisation	8,273	7,835	5,146
Profit on Disposal of Other Fixed Assets	(10,357)	(9,831)	(9,992)
Other Expenses	16,741	15,802	15,061
<b>Total</b>	<b>86,294</b>	<b>80,760</b>	<b>81,535</b>

## 18. 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 all the years, the Zakat charge is based on the net income method calculated as follows:

Net Income before Zakat	379,746	378,093	361,742
Disallowed Expenses:			
Accrual for Employees' Termination Benefits	(1,015)	15,551	12,280
Other Provisions	8,514	788	6,914
Net Income for Zakat Purposes	<u>387,245</u>	<u>394,432</u>	<u>380,936</u>
Zakat Charge @ 2.5%	9,681	9,862	9,524
Adjustment in respect of prior year provision	(237)	(67)	136
Charged to Statement of Income	<u>9,444</u>	<u>9,795</u>	<u>9,660</u>

### B. Zakat Provisions

Balance at 1 January	9,862	9,524	8,276
Charged to Statement of Income	9,444	9,795	9,660
Payments	(9,625)	(9,457)	(8,412)
Balance at 31 December	<u>9,681</u>	<u>9,862</u>	<u>9,524</u>

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

## 19. DEPRECIATION AND AMORTISATION

Livestock			
Depreciation of Dairy Herd	26,033	22,702	20,816
Livestock Appreciation	(84,865)	(77,827)	(70,160)
Net Livestock Appreciation	<u>(58,832)</u>	<u>(55,125)</u>	<u>(49,344)</u>
Depreciation of Fixed Assets	156,050	156,773	136,203
Amortisation of Intangible Assets	22,587	18,327	18,185
Loss on the Disposal of Livestock	17,475	20,957	18,358
Profit on the Disposal of Fixed Assets	(10,357)	(9,831)	(9,992)
<b>Total Depreciation and Amortisation</b>	<b>126,923</b>	<b>131,101</b>	<b>113,410</b>

## ACCOUNTANTS REPORT

	<u>2004</u>	<u>2003</u>	<u>2002</u>
	SAR '000	SAR '000	SAR '000
<u>(Profit)/Loss on the Disposal of Assets</u>			
Livestock			
Proceeds from Disposal of Livestock	(30,866)	(23,169)	(26,228)
NBV of Dairy Herd Cows Disposed	36,448	32,865	34,246
NBV of Youngstock Disposed	11,893	11,261	10,340
Loss on the Disposal of Livestock	<u>17,475</u>	<u>20,957</u>	<u>18,358</u>
Fixed Assets			
Proceeds from the Disposal of Assets	(13,034)	(11,195)	(11,359)
NBV of Assets Disposed	2,677	1,364	1,367
Profit on the Disposal of Fixed Assets	<u>(10,357)</u>	<u>(9,831)</u>	<u>(9,992)</u>

## 20. FINANCIAL INSTRUMENTS

Financial instruments carried on the consolidated balance sheets 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 Group 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 realisable 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 2004, 2003 and 2002. Interest-bearing liabilities at 31 December 2004, 2003 and 2002 amounted to SAR 535.0 million, SAR 415.0 million and SAR 150.5 million respectively.

**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 transaction 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.

## ACCOUNTANTS REPORT

<b>2004</b>	<b>2003</b>	<b>2002</b>
SAR '000	SAR '000	SAR '000

The outstanding foreign currency forward purchase agreements were as follows:

Euro	121,400	305,322	177,338
United States Dollar	94,055	188,846	188,879
Sterling	36,899	107,746	115,929
Danish Kroner	3,309	20,394	39,974
Other	1,637	6,050	-
	<u>257,300</u>	<u>628,358</u>	<u>522,120</u>

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 believe that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values.

### 21. COMMITMENTS AND CONTINGENCIES

- A. The contingent liabilities against letters of credit was SAR 85.7 million, SAR 125.9 million and SAR 25.3 million for 2004, 2003 and 2002 respectively.
- B. The contingent liabilities against letters of guarantee was SAR 36.4 million, SAR 21.8 million and SAR 26.7 million for 2004, 2003 and 2002 respectively.
- C. The Company had capital commitments amounting to SAR 292.2 million, SAR 351.5 million and SAR 225.7 million at 31 December 2004, 2003 and 2002 respectively. 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:

Within one year	14,663	21,378	20,334
Two to five years	20,952	20,735	18,961
After five years	16,109	21,662	22,390
	<u>51,724</u>	<u>63,775</u>	<u>61,685</u>

### 22. DIRECTORS RENUMERATION

The remuneration due to the Board of Directors for the year ended 31 December 2004, 2003, and 2002 amounted to SAR 4.4 million, SAR 3.5 million, SAR 4.4 million respectively.

## ACCOUNTANTS REPORT

<u>2004</u>	<u>2003</u>	<u>2002</u>
SAR '000	SAR '000	SAR '000

### **23. 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:

Sales	65,356	58,263	49,248
Purchases	91,481	91,077	85,789
Due from Related Parties - Net	2,361	13,741	13,311

Pricing and terms of payment for these transactions are approved by the Shareholders of the Company and the related parties.

### **24. 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.

## 15. Management's Discussion & Analysis of Financial Condition & Results of Operations

*The following discussion and analysis of Almarai's financial condition and results is based upon and should be read in conjunction with the financial statements as at and for the years ended 31 December 2002, 2003 and 2004, which have been audited by Aldar Audit Bureau – Abdullah Al Basri & Co., a Member Firm of Grant Thornton International.*

*The Management's Discussion and Analysis of Financial Condition and Results of Operations section contains forward-looking statements that involve risks and uncertainties. Actual results for the Company could differ materially from those contemplated by these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Prospectus, particularly under the heading "Risk Factors".*

### 15.1 Director's Declaration for Financial Information

The Directors declare that the financial information presented in the Prospectus are extracted without material change from the Audited Financial Statements and that the Audited Financial Statements have been prepared in accordance with SOCPA Accounting Standards.

The Directors further declare that there has been no material adverse change in the financial or trading position of the Company from 31 December 2004 up to and including the date of the Prospectus.

### 15.2 Overview

Almarai Company Limited was formed as a Saudi limited liability company with Commercial Registration Number 1010084223<sup>20</sup>, dated 19/12/1411H (corresponding to 1/7/1991G). The Minister of Commerce and Industry has, pursuant to resolution No. 773 dated 6/5/1426H (corresponding to 13/6/2005G), authorized the conversion of the Company from a limited liability company into a joint stock company. The share capital of the Company is SAR 750 million consisting of fifteen (15) million shares with a nominal value of SAR 50 each. Following completion of the Offering and the conclusion of the Conversion General Assembly, an application will be submitted to the Minister of Commerce and Industry requesting him to announce the conversion of the company. The Company will be considered duly converted into a joint stock company from the date of issuance of the Ministerial Resolution declaring its conversion.

---

<sup>20</sup> In 1996, the Company changed its name from Almarai Trading Company to Almarai Company Limited.

**Exhibit 15-1: Almarai's Ownership Structure**

	Pre-Offering			Post-Offering		
	Shares	%	Capital (SAR)	Shares	%	Capital (SAR)
Shareholders	SAR 50 par value per share			SAR 50 par value per share		
HH Prince Sultan bin Mohammed bin Saud Al Kabeer	7,972,500	53.15	398,625,000	5,580,750	37.21	279,037,500
The Savola Group	6,049,500	40.33	302,475,000	4,234,650	28.23	211,732,500
Abdulaziz bin Ibrahim Al Muhanna	573,000	3.82	28,650,000	401,100	2.67	20,055,000
Abdulrahman bin Abdulaziz Al Muhanna	255,000	1.70	12,750,000	178,500	1.19	8,925,000
HRH Princess Aljawhara bint Saad bin Abdulaziz Al Saud	150,000	1.00	7,500,000	105,000	0.70	5,250,000
Offering Subscribers	-	-	-	4,500,000	30.00	225,000,000
Total	<u>15,000,000</u>	<u>100.00</u>	<u>750,000,000</u>	<u>15,000,000</u>	<u>100.00</u>	<u>750,000,000</u>

Source: Almarai

### 15.2.1 Sales, Net Income and Cash Flows

The Company's sales, net income and cash flows generated from operating activities for each year from 1995 to 2004 were as follows:

**Exhibit 15-2: Almarai Sales, Net Income and Operating Cash Flows 1995-2004**

Year	Sales	Net Income	Net Income as % of Sales	Operating Cash Flow
	SAR M	SAR M		SAR M
1995.....	987.2	152.6	15.4%	200.2
1996.....	1,042.2	195.1	18.7%	277.5
1997.....	1,108.7	242.5	21.9%	282.6
1998.....	1,163.9	267.2	23.0%	309.4
1999.....	1,189.6	282.0	23.7%	380.2
2000.....	1,249.0	295.0	23.6%	392.3
2001.....	1,421.4	311.6	21.9%	432.1
2002.....	1,600.8	352.1	22.0%	500.8
2003.....	1,753.9	368.3	21.0%	463.5
2004.....	1,885.1	370.3	19.6%	517.7

Source: Almarai Audited Financial Statements

Over the three years to 2004, Almarai has experienced compound annual growth rate in sales of 9.9% and net income of 5.9%. The high level of net income margins can be attributed to the success of Almarai's integrated business model and the major investment programme and accompanying rationalisation which took place in the mid 1990s.

Almarai's net income grew at a compound annual growth rate of 10.4% during the ten years from 1995 to 2004, while sales grew at 7.5%.



**Exhibit 15-3: Annual Year-on-Year Growth Rates (%)**

Year	Sales	Net Income
1995.....	7.3%.....	25.7%
1996.....	5.6%.....	27.9%
1997.....	6.4%.....	24.3%
1998.....	5.0%.....	10.2%
1999.....	2.2%.....	5.5%
2000.....	5.0%.....	4.6%
2001.....	13.8%.....	5.6%
2002.....	12.6%.....	13.0%
2003.....	9.6%.....	4.6%
2004.....	7.5%.....	0.5%
Compound Annual Growth Rates		
1995-2004 .....	7.5%.....	10.4%

Source: Almarai Audited Financial Statements

### 15.2.2 Product Groups

Almarai is an integrated food and beverage producer, marketing and distributing branded products almost exclusively through retail outlets. Its product range includes fresh and long-life dairy, fruit juice and cheese and butter. In 2003, Almarai extended its product range to include non-dairy foods.

Fresh dairy includes short-life products made principally using locally produced raw milk, of which Almarai produces in excess of 90% of its requirements. Almarai has evolved its fresh dairy range from its earliest days when its initial products were fresh laban and milk. It now also includes natural and fruit yoghurts, fresh cream and dairy desserts.

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

The Company has marketed a range of cheese and butter products for many years. Initially these products were imported but the range is now substantially processed in Saudi Arabia.

In 1999, Almarai built on its successful branded business by introducing a range of fruit juices. Almarai extended its product range into non-dairy foods with the launch in 2003 of tomato paste. This trend continued in 2004 with the introduction of a range of fruit jams and preserves under the Almarai brand.

**Exhibit 15-4: Sales Volume by Product Group 1995-2004 (Litres/Kg. millions)**

Year	Fresh Dairy	Long-life Dairy	Fruit Juice	Cheese & Butter	Other Foods <sup>1</sup>	Total
1995.....	152.4 .....	2.7 .....	- .....	10.1 .....	4.3.....	169.5
1996.....	160.1 .....	4.8 .....	- .....	10.1 .....	2.6.....	177.6
1997.....	167.3 .....	11.3 .....	- .....	9.8 .....	1.3.....	189.7
1998.....	180.0 .....	16.2 .....	- .....	9.8 .....	- .....	206.0
1999.....	186.4 .....	23.8 .....	0.5 .....	9.3 .....	- .....	220.0
2000.....	214.1 .....	29.0 .....	8.2 .....	10.7 .....	- .....	262.0
2001.....	235.8 .....	33.4 .....	18.5 .....	13.9 .....	- .....	301.6
2002.....	263.6 .....	34.0 .....	31.6 .....	16.8 .....	- .....	346.0
2003.....	280.2 .....	46.6 .....	40.3 .....	18.7 .....	0.2.....	386.0
2004.....	297.9 .....	54.8 .....	41.0 .....	19.2 .....	0.9.....	413.8

<sup>1</sup> Other Foods includes milk powder and reconstituted long-life milk products until their discontinuation in 1997 and non-dairy foods (tomato paste and jams) launched in 2003 and 2004.

Source: Almarai

**Exhibit 15-5: Sales Value by Product Group 1995-2004 (SAR M)**

Year	Fresh Dairy	Long-life Dairy	Fruit Juice	Cheese & Butter	Other Foods <sup>1</sup>	Other Sales <sup>2</sup>	Total
1995.....	748.9	10.6	-	178.5	34.3	14.9	987.2
1996.....	795.2	17.1	-	191.8	28.1	10.0	1,042.2
1997.....	841.5	40.4	-	189.5	19.0	18.3	1,108.7
1998.....	904.4	57.4	-	186.8	0.5	14.8	1,163.9
1999.....	919.2	77.4	2.7	176.2	-	14.1	1,189.6
2000.....	927.1	85.3	33.0	194.6	-	9.0	1,249.0
2001.....	980.9	95.2	74.7	254.7	-	15.9	1,421.4
2002.....	1,059.8	99.9	118.4	312.2	-	10.5	1,600.8
2003.....	1,131.3	132.9	132.6	350.4	1.2	5.5	1,753.9
2004.....	1,190.9	175.2	137.9	369.6	5.3	6.2	1,885.1

<sup>1</sup> Other Foods includes milk powder and reconstituted long-life milk Products until their discontinuation in 1997 and non-dairy foods (tomato paste and jams) launched in 2003 and 2004.

<sup>2</sup> Other Sales include by-products and raw milk – no volumes are available, therefore not reported in Exhibit 15-4.

Source: Almarai

The growth in sales revenue in recent years reflects a continuing steady rise in the Fresh Dairy sector, the extremely successful revitalisation of Cheese and Butter and the rapid expansion of Fruit Juice since its introduction in 1999. Sales revenue in those sectors has grown at compound average rates of 6.7%, 13.2% and 22.7%, respectively, in the three years to 2004.

Average sale price per litre/kilogramme is impacted by changes in product and country mix. Average prices have declined with the decrease being more than compensated by the rise in volumes.

**Exhibit 15-6: Average Sale Prices and Volumes by Product Group 1995-2004**

Year	SAR per Litre	% Change Sale Price	% Change Volume	SAR per Litre/Kg.	% Change Sale Price	% Change Volume
Fresh Dairy				Long-life Dairy		
1995.....	4.92.....	+11%.....	-5%.....	3.93.....	+2%.....	+23%.....
1996.....	4.97.....	+1%.....	+5%.....	3.58.....	-9%.....	+78%.....
1997.....	5.03.....	+1%.....	+4%.....	3.59.....	0%.....	+135%.....
1998.....	5.03.....	0%.....	+8%.....	3.53.....	-2%.....	+43%.....
1999.....	4.93.....	-2%.....	+4%.....	3.25.....	-8%.....	+47%.....
2000.....	4.33.....	-12%.....	+15%.....	2.94.....	-10%.....	+22%.....
2001.....	4.16.....	-4%.....	+10%.....	2.85.....	-3%.....	+15%.....
2002.....	4.02.....	-3%.....	+12%.....	2.94.....	+3%.....	+2%.....
2003.....	4.04.....	0%.....	+6%.....	2.86.....	-3%.....	+37%.....
2004.....	4.00.....	-1%.....	+6%.....	3.20.....	+12%.....	+18%.....
Fruit Juice				Cheese & Butter		
1995.....	-.....	-.....	-.....	17.67.....	+6%.....	+7%.....
1996.....	-.....	-.....	-.....	18.95.....	+7%.....	0%.....
1997.....	-.....	-.....	-.....	19.30.....	+2%.....	-3%.....
1998.....	-.....	-.....	-.....	19.13.....	-1%.....	0%.....
1999.....	4.91.....	-.....	-.....	18.92.....	-1%.....	-5%.....
2000.....	4.03.....	-18%.....	+1,540%.....	18.21.....	-4%.....	+15%.....
2001.....	4.04.....	0%.....	+126%.....	18.30.....	+1%.....	+30%.....
2002.....	3.75.....	-7%.....	+71%.....	18.54.....	+1%.....	+21%.....
2003.....	3.29.....	-12%.....	+28%.....	18.69.....	+1%.....	+11%.....
2004.....	3.37.....	+2%.....	+2%.....	19.23.....	+3%.....	+3%.....

Source: Almarai

Fresh Dairy is the most important sector but the other product groups are growing in significance as the product range is diversified, strengthening the Company's revenue base.

**Exhibit 15-7: Sales Percentage by Product Group 1995-2004 (%)**

Year	Fresh Dairy	Long-life Dairy	Fruit Juice	Cheese & Butter	Other Foods	Other Sales	Total
1995.....	75.9%.....	1.1%.....	-.....	18.1%.....	3.4%.....	1.5%.....	100.0%
1996.....	76.3%.....	1.6%.....	-.....	18.4%.....	2.7%.....	1.0%.....	100.0%
1997.....	75.9%.....	3.6%.....	-.....	17.1%.....	1.7%.....	1.7%.....	100.0%
1998.....	77.7%.....	4.9%.....	-.....	16.1%.....	-.....	1.3%.....	100.0%
1999.....	77.3%.....	6.5%.....	0.2%.....	14.8%.....	-.....	1.2%.....	100.0%
2000.....	74.2%.....	6.8%.....	2.6%.....	15.6%.....	-.....	0.8%.....	100.0%
2001.....	69.0%.....	6.7%.....	5.3%.....	17.9%.....	-.....	1.1%.....	100.0%
2002.....	66.2%.....	6.2%.....	7.4%.....	19.5%.....	-.....	0.7%.....	100.0%
2003.....	64.5%.....	7.6%.....	7.5%.....	20.0%.....	0.1%.....	0.3%.....	100.0%
2004.....	63.2%.....	9.3%.....	7.3%.....	19.6%.....	0.3%.....	0.3%.....	100.0%

Source: Almarai

### 15.2.3 Capital Expenditure

Following the successful completion of the major investment programme in the mid 1990s, capital expenditure levels were relatively low from 1998 to 2000, averaging approximately SAR 100 million per annum, excluding the acquisition of the outstanding shares of Tawdah Dairy Farm Company Limited.

The level of capital expenditure increased to SAR 253 million in 2002, to SAR 468 million in 2003 and to SAR 494 million in 2004. This expenditure included the construction of a new modern 10,000 cow dairy farm and the commencement of the construction of a major processing facility (CPP2) adjacent to the existing fresh processing plant in Al Kharj, which will replace the current cheese processing plant and allow for the transfer of juice and long-life milk processing from the existing plant, thus freeing up additional capacity for fresh processing.

Current estimates of capital expenditure during the five years from 2003 to 2007 total SAR 2.5 billion:

**Exhibit 15-8: Estimated Capital Expenditure 2003-2007 (SAR M)**

#### By Expenditure Category

Routine Capital Replacement Projects: .....	572
Dairy Farming .....	518
Processing including CPP2.....	1,101
Long-haul Distribution .....	71
Sales.....	220
Other.....	18
Total.....	<u>2,500</u>

#### By Year

2003.....	468
2004.....	494
2005.....	500
2006.....	500
2007.....	538
Total.....	<u>2,500</u>

Source: Almarai

This investment will provide Almarai with the capacity required to meet anticipated demand in the coming years, together with scope for further expansion. When combined with other capital expenditure including investment in the sales and distribution network as well as information systems, Almarai will be well positioned for sustained growth in the years ahead.

Almarai fully intends to play an active role in the process of rationalisation of the dairy industry in Saudi Arabia and expects that this will present opportunities for growth by acquisition. The amount and timing of any such investment cannot be anticipated with any great accuracy, but would result in investment expenditure additional to the capital expenditure summarised above.

#### 15.2.4 Critical Accounting Policies

The Company's financial statements are prepared on the accrual basis under the historical cost convention and in compliance with the accounting standards issued by the Saudi Organisation for Certified Public Accountants (SOCPA), including International Accounting Standards recognised by SOCPA.

The preparation of financial statements requires management to make estimates and judgements. The Company's policies are set out in the Notes to the Accountants' Reports. Of these policies, the following are of greater complexity and may be particularly subject to the exercise of judgement.

##### **Basis of Preparation**

The distribution centres in the GCC countries are managed by the Company and operate pursuant to distributor agency agreements. The financial statements reflect all business operations undertaken by these distribution centres on behalf of the Company and the assets and liabilities beneficially held by the Company.

Revenue is recognised on delivery, by the Company or the distributors, of products to customers, at which time risk and title passes, subject to physical return of unsold products.

Similarly, all distribution costs associated with such deliveries are charged to the financial statements, including charges in respect of long term agreements with customers and distributors.

##### **Intangible Assets**

On 1 January 1999, the Company acquired 70% of Tawdah Dairy Farm Company Limited which it had not previously owned. Goodwill from this acquisition amounted to SAR 103.3 million, representing the difference between the cost of the business acquired and the fair value of identifiable net assets on the date of acquisition.

In accordance with SOCPA (Standard relating to intangible assets), goodwill is capitalised on the balance sheet and amortised to the statement of income in equal instalments over its expected useful life.

Review is undertaken at year end and additional charges are made for any permanent diminution in its value.

##### **Livestock**

The International Accounting Standard 41 – Agriculture (IAS 41) prescribes, among other things, the accounting treatment for biological assets during the period of growth, degeneration, production and procreation. It requires measurement at fair value, on the assumption that this can be measured reliably for a biological asset, such as a living animal. Where fair value cannot be reliably measured, IAS 41 requires that biological assets be measured at cost less accumulated depreciation, taking into consideration any accumulated impairment losses, which effectively treats the biological assets as fixed assets.

As there is no open market for dairy livestock in the GCC, Almarai is unable to reliably estimate the fair value of its livestock. Therefore dairy livestock are treated as fixed assets and included in the financial statements at cost of purchase, or cost of procreation and rearing to first calving, less accumulated depreciation.

The direct costs of producing new born calves together with the direct costs of rearing female calves (youngstock) to maturity are initially charged to the statement of income as feed, labour and overheads. At the end of each quarter this cost is estimated by applying standard costs to the herd census and is capitalised as fixed assets. The amount capitalised in this way is termed (Livestock Appreciation) and represents the gradual increasing value representing the cost of rearing the maturing youngstock herd. The standard costs are reviewed approximately every five years and have remained unchanged over the past four years. The cumulative value at first calving is transferred to the dairy herd.

From their initial cost of purchase or transfer value from the youngstock herd, individual cows in the dairy herd are depreciated over their useful lives to a residual value equivalent to their sale value as culls.

The book value of all animals sold or expired is offset by the disposal proceeds to calculate the loss on the disposal of livestock.

### 15.3 Results of Operations

The following tables summarise the audited statements of income for the last three years (2004, 2003, 2002).

**Exhibit 15-9: Income Statements (SAR M)**

	Year Ended 31 December		
	2004	2003	2002
Fresh Dairy .....	1,190.9	1,131.3	1,059.8
Long-life Dairy .....	175.2	132.9	99.9
Fruit Juice .....	137.9	132.6	118.4
Cheese & Butter .....	369.6	350.4	312.2
Non-Dairy Food .....	5.3	1.2	10.5
Other .....	6.2	5.5	10.5
Sales .....	<u>1,885.1</u>	<u>1,753.9</u>	<u>1,600.8</u>
Cost of Sales .....	(1,126.6)	(1,018.6)	(913.5)
Selling & Distribution Expenses .....	(275.6)	(257.7)	(234.9)
General & Administration Expenses .....	(86.3)	(80.7)	(81.5)
Operating Costs .....	<u>(1,488.5)</u>	<u>(1,357.0)</u>	<u>(1,229.9)</u>
Operating Profit .....	396.6	396.9	370.9
Bank Charges .....	(16.9)	(18.8)	(9.1)
Zakat .....	(9.4)	(9.8)	(9.7)
Net Income .....	<u>370.3</u>	<u>368.3</u>	<u>352.1</u>

Source: Almarai Audited Financial Statements

**Exhibit 15-10: Income Statements as % of Sales**

	Year Ended 31 December		
	2004	2003	2002
Fresh Dairy .....	63.2	64.5	66.2
Long-life Dairy .....	9.3	7.6	6.2
Fruit Juice .....	7.3	7.5	7.4
Cheese & Butter .....	19.6	20.0	19.5
Non-Dairy Food .....	0.3	0.1	-
Other .....	0.3	0.3	0.7
Sales .....	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Cost of Sales .....	(59.8)	(58.1)	(57.0)
Selling & Distribution Expenses .....	(14.6)	(14.7)	(14.7)
General & Administration Expenses .....	(4.6)	(4.6)	(5.1)
Operating Costs .....	<u>(79.0)</u>	<u>(77.4)</u>	<u>(76.8)</u>
Operating Profit .....	<u>21.0</u>	<u>22.6</u>	<u>23.2</u>
Bank Charges .....	(0.9)	(1.0)	(0.6)
Zakat .....	(0.5)	(0.6)	(0.6)
Net Income .....	<u>19.6</u>	<u>21.0</u>	<u>22.0</u>

Source: Almarai Audited Financial Statements

### 15.3.1 Sales Volumes and Prices

Almarai derives its revenues almost exclusively from the sale of branded food and beverage products through retail outlets.

The Company is the market leader in Fresh Dairy products in the GCC especially Saudi Arabia and Kuwait. It has significant market share in all product sectors across all GCC countries. Management believes that growth potential remains in all its product sectors and is putting in place the operational resources required to service this growth potential.

The following table sets out Almarai's sales by principal product groups for the periods presented and the percentage period to period change:

**Exhibit 15-11: Sales by Product Group (SAR M)**

	Year Ended 31 December		
	2004	2003	2002
Fresh Dairy .....	1,190.9	1,131.3	1,059.8
Long-life Dairy .....	175.2	132.9	99.9
Fruit Juice .....	137.9	132.6	118.4
Cheese & Butter .....	369.6	350.4	312.2
Non Dairy Food .....	5.3	1.2	-
Other .....	6.2	5.5	10.5
Total Sales .....	<u>1,885.1</u>	<u>1,753.9</u>	<u>1,600.8</u>

Source: Almarai Audited Financial Statements

For the purposes of comparison, the appropriate volume measure for fresh and long-life dairy is litres, which also gives a rough approximation of the corresponding raw milk requirement. Volume of fruit juice is also measured in litres, while tonnes, or kilogrammes, are used for cheese and butter.

Average sale prices per litre, or kilogramme, reflect a mix of varying product prices and pack size prices and, in the case of other GCC countries, different country prices.

## Fresh Dairy

The following table sets out volumes and sale prices for fresh dairy products in Saudi Arabia and other GCC countries:

**Exhibit 15-12: Fresh Dairy Volumes and Sale Prices**

	Year Ended 31 December		
	2004	2003	2002
Volume (Litres millions)			
Saudi Arabia .....	218.8	205.9	193.4
Other GCC .....	79.1	74.3	70.2
Total .....	<u>297.9</u>	<u>280.2</u>	<u>263.6</u>
Sale Price/ Lt. (SAR)			
Saudi Arabia .....	3.72	3.76	3.75
Other GCC .....	4.77	4.80	4.76
Weighted Average .....	4.00	4.04	4.02

Source: Almarai

The Fresh Dairy sector comprises products made principally from fresh milk. It includes high volume products such as liquid milk, laban and natural yoghurt (zabadi) as well as products such as gishtah (cream), fruit yoghurts and other dairy desserts. Sale price per litre tends to be higher in respect of products such as fruit yoghurts and dairy desserts, reflecting higher unit cost and shorter production runs.

Management does not expect any reduction in prices in the coming years in Saudi Arabia. Average sale prices in the other GCC countries have traditionally tended to be higher than in Saudi Arabia but management expects a gradual convergence of GCC price levels in the medium term.

The Company expects growth in fresh dairy sales to continue in the future, with the rate of growth accelerating above the level seen in 2004.

Growth in the Fresh Dairy sector is expected to be accompanied by a rationalisation of the industry with a consolidation of production around a smaller number of efficient milk suppliers and processors. Almarai will play an active role in this rationalisation.

## Long-life Dairy

Despite somewhat higher production costs, long-life dairy products, particularly long-life milk manufactured using the ultra high temperature (UHT) process are typically sold at lower sale prices than fresh products. This is due to the competition from products manufactured from imported milk powder purchased at commodity prices in the international dairy market.

While the initial role of Almarai UHT milk, made from locally produced raw milk, was to absorb seasonal milk surpluses, it has more recently become established as an important product in its own right. Improved matching of overall milk supply and demand has permitted greater stability in UHT milk prices with less discounting and average sale prices have begun to rise.

The category has benefited from the launch in 2004 of evaporated milk, sterilised cream and long-life whipping cream. These products were launched in Saudi Arabia and have contributed to the marked improvement in average sale price levels.

**Exhibit 15-13: Long-life Dairy Volumes and Sale Prices**

	Year Ended 31 December		
	2004	2003	2002
Volume (Litres millions)			
Saudi Arabia .....	28.7	28.8	20.8
Other GCC .....	19.8	15.6	12.2
Other Countries.....	6.3	2.2	1.1
Total.....	<u>54.8</u>	<u>46.6</u>	<u>34.1</u>
Sale Price/Lt. (SAR)			
Saudi Arabia .....	3.52	2.88	2.89
Other GCC .....	2.97	2.87	3.05
Other Countries.....	2.43	2.34	2.45
Weighted Average .....	3.20	2.86	2.94

Source: Almarai

Management is confident the strong growth in long life dairy revenues will continue in the future.

**Fruit Juice**

The Almarai range of fruit juice was introduced in 1999. The initial offering was pasteurised fruit juice made from concentrate in a number of flavours. Over time, the range has increased with the introduction of additional flavours, long-life juice and other drink products.

The fruit juice market has proven to be very competitive in recent years and average sale prices have fallen dramatically. This has resulted in a significant increase in demand.

**Exhibit 15-14: Fruit Juice Volumes and Sale Prices**

	Year Ended 31 December		
	2004	2003	2002
Volume (Litres millions)			
Saudi Arabia .....	26.5	26.9	19.4
Other GCC .....	14.3	13.3	12.1
Other Countries.....	0.2	0.1	0.1
Total.....	<u>41.0</u>	<u>40.3</u>	<u>31.6</u>
Sale Price per Litre (SAR)			
Saudi Arabia .....	3.25	3.20	3.72
Other GCC .....	3.58	3.49	3.79
Other Countries.....	3.24	3.05	3.77
Weighted Average .....	3.37	3.29	3.75

Source: Almarai

Management expects fruit juice sale prices to be driven by commodity price levels as well as seasonal and other price promotional activities. Combined with rationalisation within the market, this is expected to lead to continued volume growth.

**Cheese and Butter**

Sales from cheese and butter have grown dramatically, driven in particular by the successful revitalisation of the processed cheese range. This growth is continuing but at a somewhat lower level pending the elimination of capacity constraints on completion of CPP2.

The dramatic growth of cheese and butter in recent years has, in the main, been achieved without negative impact on average sale prices. Cheese and butter prices are, however,



heavily influenced by world dairy commodity prices, which have been at relatively low levels in recent years. In the past year, this trend has reversed and world prices have hardened considerably.

**Exhibit 15-15: Cheese & Butter Volumes and Sale Prices**

	Year Ended 31 December		
	2004	2003	2002
Volume (Tonnes)			
Saudi Arabia .....	14,216	14,186	12,782
Other GCC .....	4,783	4,503	4,035
Other Countries.....	224	56	18
Total.....	<u>19,223</u>	<u>18,745</u>	<u>16,835</u>
Sale Price/Kg. (SAR)			
Saudi Arabia .....	19.34	18.81	18.55
Other GCC .....	19.06	18.38	18.55
Other Countries.....	15.58	14.18	11.93
Weighted Average .....	19.23	18.69	18.54

Source: Almarai

Management expect the cost of commodity inputs to drive sale prices. The completion of CPP2 will eliminate capacity constraints in Almarai and allow a continuation of strong volume growth for its value-for-money offerings.

**Non-Dairy Foods and Other Sales**

Almarai extended its product range into non-dairy foods with the launch in 2003 of tomato paste. This trend continued in 2004 with the introduction of a range of fruit jams and preserves under the Almarai brand.

The reduction in the level of other sales is principally due to improved alignment of milk supply with demand resulting in a reduction in sales of seasonal surplus raw milk.

**15.3.2 Operating Costs**

Since its establishment, Almarai's principal focus has been on its fresh dairy product range, which continues to account for approximately 65% of total sales. Almarai produces over 90% of its raw milk requirement on its own modern and advanced farms in the Central Province of Saudi Arabia. Up to 2001, all of its fresh dairy products were produced at its fresh dairy processing plant near Al Kharj, Saudi Arabia. In 2001, the Company entered into arrangements whereby certain fresh dairy products were produced for Almarai in the United Arab Emirates.

The Company also processes its fruit juice products at its fresh dairy processing plant using imported fruit concentrate. All of its processed cheese products are manufactured at its cheese processing plant in Al Kharj, Saudi Arabia using imported bulk cheese. Other products are purchased as finished products.

Direct materials cost consists of a range of product inputs including animal feed, milk from outside producers, ingredients, including bulk cheese and fruit concentrate, product packaging and bought-in finished products.

As well as its farms and processing plants, Almarai maintains an extensive selling and distribution network throughout its core GCC markets.

The following table sets out Almarai's operating costs for the years from 2002 to 2004:

**Exhibit 15-16: Operating Costs (SAR M)**

	Year Ended 31 December		
	2004	2003	2002
Direct Material Costs.....	752.1	675.7	608.1
Other Cost of Sales.....	374.5	342.9	305.4
Cost of Sales.....	1,126.6	1,018.6	913.5
Selling & Distribution Expenses .....	275.6	257.7	234.9
General & Administration Expenses .....	86.3	80.7	81.5
Total Operating Costs .....	<u>1,488.5</u>	<u>1,357.0</u>	<u>1,229.9</u>
Total Sales .....	1,885.1	1,753.9	1,600.8

Source: Almarai Audited Financial Statements

The increase in operating costs in 2004 over 2003 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 a relatively weak US dollar. The year-on-year increase in 2003 and 2002 were more or less in line with the year-on-year increases in sales.

Products such as fruit juice and processed cheese present a growing proportion of the Company's sales mix. The raw material for these products is not produced by the Company, as is the case with fresh and long-life dairy products. As a consequence, direct material costs, as a percentage of sales, will continue to rise as the sales of these products increase in significance and therefore net profit margin will continue to decline.

Higher prices of world commodities increased direct material costs in 2004. This is particularly relevant in respect of imported animal feeds and inputs for dairy and juice products. In keeping with the Company's policy of offering value to consumers, Almarai tries to avoid price increases whenever possible or to reduce their impact by alternative sourcing or by other methods. Where this has not proven possible, cost increases have resulted in higher sale prices, principally on juice and cheese products.

Increases in the volume of product being processed and packed for Almarai by third parties led to higher charges for other cost of sales and a slight reduction in direct material costs.

The gradual increase in selling and distribution expenses is mainly due to increasing spend on marketing and trade support. The 2002 cost included a significant increase in the provision for doubtful debts. Management is confident that adequate provision has been made for doubtful debts.

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

**Exhibit 15-17: Operating Costs**

	Year Ended 31 December		
	2004	2003	2002
Operating Costs (SAR M)			
Direct Material Costs.....	752.1	675.7	608.1
Employee Costs.....	310.6	276.3	259.8
Marketing Expenses .....	104.0	98.0	83.8
Insurance .....	12.1	11.3	10.1
Other Expenses .....	182.8	164.6	154.7
Depreciation & Amortisation.....	126.9	131.1	113.4
Total Operating Costs .....	<u>1,488.5</u>	<u>1,357.0</u>	<u>1,229.9</u>
Operating Costs as % of Sales			
Direct Material Costs (%) .....	39.9	38.5	38.0
Employee Costs (%) .....	16.5	15.8	16.2
Marketing Expenses (%).....	5.5	5.6	5.2
Insurance (%).....	0.6	0.6	0.6
Other Expenses (%).....	9.7	9.4	9.7
Depreciation & Amortisation (%).....	6.7	7.5	7.1
Total Operating Costs (%).....	<u>79.0</u>	<u>77.4</u>	<u>76.8</u>

Source: Almarai Audited Financial Statements

The regional security situation resulted in additional unanticipated employee costs. Management expects input costs to stabilise and operating efficiencies to improve on the completion of CPP2.

### 15.3.3 Earnings before Bank Charges, Zakat, Depreciation and Amortisation

Restating the Statement of Income to show Earnings before Bank Charges, Zakat, Depreciation and Amortisation (EBCZDA):

**Exhibit 15-18: Income Statements showing EBCZDA (SAR M)**

	Year Ended 31 December		
	2004	2003	2002
Sales .....	1,885.1	1,753.9	1,600.8
Direct Material Costs.....	(752.1)	(675.7)	(608.1)
Employee Costs.....	(310.6)	(276.3)	(259.8)
Marketing Expenses .....	(104.0)	(98.0)	(83.8)
Insurance .....	(12.1)	(11.3)	(10.1)
Other Expenses .....	(182.8)	(164.6)	(154.7)
Total Costs.....	(1,361.6)	(1,225.9)	(1,116.5)
EBCZDA .....	<u>523.5</u>	<u>528.0</u>	<u>484.3</u>
Depreciation & Amortisation.....	(126.9)	(131.1)	(113.4)
Bank Charges .....	(16.9)	(18.8)	(9.1)
Zakat .....	(9.4)	(9.8)	(9.7)
Net Income.....	<u>370.3</u>	<u>368.3</u>	<u>352.1</u>
EBCZDA as % of Sales .....	27.8%	30.1%	30.3%

Source: Almarai Audited Financial Statements

### 15.3.4 Depreciation & Amortisation

The following table summarises depreciation and amortisation, including livestock appreciation and profit and loss on disposal of fixed assets:

**Exhibit 15-19: Depreciation and Amortisation (SAR M)**

	Year Ended 31 December		
	2004	2003	2002
Depreciation of Dairy Herd.....	26.0	22.7	20.8
Livestock Appreciation.....	(84.9)	(77.8)	(70.2)
Net Livestock Appreciation.....	<u>(58.9)</u>	<u>(55.1)</u>	<u>(49.4)</u>
Depreciation of Fixed Assets .....	156.1	156.8	136.2
Amortisation of Intangible Assets.....	22.6	18.2	18.2
Loss on the Disposal of Livestock.....	17.5	21.0	18.4
Profit on the Disposal of Fixed Assets .....	(10.4)	(9.8)	(10.0)
Total Depreciation and Amortisation .....	<u>126.9</u>	<u>131.1</u>	<u>113.4</u>

Source: Almarai Audited Financial Statements

Livestock appreciation represents the gradual increasing value of rearing the maturing youngstock herd, and is capitalised as a fixed asset (see Exhibit 15-21) in accordance with our accounting policy for livestock as explained in section 15.2.4, Critical Accounting Policies.

The amortisation of intangible assets relates to the goodwill arising on the acquisition of Tawdah Dairy Farm Company Limited in 1999. Annual charges include additional write-offs reflecting the permanent diminution in its value identified on an annual basis.

**Exhibit 15-20: Profit/(Loss) on Disposal of Assets (SAR M)**

	Year Ended 31 December		
	2004	2003	2002
<u>Livestock</u>			
Proceeds from Disposal of Livestock.....	30.9	23.2	26.1
NBV of Dairy Herd Disposed.....	(36.5)	(32.9)	(34.2)
NBV of Youngstock Disposed .....	(11.9)	(11.3)	(10.3)
Loss on the Disposal of Livestock.....	<u>(17.5)</u>	<u>(21.0)</u>	<u>(18.4)</u>
<u>Fixed Assets</u>			
Proceeds from Disposal of Fixed Assets .....	13.0	11.2	11.4
NBV of Fixed Assets Disposed .....	(2.6)	(1.4)	(1.4)
Profit on the Disposal of Fixed Assets .....	<u>10.4</u>	<u>9.8</u>	<u>10.0</u>

Source: Almarai Audited Financial Statements

The value of a milking cow is considerably greater than that of a beef cow. Consequently, when a milking cow loses its ability to produce milk, its market value declines. The nature of dairy farming in Saudi Arabia results in a number of milking cows failing to reach their second/third lactation (milking cycle). The loss incurred on the disposal of livestock represents the difference between the amount realised for these animals and their carrying value.

**Exhibit 15-21: Fixed Assets (SAR M)**

	Land & Buildings	Plant, Machinery & Equipment	Motor Vehicles	Dairy Herd	Young Stock	Capital Work-in-Progress	Total
<b>Cost</b>							
At 31 December 2002	605.0	853.7	207.1	173.5	64.7	188.4	2,092.4
Additions during 2003	-	22.1	63.3	-	17.5	364.8	467.7
Livestock Appreciation	-	-	-	-	77.8	-	77.8
Transfers during 2003	69.1	131.4	-	75.5	(75.5)	(200.5)	-
Disposals during 2003	(0.1)	(11.4)	(33.3)	(51.2)	(11.3)	-	(107.3)
At 31 December 2003	<u>674.0</u>	<u>995.8</u>	<u>237.1</u>	<u>197.8</u>	<u>73.2</u>	<u>352.7</u>	<u>2,530.6</u>
Additions during 2004	-	8.2	47.9	2.3	2.8	432.4	493.6
Livestock Appreciation	-	-	-	-	84.9	-	84.9
Transfers during 2004	77.2	159.2	-	70.0	(70.0)	(236.4)	-
Disposals during 2004	-	(15.9)	(26.7)	(56.8)	(11.9)	-	(111.3)
At 31 December 2004	<u>751.2</u>	<u>1,147.3</u>	<u>258.3</u>	<u>213.3</u>	<u>79.0</u>	<u>548.7</u>	<u>2,997.8</u>
<b>Accumulated Depreciation</b>							
At 31 December 2002	152.5	516.3	127.8	52.6	-	-	849.2
Disposals during 2003	(0.1)	(11.0)	(32.3)	(18.4)	-	-	(61.8)
Charges for 2003	22.6	100.7	33.5	22.7	-	-	179.5
At 31 December 2003	<u>175.0</u>	<u>606.0</u>	<u>129.0</u>	<u>56.9</u>	-	-	<u>966.9</u>
Disposals during 2004	-	(13.8)	(26.1)	(20.4)	-	-	(60.3)
Charge for 2004	28.0	93.0	35.0	26.0	-	-	182.0
At 31 December 2004	<u>203.0</u>	<u>685.2</u>	<u>137.9</u>	<u>62.5</u>	-	-	<u>1,088.6</u>
<b>Net Book Value</b>							
At 31 December 2004	548.2	462.1	120.4	150.8	79.0	548.7	1,909.2
At 31 December 2003	499.0	389.8	108.1	140.9	73.2	352.7	1,563.7
At 31 December 2002	452.5	337.4	79.3	120.9	64.7	188.4	1,243.2

Source: Almarai Audited Financial Statements

Pregnant heifers are imported into the herd from time to time depending on the level of demand for dairy products. These animals are recorded as additions to the youngstock herd at their cost of purchase. The value of these animals is transferred to the dairy herd along with the cumulative value of Company reared animals upon first calving.

Youngstock disposals represent the book value of bull calves sold and the cumulative value of any female animals removed from the herd.

### 15.3.5 Net Income

Net income increased to SAR 370.3 million in 2004 from SAR 368.3 million in 2003. Net income as a percentage of sales decreased from 21.0% to 19.6% mainly due to the increased cost of imported inputs, as a result of significantly higher commodity prices and a relatively weak US dollar.

**Exhibit 15-22: Net Income (SAR M)**

	Year Ended 31 December					
	2004	%	2003	%	2002	%
Sales .....	1,885.1	100.0	1,753.9	100.0	1,600.8	100.0
Operating Costs .....	(1,488.5)	(79.0)	(1,357.0)	(77.4)	(1,229.9)	(76.8)
Operating Profit .....	396.6	(21.0)	396.9	22.6	370.9	23.2
Bank Charges .....	(16.9)	(0.9)	(18.8)	(1.0)	(9.1)	(0.6)
Zakat .....	(9.4)	(0.5)	(9.8)	(0.6)	(9.7)	(0.6)
Net Income .....	<u>370.3</u>	<u>19.6</u>	<u>368.3</u>	<u>21.0</u>	<u>352.1</u>	<u>22.0</u>

Source: Almarai Audited Financial Statements

## 15.4 Financial Condition and Liquidity

Almarai's business operations generate very strong cash flows which is primarily utilised in maintaining and developing its asset base, servicing debt and paying dividends to shareholders. The following table sets out the Company's cash flows for the years ended 31 December 2002, 2003 and 2004:

**Exhibit 15-23: Cash Flows (SAR M)**

	Year Ended 31 December		
	2004	2003	2002
From Operating Activities .....	517.7	463.5	500.8
Used in Investing Activities .....	(449.7)	(433.4)	(215.8)
From/(Used) in Financing Activities .....	(55.8)	(29.3)	(267.4)
Increase/(Decrease) in Cash .....	<u>12.2</u>	<u>0.8</u>	<u>17.6</u>
Cash at beginning of period .....	48.8	48.0	30.4
Cash at end of period .....	<u>61.0</u>	<u>48.8</u>	<u>48.0</u>

Source: Almarai Audited Financial Statements

### 15.4.1 Cash Flows from Operating Activities

**Exhibit 15-24: Operating Cash Flows (SAR M)**

	Year Ended 31 December		
	2004	2003	2002
Net Income .....	370.3	368.3	352.1
Depreciation & Amortisation .....	126.9	131.1	113.4
Bank Charges .....	16.9	18.8	9.1
Change in Employees' Termination Benefits .....	(1.0)	(8.7)	9.6
Net Changes in Working Capital .....	4.6	(46.0)	16.6
Net Operating Cash Flows .....	<u>517.7</u>	<u>463.5</u>	<u>500.8</u>

Source: Almarai Audited Financial Statements

The 2004 increase in cash flows from operating activities of SAR 54.2 million compared to 2003 is mainly due to the change in Working Capital. The decline in cash flows from operating activities in 2003 compared to 2002, despite an increase in net income, was due to a rise in the level of inventories. The 2002 increase over 2001 was driven by an increase in net income and a fall in inventories.

## Working Capital

In general terms, the Company's working capital requirements are relatively low compared to its sales in view of the short shelf-life of many of its finished products and the significant proportion of sales undertaken on a cash basis. Ordinarily, working capital requirements would be expected to rise in line with the level of activity. Such longer-term trends may however be distorted by short-term increases or decreases in inventory levels. The relatively low level of raw materials inventory at 31 December 2002 has this distorting effect on net working capital requirement in 2002 and 2003.

Almarai confirms that it has sufficient working capital for the twelve (12) months immediately following the date of this prospectus.

### 15.4.2 Cash Flows Used in Investing Activities

#### Exhibit 15-25: Investing Cash Flows (SAR M)

	Year Ended 31 December		
	2004	2003	2002
Capital Expenditure.....	493.6	467.7	253.4
Proceeds from disposals.....	(43.9)	(34.3)	(37.6)
Net Investing Cash Flows .....	<u>449.7</u>	<u>433.4</u>	<u>215.8</u>

Source: Almarai Audited Financial Statements

The level of capital expenditure in 2003 and 2004, reflects the ongoing construction of a new processing facility (CPP2) and the completion of an additional dairy farm. Capital expenditure to replace assets which have reached the end of their useful lives typically amounts to approximately SAR 100 million annually.

Since its establishment, Almarai has pursued a policy of focused internal growth. The Company intends to continue this approach but also play an active role in the rationalisation of the dairy industry in Saudi Arabia. This may involve the acquisition of companies which are currently independent of Almarai.

### 15.4.3 Cash Flows Used in Financing Activities

#### Exhibit 15-26: Financing Cash Flows (SAR M)

	Year Ended 31 December		
	2004	2003	2002
Dividends Paid .....	(300.0)	(280.0)	(257.4)
Borrowings from State Financial Institutions			
Repayments.....	(26.9)	(45.6)	(41.2)
Receipts.....	168.0	50.6	3.1
Net Movement on Commercial Borrowings.....	<u>120.0</u>	<u>264.5</u>	<u>37.2</u>
Bank Charges .....	(16.9)	(18.8)	(9.1)
Net Financing Cash Flows .....	<u>(55.8)</u>	<u>(29.3)</u>	<u>(267.4)</u>

Source: Almarai Audited Financial Statements

## Dividends

Apart from some moderation in dividend distribution in the early 1990s as the Company embarked on a major investment programme, Almarai has maintained a policy of paying a substantial proportion of its annual net income as dividends to its shareholders. The following

table sets out the net income for each year from 1995 to 2004 and the dividend declared in respect of each year.

<b>Exhibit 15-27: Dividends Declared 1995-2004</b>			
<b>Year</b>	<b>Net Income (SAR M)</b>	<b>Dividends Declared (SAR M)</b>	<b>% of Net Income</b>
1995 .....	152.6 .....	68.1 .....	44.6
1996 .....	195.1 .....	145.8 .....	74.7
1997 .....	242.5 .....	199.9 .....	82.4
1998 .....	267.2 .....	199.9 .....	74.8
1999 .....	282.0 .....	210.0 .....	74.5
2000 .....	295.0 .....	215.0 .....	72.9
2001 .....	311.6 .....	250.0 .....	80.2
2002 .....	352.1 .....	280.0 .....	79.5
2003 .....	368.3 .....	300.0 .....	81.5
2004 .....	370.3 .....	250.0 .....	67.5
1995-2004 .....	<u>2,836.7</u> .....	<u>2,118.7</u> .....	<u>74.7</u>

Source: Almarai

In recent years, dividends have been paid in April of the year subsequent to that which they relate (see "Dividends Policy" section).<sup>21</sup>

## Borrowings

Almarai has obtained financing in respect of its major investment programmes 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 from commercial banks and is not subject to commission rate risk.

Almarai uses borrowings from commercial banks to finance medium term capital financing and working capital requirements. Commercial banks' facilities include medium-term loans and facilities structured on a revolving basis whereby the Company draws down and repays tranches as required. As a result, Almarai does not maintain significant deposit balances with banks.

<b>Exhibit 15-28: Loan Facilities – December 2004 (SAR M)</b>			
<b>Loan Type</b>	<b>Term</b>	<b>Facilities Available</b>	<b>Facilities Utilised</b>
Commercial Revolving .....	1-2 years .....	555.0 .....	205.0
Commercial Term Loans .....	3-5 years .....	500.0 .....	330.0
Commercial Term Loans .....	5 years + .....	- .....	-
Total Commercial .....		<u>1,055.0</u> .....	<u>535.0</u>
SIDF .....		445.7 .....	220.3
SAAB .....		12.1 .....	12.1
Total Facilities .....		<u>1,512.8</u> .....	<u>767.4</u>

Source: Almarai

<sup>21</sup> Except of dividends declared for fiscal year 2004G are paid in March 2005G



## 15.5 Current Trading and Prospects

Almarai's profitability has grown consistently over a number of years, with a net profit margin exceeding 20% in the years 1997 to 2003. Almarai has maintained this high level of profitability, while also maintaining its market share, sales volumes and sales prices, thus resulting in high levels of cash generation. In 2004 Almarai showed an increase of sales to SAR 1,885.1 million from SAR 1,753.9 million in 2003 representing an increase of 7.5%. Net income increased to SAR 370.3 million in 2004 from SAR 368.3 million in 2003, representing an increase of 0.5%. In 2004, Almarai achieved a net profit margin of 19.6%. This slight decrease reflects a change in Almarai's product mix, as it diversifies its portfolio and can also be attributed to increased costs as a result of significantly higher commodity prices and the relative weakness of the US dollar.

Long-term growth prospects appear positive in anticipation of continuing volume increases, Almarai is putting in place the required capacity and resources, however, in the shorter term, the current unfavourable cost environment and dollar weakness, coupled with costs associated with major capital expenditure programmes, may curtail profit.

## 15.6 Market Risk

### 15.6.1 Fair Value

Fair value is the amount of money for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. Almarai's financial statements are prepared using historical cost and differences may arise between the book values and fair value estimates.

In the case of cash and cash equivalents, accounts receivable and payable, and other receivables and payables, fair value is deemed to approximate to book value due to their short-term nature. In the case of borrowings, fair value is based on discounted cash flows.

In line with the International Accounting Standards, no value is estimated for the Almarai brand in the Company's financial statements. With this exception, management believes that the fair values of the Company's financial assets and liabilities are not materially different from book values as stated in the financial statements.

### 15.6.2 Credit Risk

Credit risk is the risk that one party to a transaction may fail to discharge an obligation and will cause another party to incur a financial loss. The principal financial instruments that subject Almarai to concentrations of credit risk are accounts receivable. Almarai's accounts receivable are predominantly retail outlets. The Company does not consider itself exposed to a concentration of credit risk with respect to accounts receivable due to its extensive customer base of varying sizes located in a number of countries and regions. No individual customer accounts for more than 8% of total accounts receivable. Cash and cash equivalents are placed with national and international banks with sound credit ratings.

### 15.6.3 Commission Rate Risk

Commission rate risk is the exposure to various risks associated with effect of fluctuations in the prevailing commission rates on the Company's financial position and cash flows. Almarai

does not have significant commission bearing assets. Commercial borrowings, which at 31 December 2004 amounted to SAR 535 million, are commission bearing liabilities.

The Company has put in place a derivative financial instrument (range accrual swap) to partly protect its financial position and cash flows against the impact of a rise in commission rates in the next four years.

#### 15.6.4 Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Almarai's transactions are primarily inflows in Saudi Riyals and other GCC currencies, and outflows in Saudi Riyals, United States Dollars, Euro and Sterling.

Except for United States Dollars, the Company's policy is to cover foreign currency exposures of a capital nature on commitment and to cover expected trading exposures where appropriate. The Saudi Riyal is currently fixed, within a narrow range, against the United States Dollar. The Company uses its inflows in other GCC currencies as a natural hedge against any fluctuation in the Saudi Riyal against the United States Dollar. The objective of Almarai's policy is to mitigate the effect of fluctuations and facilitate cost stability. In implementing this policy, the Company uses derivative financial instruments such as forward time options, fixed forward contracts and zero cost options.

#### 15.6.5 Liquidity Risk

Liquidity risk is the risk that an enterprise will encounter difficulties 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 ensuring that sufficient funds are available to meet future commitments. The Company has secured adequate funding from financial institutions to meet anticipated future commitments.

### 15.7 Statement of Management's Responsibility for Financial Information

The Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") has been drafted by the Management of the Company and approved by the Board of Directors. Except as set forth in this Prospectus, the Management believes that there has been no material adverse change in the financial position or prospects of the Company as of the date of this Prospectus and accept full responsibility for the authenticity and accuracy of the information and analysis of financial results and confirm, after making all reasonable inquiries, that full and fair disclosure has been made and there are no other information or documents the omission of which make any information or statements therein misleading.

## 16. Dividend Record and Policy

It is the intention of Almarai to make dividend payments with a view to maximising shareholder value commensurate with the Company's earnings, its financial condition, the condition of the markets, the general economic climate, and other factors, including analysis of investment opportunities and reinvestment needs, cash and capital requirements, business prospects, as well as other legal and regulatory considerations. Dividends will be distributed in Saudi Riyal.

Although it is Almarai's intention to pay annual dividends to its shareholders, the Company does not make any assurance that any dividend will actually be paid, nor any assurance as to the amount, which will be paid in any given year. The distribution of dividends is subject to certain limitations contained in the Company's By-Laws.

The Offer Shares will be entitled to receive dividends declared by the Company in respect of the Company's 2005G fiscal year and subsequent fiscal years. The Company's net income amounted to SAR370 million for the fiscal year 2004, of which SAR 250 million was declared as dividends and paid to the Selling Shareholders. Please refer to "*Management's Discussion & Analysis of Financial Condition & Results of Operations*" section for a discussion of the Company's dividend record.

## 17. Capitalization and Indebtedness

The table below sets out the capitalization of Almarai as derived from the Audited Financial Statements for 2004. The following table should be read in conjunction with the Financial Statements of Almarai, including the notes thereto, in the section "Accountants Report".

### Exhibit 17-1: Almarai Capitalization

For the Year Ended 31 December 2004 (SAR '000)

Debt:	
Short term .....	22,074
Long term .....	745,350
Total debt .....	<u>767,424</u>
Shareholders' equity:	
Capital .....	750,000
Retained Earnings .....	368,797
Legal Reserve .....	173,860
Total shareholders' equity .....	<u>1,292,657</u>
Total Capitalization .....	<u>2,060,081</u>

Source: Almarai

The share capital of the Company is SAR 750 million consisting of fifteen (15) million shares with a nominal value of SAR 50 each. Almarai confirms that neither the Company's capital nor the capital of any affiliates is under option.

### Exhibit 17-2: Almarai's Ownership Structure

	Pre-Offering			Post-Offering		
	Shares	%	Capital (SAR)	Shares	%	Capital (SAR)
Shareholders	SAR 50 par value per share			SAR 50 par value per share		
HH Prince Sultan bin Mohammed bin Saud Al Kabeer	7,972,500	53.15	398,625,000	5,580,750	37.21	279,037,500
The Savola Group	6,049,500	40.33	302,475,000	4,234,650	28.23	211,732,500
Abdulaziz bin Ibrahim Al Muhanna	573,000	3.82	28,650,000	401,100	2.67	20,055,000
Abdulrahman bin Abdulaziz Al Muhanna	255,000	1.70	12,750,000	178,500	1.19	8,925,000
HRH Princess Aljawhara bint Saad bin Abdulaziz Al Saud	150,000	1.00	7,500,000	105,000	0.70	5,250,000
Offering Subscribers	-	-	-	4,500,000	30.00	225,000,000
Total	<u>15,000,000</u>	<u>100.00</u>	<u>750,000,000</u>	<u>15,000,000</u>	<u>100.00</u>	<u>750,000,000</u>

Source: Almarai

## 18. Use of Proceeds

The total proceeds from the Offering are estimated at SAR 2,304,000,000, of which SAR 46,000,000 will be applied towards issue expenses, which includes fees of each of the financial adviser, legal adviser to the Transaction, reporting accountants, media and public relations consultants, in addition to underwriting expenses, receiving bank expenses, marketing expenses, printing and distribution expenses and other issue related expenses. The net proceeds of SAR 2,258,000,000 will be distributed to the Selling Shareholders on pro rata basis on each Selling Shareholders' percentage ownership in the Shares being sold in the Offering. The Company will not receive any part of the proceeds from the Offering.

No commissions, discounts, brokerages or other non-cash compensation were granted by the Company in the two years immediately preceding the date of this Prospectus. The Selling Shareholders will bear all Offering expenses.

## 19. Description of the Shares

### 19.1 Share Capital

Almarai's share capital is seven hundred and fifty million Saudi Riyals (SAR 750,000,000), divided into fifteen million (15,000,000) nominal Shares of SAR 50 each, all of which are cash shares representing the entire paid in capital of the Company upon conversion.

Once it is ascertained to be economically feasible and after obtaining the approval of the competent authorities, the General Assembly may, in an Extraordinary Meeting, adopt a resolution to increase the Company's capital once or several times by issuing new shares having the same nominal value as the original shares, provided that the original capital shall have been paid in full, with due consideration to the requirements of the Companies Regulations. The said resolution shall specify the mode of increasing the capital, and the Shareholders shall have pre-emptive rights to subscribe for the new cash shares. The said shares shall be allotted to the original Shareholders who have expressed their desire to subscribe thereto, in proportion to the original shares owned by them, provided that the number of shares allotted to them shall not exceed the number of new shares they have applied for. The remaining new shares shall be allotted to the original Shareholders who have asked for more than their proportionate share, in proportion to the original shares they own, provided that their total allotment does not exceed the number of new shares they have asked for. Any remaining new shares shall be offered for public subscription.

The Company may, based on certain justifiable causes, reduce its capital if it proves to be in excess of the Company's needs or if the Company sustains losses. This decision must be made through a resolution adopted by the General Assembly in an Extraordinary Meeting, and requires approval of the Minister of Commerce and Industry. Such resolution shall be issued only after reading the auditor's report on the reasons calling for such reduction, the obligations to be fulfilled by the Company and the effect of the reduction on such obligations, with due consideration to the provisions of the Companies Regulations. The resolution shall provide for the manner in which the reduction shall be made. If the reduction of the capital is due to its being in excess of the Company's needs, then the Company's creditors must be invited to express their objection thereto within sixty (60) days from the date of publication of the reduction resolution in a daily newspaper published in the city where the Company's head office is located. Should any creditor object and present to the Company evidentiary documents of such debt within the time limit set above, then the Company shall pay such debt, if already due, or present an adequate guarantee of payment if the debt is due on a later date.

### 19.2 Shareholders' Rights

Each Share shall give its holder equal rights in the Company's assets and dividends as well as the right to attend and vote at meetings of the General Assembly.

### 19.3 Shareholders Assemblies

A General Assembly duly convened shall be deemed representing all the Shareholders, and shall be held in the city where the Company's head office is located.

Except for matters reserved for the Extraordinary General Assembly, the Ordinary General Assembly shall be in charge of all matters concerning the Company. The Ordinary General Assembly shall be convened at least once a year, within six (6) months following the end of the Company's fiscal year. Additional Ordinary General Assembly meetings may be convened whenever needed.

The Extraordinary General Assembly shall have the power to amend the Company's By-Laws, except for such provisions as may be impermissible to be amended under the Regulations. Furthermore, the Extraordinary General Assembly may pass resolutions on matters falling within the competence of the Ordinary General Assembly under the same conditions applicable to the latter.

A notice of the date and agenda of the General Assembly shall be published in the Official Gazette and in a daily newspaper circulated in the city where the Company's head office is located at least twenty-five (25) days prior to the time set for such meeting. Notwithstanding the foregoing, it is sufficient to send invitations by registered mail to all the Shareholders. A copy of the invitation and the agenda shall be sent to the responsible authorities within the aforementioned notice period.

The Board of Directors shall convene a meeting of the Ordinary General Assembly if requested to do so by the Auditors or by a number of Shareholders representing at least five percent (5%) of the Company's capital.

The meeting of the Ordinary General Assembly shall not have a quorum unless attended by Shareholders representing at least fifty-one percent (51%) of the Company's capital. If such quorum cannot be attained at the first meeting, a second meeting shall be convened within the following thirty (30) days. Such notice shall be published in the same manner described above. The second meeting shall be deemed valid irrespective of the number of shares represented.

To have a quorum, the meeting of the Extraordinary General Assembly should be attended by Shareholders representing at least fifty-one percent (51%) of the Company's capital. If such requirement is not met in the first meeting, a second meeting shall be convened within the following thirty (30) days. The second meeting shall be considered as having the quorum if attended by a number of Shareholders representing at least one-quarter (1/4) of the Company's capital.

The General Assembly shall be presided over by the Chairman of the Board of Directors or, in his absence, the Director designated by him. The Chairman shall appoint a secretary for the meeting and a canvasser. Minutes shall be prepared for the meeting showing the names of Shareholders present in person or represented by proxy, the number of the shares held by each, the number of votes attached to such shares, the resolutions adopted at the meeting, the number of votes assenting or dissenting to such resolutions and a comprehensive summary of the discussions that took place at the meeting. Such minutes shall be regularly recorded after each meeting in a special register to be signed by the Chairman of the Assembly, the secretary and the canvasser.

## 19.4 Voting Rights

Each Shareholder owning twenty (20) shares (or more) shall have the right to attend the General Assemblies, and each Shareholder may authorize another Shareholder, other than the members of the Board of Directors, to attend the General Assembly on his/its behalf. Votes at the meetings of Ordinary and Extraordinary General Assemblies shall be computed on the basis of one vote for each share represented at the meeting.

Resolutions of the Ordinary General Assembly shall be adopted by an absolute majority of the shares represented thereat.

Resolutions of the Extraordinary General Assembly shall be adopted by a majority vote of two thirds (2/3) of the shares represented at the meeting. However, if the resolution to be adopted is related to increasing or reducing the capital, extending the Company's period, dissolving the Company prior to the expiry of the period specified under the Company's By-Laws or merging the Company with another company or establishment, then such resolution shall be valid only if adopted by a majority of three-quarters (3/4) of the shares represented at the meeting.

Each Shareholder shall have the right to discuss the items listed in the General Assembly's agenda and to direct questions to the members of the Board and the Auditor in this respect. The Board of Directors or the Auditor shall answer the Shareholders' questions to the extent that does not jeopardize the interest of the Company. Should a Shareholder consider the reply unsatisfactory, he can resort to the General Assembly whose resolution is to be considered as final.

## 19.5 The Shares

The shares shall be nominal shares and may not be issued at less than their nominal value. However, the shares may be issued at a value higher than their nominal value, in which case the difference in value shall be added to the statutory reserve, even if the reserve has reached its maximum limit. A share shall be indivisible vis-à-vis the Company. In the event that a share is owned by several persons, they shall select one person from amongst them to exercise, on their behalf, the rights pertaining to the share, and they shall be jointly responsible for the obligations arising from the ownership of the share.

The transfer of Shares shall be governed by and comply with the regulations governing companies listed on Tadawul. Transfers made other than in accordance with the Company's By-Laws shall be void.

## 19.6 Duration of the Company

The duration of the Company shall be ninety-nine (99) years commencing on the date of issuance of the Minister of Commerce's resolution announcing the Conversion of the Company. The Company's period may always be extended by a resolution of the Extraordinary General Assembly taken at least one year prior to the expiration of the term of the Company.



## 19.7 Dissolution and Winding-up of the Company

Upon the expiry of the Company's period, or if it is dissolved prior to the time set for the expiry thereof, the Extraordinary General Assembly shall, based on a proposal by the Board of Directors, decide the method of liquidation, appoint one or more liquidators and specify their powers and fees. The powers of the Board of Directors shall cease upon the Company's expiry. However, the Board of Directors shall remain responsible for the management of the Company until the liquidators are specified. The Company's administrative departments shall maintain their powers to the extent that they do not interfere with the powers of the liquidators.

## 20. Summary of the Company's By-Laws

**Name of the Company:** The name of the Company shall be "Almarai Company", a Saudi joint stock company.

**Objectives of the Company:** The objectives of the Company include production, manufacturing, packing and distribution of all types of dairy and cheese products, agricultural products and foodstuffs that are prepared for human consumption or animal feed as well as the establishment, operation, maintenance and management of cattle farms and other agricultural, animal and industrial projects and slaughter houses.

**Head Office of the Company:** The Company's head office shall be in the city of Riyadh.

**Duration of the Company:** The duration of the Company shall be ninety-nine (99) years commencing on the date of issuance of the Minister of Commerce's resolution announcing the conversion of the Company. The Company's period may always be extended by a resolution of the Extraordinary General Assembly taken at least one year prior to the expiration of the term of the Company.

**Capital of the Company:** The share capital of the Company shall be seven hundred and fifty million Saudi Riyals (SAR 750,000,000), divided into fifteen million (15,000,000) registered shares of equal value of fifty Saudi Riyals (SAR 50) each.

**Shareholders of the Company:** The owners of the Company's shares at the time of conversion are the current shareholders. The remaining shares, amounting to four million five hundred thousand (4,500,000) shares and representing 30% of the Company's capital, shall be offered for public subscription through participating banks in Saudi Arabia in accordance with the Companies Regulations and the Capital Market Law and its implementing Regulations.

**Preferred Shares:** Upon approval of, and in accordance with guidelines set by the Minister of Commerce and Industry, the Company may issue non-voting preferred shares in an amount not to exceed fifty percent (50%) of the Company's capital. The Company may purchase these shares in accordance with a resolution of the Board of Directors. These shares do not factor into calculation of the quorum required to hold a General Assembly, pursuant to Articles (34) and (35) of the Company's By-Laws.

In addition to their right to receive dividends, holders of such shares shall be granted the following:

- ▶ The right to a specified percentage of net profits, after deducting statutory reserves and before distributing any of the Company's profits, in an amount not less than five percent (5%) of the par value of each share,
- ▶ Preference in recovery of the value of their shares upon liquidation of the Company, and in receiving any specified proceeds from such liquidation.

**Bonds:** The Company may issue negotiable and indivisible bonds of equal value against the borrowings it contracts in accordance with the Companies Regulations.

**Transfer of Shares:** The shares, except for founders' shares, shall be transferable after the issuance of the certificates thereof. Founders' shares may only be transferred with the prior approval of the Capital Market Authority. A notation shall be made on the respective share certificates, indicating their class, and the period during which each such certificate may not be transferred.

**Shareholders Register:** The nominal shares shall be transferred by being recorded in the Shareholders Register which shall contain the names of the Shareholders, their nationalities, their occupations, their domicile and address, the serial numbers of the shares and the value paid-up on such shares. An annotation of such recording shall be made on the share certificates. The transfer of title to a share shall not be effective vis-à-vis the Company or any third party except from the date of such recording in the said Register or the completion of the transfer procedures through the Shares Information Computerized system. The subscription or ownership of the shares by a Shareholder shall mean the acceptance by the Shareholder of the Company's By-Laws and his submission to the resolutions duly passed by the General Assembly of the Shareholders in accordance with the Company's By-Laws, whether the Shareholder was present or absent and whether the Shareholder agreed to such resolutions or objected to them.

**Increase of Capital:** Once it is ascertained to be economically feasible and after obtaining the approval of the competent authorities, the General Assembly may, in an Extraordinary Meeting, adopt a resolution to increase the Company's capital once or several times by issuing new shares having the same nominal value as the original shares, provided that the original capital shall have been paid in full, with due consideration to the requirements of the Companies Regulations. The said resolution shall specify the mode of increasing the capital, and the Shareholders shall have pre-emptive rights to subscribe for the new cash shares. The Shareholders shall be notified of the pre-emptive rights vested in them by notice to be published in a daily newspaper addressing the capital increase resolution and the conditions of subscription, or by written notice to the shareholder by registered mail. Each Shareholder shall express the desire to exercise such pre-emptive rights, if they so wish, within fifteen (15) days of the publication of such notice or receipt of such notice by registered mail.

The said shares shall be allotted to the original Shareholders who have expressed their desire to subscribe thereto, in proportion to the original shares owned by them, provided that the number of shares allotted to them shall not exceed the number of new shares they have applied for. The remaining new shares shall be allotted to the original Shareholders who have asked for more than their proportionate share, in proportion to the original shares they own, provided that their total allotment does not exceed the number of new shares they have asked for. Any remaining new shares shall be offered for public subscription.

**Decrease of Capital:** The Company may, based on certain justifiable causes, reduce its capital if it proves to be in excess of the Company's needs or if the Company sustains losses. This decision must be made through a resolution adopted by the General Assembly in an Extraordinary Meeting, and requires approval of the Minister of Commerce and Industry. Such resolution shall be issued only after reading the auditor's report on the reasons calling for such reduction, the obligations to be fulfilled by the Company and the effect of the reduction on such obligations, with due consideration to the provisions of the Companies Regulations. The resolution shall provide for the manner in which the reduction shall be made. If the reduction of the capital is due to its being in excess of the Company's needs, then the Company's creditors must be invited to express their objection thereto within sixty (60) days from the date of publication of the reduction resolution in a daily newspaper published in the city where the Company's head office is located.

**Constitution of the Board of Directors:** The Company shall be managed by a Board of Directors composed of eight (8) members to be appointed by the Ordinary General Assembly for a term not exceeding three years. The term of the Company's first Board of Directors shall

commence as of the date of the Ministerial Resolution declaring the Company's conversion. As an exception to the foregoing, the existing shareholders have appointed the Company's first Board of Directors for a term of five (5) years, as follows:

No.	Name	Nationality	Position
1	HH Prince Sultan bin Mohammed bin Saud Al Kabeer .....	Saudi .....	Chairman
2	Savola Group represented by Dr. Abdulraouf Mannaa .....	Saudi .....	Director
3	Abdulrahman bin Abdulaziz Ibrahim Al Muhanna.....	Saudi.....	Managing Director
4	Mohammed Al Damer .....	Saudi .....	Director
5	Nasser Mohammed Hamoud Al Mutawwa .....	Saudi .....	Director
6	HH Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer.....	Saudi .....	Director
7	Savola Group represented by Dr. Majed M. Al Gassabi .....	Saudi .....	Director
8	Savola Group represented by Ibrahim M. Alissa.....	Saudi .....	Director

**Qualification Shares:** Each member of the Board of Directors shall be a holder of a number of the Company's shares having a nominal value of no less than ten thousand Saudi Riyals (SAR 10,000). Such shares shall be deposited in a bank designated by the Minister of Commerce and Industry within thirty (30) days from the date of the appointment of the director.

**Vacancies:** Membership of the Board of Directors shall be terminated upon the expiration of the appointment period, or resignation of the Director, or death of the Director, or if he is removed from his office by a resolution passed by a majority of 51% of the shares represented at an Ordinary General Assembly meeting or if he is convicted of an offence involving dishonesty, fraud or moral turpitude, or if he becomes bankrupt or makes any arrangement or compounds with his creditors. Termination of membership shall also occur under any law or regulations prevailing in Saudi Arabia.

**Powers of the Board of Directors:** Without prejudice to the powers conferred on the General Assembly, the Board of Directors shall be vested with full powers to manage the business of the Company and supervise its affairs within and outside Saudi Arabia. The Board of Directors is empowered, for example and without limitation, to ratify contracts and enter into bids, to establish companies in which the Company participates and make any necessary amendments, to approve the issuance of guarantees for banks, funds, and governmental loan institutions, and to certify all banking transactions. The Board is also empowered to sell, buy and mortgage real estate, movables and the Company's property of a value not exceeding 10% of the cumulative book value of the Company's assets. The Board of Directors is specifically empowered to contract loans with government financial funds and institutions and commercial loans with commercial banks and financial institutions for any term including terms exceeding three (3) years, provided that the value of any loan contracted for by the Board in any given fiscal year does not exceed 50% of the Company's capital. In contracting for any loan the Board shall ensure that the terms and conditions of any loan and related guarantees do not harm the Company and identify its resolution the best way to utilize such loans and the methods for their repayments. The Board of Directors may, for the benefit of the Company, discharge the Company's debtors of their debt obligations

The Board of Directors may, within the limits of its jurisdiction, authorize and delegate one or more of its members or a third party to undertake a specific function or functions, and revoke such delegations in whole or in part.

**Remuneration of Board of Directors:** Remuneration of the members of the Board of Directors (if any) shall be in accordance with Article 45 of the Company's By-Laws and shall be determined by the Ordinary General Meeting in accordance with the official decisions and instructions issued in this regard, within the limits of the provisions of the Companies Regulations and the laws or regulations complementary thereto. Directors may in addition be

paid an attendance and transportation allowance as determined by the Board of Directors and the regulations and decisions issued in this respect.

**Managing Director and Secretary:** The Board of Directors shall appoint a Chairman from among its members. The Board of Directors may also appoint a Managing Director from among its members. The Board may choose one person to be the Chairman and the Managing Director at the same time. The Chairman shall have the powers to convene the Board to meet and preside over its meetings.

The Chairman and the Managing Director (in the event that one is appointed) shall be authorized to individually or jointly represent the Company in its relationship with others and before judicial bodies, Government departments, Notaries Public, courts of law, Commissions for settlements of disputes, Boards of Arbitration, Directorate of Civil Rights, Police Departments, Chambers of Commerce and Industry, to sign and execute all agreements, certificates and instruments including articles of association, winding-up resolutions, as well as any other contracts, deeds, and declarations, before public notaries or other official bodies, loan agreements with government financial funds and institutions and commercial banks and financial institutions, guarantees, mortgages, leases, and terminating them; to collect entitlements and settle obligations on behalf of the Company; to buy, sell, make and accept transfers, receive, deliver, rent, lease, collect and make payments, and to participate in tenders; to open bank and credit accounts and to withdraw and deposit from the same; to issue instruments, checks and all negotiable instruments; to authorize or delegate some or all of these powers to any other person or persons to do or cause to be done any act mentioned hereinabove, and to revoke such authorization or delegation in whole or in part.

The Board of Directors shall appoint a secretary from among its members or others, and shall specify his duties, remuneration and terms of service. The Secretary's duties shall include having the proceedings and resolutions of the Board of Directors written in minutes and recorded in a special register, intended for the said purpose, as well as maintaining and keeping such register.

The term of the office of the Chairman, the Managing Director and the Secretary – if the Secretary is a Board member – shall not exceed their respective term of service as Directors. The term of the Chairman, the Managing Director and the Secretary of the Board may be renewed.

**Board Meetings:** The Board of Directors shall be convened at least twice a year upon a call by the Chairman. Such call shall be made in writing and sent by registered mail or fax or by telex not less than two weeks prior to the date set for the meeting, unless otherwise agreed by the Board members. The Chairman of the Board shall call for a meeting if so requested by any two (2) Board members.

**Quorum and Representation:** A Board meeting shall be valid only if attended by at least five (5) members, four of whom must attend in person.

**Minutes of Meetings:** The Board deliberations and resolutions shall be drawn in minutes to be signed by the Board Chairman and the Secretary. Such minutes shall be recorded in a special register to be signed by the Board Chairman and the Secretary.

**Conflicts of Interest:** Members of the Board of Directors must declare to the Board of Directors any personal interest, whether direct or indirect, in any proposal, transaction or contract made for the account of the Company. Such declaration must be recorded in the minutes of the Board meeting, and the interested Board member shall not participate in voting on the resolution to be adopted in this respect.

**Executive Committee:** The Board of Directors may appoint from among its members and management an Executive Committee. The Board of Directors shall appoint a Chairman from among the members of the Committee and shall specify the number of members of the Committee and the required quorum for its meetings. In accordance with the directions and guidelines prescribed by the Board from time to time, the Committee may exercise all of the powers authorised by the Board. The Executive Committee may not revoke or alter any of the resolutions adopted, or rules laid down, by the Board of Directors.

**General Assembly:** A General Assembly duly convened shall be deemed representing all the Shareholders, and shall be held in the city where the Company's head office is located.

Each Shareholder owning twenty shares (or more) shall have the right to attend the General Assemblies, and each Shareholder may authorize another Shareholder, other than the members of the Board of Directors, to attend the General Assembly on his/its behalf.

**Ordinary General Assembly:** Except for matters reserved for the Extraordinary General Assembly, the Ordinary General Assembly shall be in charge of all matters concerning the Company. The Ordinary General Assembly shall be convened at least once a year, within six (6) months following the end of the Company's fiscal year. Additional Ordinary General Assembly meetings may be convened whenever needed.

**Extraordinary General Assembly:** The Extraordinary General Assembly shall have the power to amend the Company's By-Laws, except for such provisions as may be impermissible to be amended under the law. Furthermore, the Extraordinary General Assembly may pass resolutions on matters falling within the competence of the Ordinary General Assembly under the same conditions applicable to the latter.

**Manner of Convening General Assemblies:** The General Assembly shall be convened by the Board of Directors. The Board of Directors shall convene a meeting of the Ordinary General Assembly if requested to do so by the Auditors or by a number of Shareholders representing at least five percent (5%) of the Company's capital.

**Quorum of Ordinary General Assembly:** A meeting of the Ordinary General Assembly shall be valid only if attended by Shareholders representing at least fifty-one percent (51%) of the Company's capital. If such quorum cannot be attained at the first meeting, a second meeting shall be held within thirty (30) days following the time set for the preceding meeting. Such notice shall be published in the manner prescribed in Article (32) of the Company's By-Laws. The second meeting shall be deemed valid irrespective of the number of shares represented therein.

**Quorum of Extraordinary General Assembly:** A meeting of the Extraordinary General Assembly shall be valid only if attended by Shareholders representing at least fifty-one percent (51%) of the Company's capital. If such quorum cannot be attained at the first meeting, a second meeting shall be convened in the same manner provided for in the preceding Article. The second meeting shall be valid only if attended by a number of Shareholders representing at least one-quarter (1/4) of the Company's capital.

**Voting Rights:** Each Share entitles the holder to one vote. Votes at the meetings of Ordinary and Extraordinary General Assemblies shall be computed on the basis of one vote for each share represented at the meeting.

**Voting Majorities:** Resolutions of the Ordinary General Assembly shall be adopted by an absolute majority of the shares represented thereat.

Resolutions of the Extraordinary General Assembly shall be adopted by a majority vote of two thirds of the shares represented at the meeting. However, if the resolution to be adopted is related to increasing or reducing the capital, extending the Company's period, dissolving the Company prior to the expiry of the period specified therefore under the Company's By-Laws or merging the Company with another company or establishment, then such resolution shall be valid only if adopted by a majority of three-quarters (3/4) of the shares represented at the meeting.

**Rights of Shareholders at the Meetings of the General Assembly:** Each shareholder shall have the right to discuss the items listed in the General Assembly's agenda and to direct questions in respect thereof to the members of the Board and the auditors in this respect. The members of the Board or the auditors shall answer the Shareholders' questions to the extent that does not expose the Company's interest to any damage. If the Shareholder deems the answer to the question unsatisfactory, then he/it may refer the issue to the General Assembly and its decision in this regard shall be conclusive and binding.

**Proceedings of the General Assembly:** The General Assembly shall be presided over by the Chairman of the Board of Directors or, in his absence, the Director designated by him. The Chairman shall appoint a secretary for the meeting and a canvasser. Minutes shall be written for the meeting showing the names of the Shareholders present in person or represented by proxy, the number of the shares held by each, the number of votes attached to such shares, the resolutions adopted at the meeting, the number of votes assenting or dissenting to such resolutions and a comprehensive summary of the discussions that took place at the meeting. Such minutes shall be regularly recorded after each meeting in a special register to be signed by the Chairman of the Assembly, the secretary and the canvasser.

**Appointment of Auditor:** The Company shall have one auditor or more to be selected from among the certified public auditors licensed to work in Saudi Arabia. The auditor shall be appointed annually and its compensation shall be fixed by the General Assembly. The General Assembly may further reappoint the same auditor. The existing shareholders have appointed Aldar Audit Bureau as the Company's first auditor for the first financial year following conversion to a joint stock company.

**Access to Records:** The auditor shall have access at all times to the Company's books, records and any other documents, and may request information and clarification as it deems necessary. It may further check the company's assets and liabilities.

**Auditor's Report:** The auditor shall submit to the annual General Assembly a report showing how far the Company has enabled it to obtain the information and clarifications it has requested and what it has discovered of violations of the Companies Regulations and the Company's By-Laws and its opinion as to whether the Company's accounts conform to the facts.

**Financial Year:** The Company's fiscal year shall commence as on the 1st of January and expire on the 31st of December of each Gregorian year. However, the Company's first fiscal year shall cover the period commencing as of the date of issuance of the Ministerial Resolution announcing the conversion of the Company and expiring on the 31st of December of the following year.

**Annual Accounts:** The Board of Directors shall prepare at the end of each fiscal year an inventory of the Company's assets and liabilities on such date, the Company's balance sheet and profit and loss account, a report on the Company's activities and its financial position for the preceding year and its proposals as to the distribution of the net profits. The Board of

Directors shall perform the foregoing at least sixty (60) days prior to the convening of the annual Ordinary General Assembly. The Board of Directors shall put such documents at the auditor's disposal at least fifty-five (55) days prior to the time set for convening the General Assembly. The Chairman of the Board of Directors shall cause the Company's balance sheet, profit and loss account, a comprehensive summary of the Board of Directors' report and the full text of the auditor's report to be published in a newspaper circulated in the city where the Company's head office is located, and shall send copies of such documents to the Companies Department at the Ministry of Commerce at least twenty-five (25) days prior to the date set for convening the General Assembly.

**Distribution of Annual Profits:** After deducting all general expenses and other costs, the Company's annual net profits shall be allocated as follows:

- ▶ Ten percent (10%) of the annual net profits shall be set aside to form a statutory reserve. Such setting aside may be discontinued by the Ordinary General Assembly when said reserve totals one-half (1/2) of the Company's capital.
- ▶ There shall be paid to the holders of preferred shares the specified percentage pertaining to such shares.
- ▶ The Ordinary General Assembly may, upon request of the Board of Directors, set aside a percentage of the annual net profits to form an additional reserve to be allocated for the purpose or purposes decided by the Ordinary General Assembly.
- ▶ Out of the balance of the profits, if any, there shall be paid to the Shareholders an initial payment of not less than five percent (5%) percent of the paid-up capital.
- ▶ Five percent (5%) of the remaining amount shall be paid as compensation to the members of the Board of Directors.
- ▶ The balance shall be distributed among the Shareholders as an additional share of the profits or transferred to retained profits account.

The Company may distribute semi-annual and quarterly profits after it has completed the necessary procedures put in place by the competent authorities.

**Distribution of Dividends:** The profits to be distributed among the Shareholders shall be paid at such place and times as determined by the Board of Directors, in accordance with the instructions issued by the Ministry of Commerce and Industry.

**Non-Distribution of Dividends:** In the event of non-distribution of profits in any fiscal year, profits of forthcoming years shall not be distributed before the portion specified in Part (a) of Article (9) of the Company's By-Laws is paid to the owners of non-voting shares for that year. If the Company fails to pay this portion of the profits for a period of three consecutive years, the Private Assembly of these interest holders may, in accordance with Article 86 of the Companies Regulations, resolve to either attend the General Assemblies of the Company and participate in the voting thereof, or to designate representatives on their behalf in the Board of Directors, in accordance with their share of the Company capital. This shall remain the case until the Company manages to fully pay the initial profits for past years specified for the owners of such shares.

**Company Losses:** If the Company's losses total three-quarters (3/4) of its capital, then the members of the Board of Directors shall call the Extraordinary General Assembly for a meeting to consider whether the Company shall continue to exist or be dissolved prior to the expiry of the period specified therefore under Article (5) of the Company's By-Laws. In all cases the Assembly's resolution shall be published in the Official Gazette.

**Disputes:** Each Shareholder shall have the right to file a liability action, vested in the Company, against the members of the Board of Directors if they have committed a fault which has caused some particular damage to such Shareholder, provided that the Company's right to file such action shall still be valid. The Shareholder shall notify the Company of his/its intention to file such action.



**Dissolution and Winding up of the Company:** Upon the expiry of the Company's period, or if it is dissolved prior to the time set for the expiry thereof, the Extraordinary General Assembly shall, based on a proposal by the Board of Directors, decide the method of liquidation, appoint one or more liquidators and specify their powers and fees. The powers of the Board of Directors shall cease upon the Company's expiry. However, the Board of Directors shall remain responsible for the management of the Company until the liquidators are specified. The Company's administrative departments shall maintain their powers to the extent that they do not interfere with the powers of the liquidators.

## 21. Summary of Material Contracts

### 21.1 Construction Agreements

Almarai is in the process of constructing the Central Processing Plant 2 ("CPP2"), a cheese, dairy and juice processing plant at Al-Kharj, to boost processing capacities and to relocate the Company's cheese processing plant, which previously had been off-site.

The plant is expected to be commissioned in October 2005 at a projected total cost of approximately SAR 675 million.

The following are the main areas covered by construction agreements contracted for by Almarai to complete the CPP2 project:

- ▶ *Heating, Ventilation and Air Conditioning*
  - Contract agreement (air-conditioning) with Dodd Group Ltd. dated 05 February 2003
  - Contract agreement (air conditioning) with Establishment for Technical Enterprises Contracting (ETEC) dated 16 June 2003
- ▶ *Electrical Services/ Fire Alarm System*
  - Contract agreement (electrical) with Dodd Group Ltd. dated 05 February 2003
  - Contract agreement (fire alarm & fire protection) with Saudi Factory for Fire Equipment Co. dated 13 May 2003
- ▶ *Factory and Utility Buildings and Civil Works*
  - Contract agreement (factory & utility building) with El Seif Engineering Contracting Est. (ESEC) dated 21 September 2002
  - Contract agreement (piped distribution system) with Transcon Global Industries Ltd. dated 05 January 2003
  - Contract agreement (supply of fully vitrified tiles) with Argelith Bodenkeramik H. Bitter GmbH dated July 2003
- ▶ *Cold Store Panels/Warehouse Cooling Services/ Central Refrigeration Plant*
  - Contract agreement (cold store & cooling equipment) with Omega Engineering Company Ltd. dated 21 January 2004
  - Contract agreement (central refrigeration plant) with York Refrigeration APS dated November 2002
- ▶ *Water Treatment Services*
  - Contract agreement (water treatment plant) with Saudi Berkefeld Filter Co. dated 03 February 2003
  - Contract agreement (effluent and sewage treatment plant) with Saudi Berkefeld Filter Co dated 21 September 2003
- ▶ *Cheese Process/ Filling Plant*
  - Contract agreement (cheese process & filling plant) with Corazza S.p.A. dated 08 October 2003
- ▶ *Process Equipment Supply and Installation*
  - Contract agreement (process equipment supply) with APV Middle East Ltd. dated 30 November 2003
- ▶ *Blending System/ Automated Storage and Retrieval System*
  - Contract agreement (mixing & blending system) with Indag GmbH & Ko Betriebs KG dated 20 March 2004
  - Contract agreement (storage and retrieval system) with Siemens Ltd. dated 24 July 2004
  - Contract agreement (sugar handling system) with Colby Powder Systems Pty. Ltd. Dated November 2004

## SUMMARY OF MATERIAL CONTRACTS

- ▶ *Transport Depots and Workshop*
  - Contract agreement (transport depot/workshop and accommodation) with El Seif Engineering Contracting Est. dated June 2004
- ▶ *Generators/Steam and Boiler System*
  - Contract agreement (compressed air system) with J.L.L. Leach & Co. Ltd. dated December 2004
  - Contract agreement (utility plant relocation and commissioning) with Transcon Global Industries Limited dated December 2002

In addition to the contracts in relation to CPP2, Almarai has an agreement for the construction of a milking parlour.

Pricing of the construction agreements is based on a lump sum basis and payments are made in accordance with milestones completed.

## 21.2 Financing Agreements

Almarai entered into several loan agreements and credit facilities with various banks/institutions in Saudi Arabia. These borrowings and other facilities include term and revolving loans, overdraft facilities, revolving loans, import and guarantee facilities, medium term loans and foreign exchange trading contracts with various SAR limits and availability dates (renewal of some is in progress). The principal agreements are as follows:

- ▶ Facilities Letter and Agreement with The Saudi British Bank dated 17 January 2005
- ▶ Facility Letter with Samba Financial Group dated 27 April 2004
- ▶ Credit Agreement with Samba Financial Group dated 2 May 2004
- ▶ Facility Letter Agreement with Saudi Hollandi Bank dated 8 June 2004
- ▶ Credit Facilities Agreement with Arab National Bank dated 12 April 2005
- ▶ Credit Facilities Agreement with National Commercial Bank dated 1 May 2004
- ▶ Facilities Letter Agreement with Banque Saudi Fransi dated 3 October 2004
- ▶ Revolving Credit Facility Agreement with Banque Saudi Fransi dated 3 July 1999

Almarai also obtained several term loans from SIDF with various maturity dates; the latest and most significant term loan agreement is dated 13 April 2004 and amounts to SAR 348.0 million to be settled through 20 variable instalments for which the maturity date falls on 22 August 2013. The utilized amount of all SIDF loans as of 30 April 2005 is SAR 233.0 million.

Almarai gave undertakings and made certain representations to the lenders it contracted with to obtain the above mentioned loans/facilities.

## 21.3 Information Technology Agreements

Agreements in place relating to the supply and maintenance of information technology equipment and licensing of end-user software include:

- ▶ Software End-User License Agreement with SAP AG dated 1 November 2001
- ▶ Customer Support Services Agreement with Oracle dated 15 January 2001
- ▶ Microsoft Enterprise Agreements with Microsoft Ireland Operations Limited dated October 2003

The above agreements are governed by standard vendor terms and conditions. The license agreements generally provide for a perpetual license, subject to revocation upon default of the license terms and conditions.

## 21.4 Customer Agreements

Almarai's customer agreements include long-term agreements, business agreements, supply and purchase agreements and credit sale agreements with a number of food retailer and wholesale companies in Saudi Arabia. The material customer agreements are as follows:

- ▶ Long-term Agreement with Al Othaim Commercial Group dated 2 February 2005
- ▶ Long-term Agreement with Giant Stores dated 16 January 2005
- ▶ Long-term Agreement with Tamimi Co. Ltd. dated 19 December 2004
- ▶ Business Agreement with Geant Saudi Ltd. dated 2 February 2005
- ▶ Supply and Purchase Agreement with Savola Group – Retail Division dated 20 July 2004 (renewal in progress)
- ▶ Credit Account Agreement with Saudi Hypermarket Co. Carrefour dated 12 July 2004

Customer agreements provide for the sale of Almarai products and in some instances rental by Almarai of shelf space for product exposure and for the provision of special promotional arrangements. Almarai extends credit terms to customers having the duration of thirty (30) to sixty (60) days on average. The agreements generally provide for a graduated rebate schedule based on the purchase volumes of Almarai's products sold by the customer.

## 21.5 Supply and Packaging Agreements

The packaging agreements generally provide for the provision of services for the packaging of tomato paste, butter, and cheese produced by Almarai. The agreements typically provide that Almarai would provide the supplier with the product to be packaged as well as the necessary packaging materials for a specified fee. Almarai has also entered into various supply agreements for the procurement of food products like milk and cheese.

Supply and packaging agreements include:

- ▶ Tomato Paste Packaging Agreement with National Factory for Food Stuff Production dated 31 July 2003
- ▶ Tinsplate Cans Supply Agreement with Arabian Can Industry LLC dated 26 January 2004
- ▶ Mozzarella Supply Agreement with Forsan Foods & Consumer Products Company dated 1 May 2002
- ▶ Butter Packing Agreement with Forsan Foods & Consumer Products Company dated 12 November 2001, as amended
- ▶ Raw Fresh Cow Milk Purchase Agreement with National Dairy Farm dated 15 March 2004
- ▶ Milk Processing and Packaging Agreement with National Foods Products Company dated 1 May 2002
- ▶ Supply Agreement with Elopak Obeikan Limited dated 26 February 2001

Almarai has also entered into various supply agreements for the procurement of animal feed and has entered into a management agreement to manage the operations of one of its feed providers.

Animal feed procurement agreements include:

- ▶ Alfalfa Hay Agreement with Al Kabeer Arable Farms dated 1 October 2001 (renewal in progress)
- ▶ Alfalfa Hay Agreement with Hail Agricultural Development Company dated 1 May 2004
- ▶ Alfalfa Hay Agreement with National Agricultural Development Company dated 6 October 2001
- ▶ Alfalfa Hay Agreement with Al Jouf Agricultural Development Company dated 6 November 2001

## SUMMARY OF MATERIAL CONTRACTS

- ▶ Rhodes Grass Agreement with Al Kabeer Arable Farms dated 1 January 2003 (renewal in progress)
- ▶ Maize Grain Agreement with Al Kabeer Arable Farms dated 1 January 2003 (renewal in progress)
- ▶ Forage Maize Agreement with Al Kabeer Arable Farms dated 1 January 2003 (renewal in progress)

### 21.6 Dairy Association Agreements

Almarai is a party to the UAE Juice Association Agreement dated 2002 along with various other dairy companies, which regulates supply and sets the rates at which dairy products can be sold.

## 22. Litigation

The Directors and management of Almarai confirm that the Company is not involved, as of the date of this Prospectus, in any litigation, arbitration or administrative proceedings that would, individually or in aggregate, have a material adverse effect on its financial condition and results of operations.

## 23. Underwriting

### 23.1 Underwriters

**Exhibit 23-1: Underwriting Proportions Among Underwriters**

<b>Name</b>	<b>Number of Offer Shares</b>
The Saudi British Bank (the Lead Underwriter) .....	2,250,000
Arab National Bank .....	562,500
Banque Saudi Fransi .....	562,500
Riyad Bank.....	562,500
Samba Financial Group .....	562,500
Total.....	<u>4,500,000</u>

### 23.2 Summary of Underwriting Arrangements

#### 23.2.1 Sale and Underwriting of the Offer Shares

Under the terms and subject to the conditions contained in the Underwriting Agreement between the Selling Shareholders, the Company and the Underwriters:

- a) The Selling Shareholders undertake to each of the Underwriters that on the Closing Date (as defined in the Underwriting Agreement) they will sell the Offer Shares to purchasers procured by the Underwriters or to the Underwriters themselves, in each case in the proportions presented in Exhibit 23-1 above.
- b) Each Underwriter undertakes to the Company and the Selling Shareholders that it will on the Closing Date purchase itself the number of Offer Shares not subscribed for, if any, according to the proportions presented in Exhibit 23-1, at the Offer Price.

#### 23.2.2 Grounds for Termination

The Lead Underwriter acting on behalf of the Co-Underwriters may terminate the Underwriters in specified circumstances prior to the admission of the Shares to the Official List, including as follows:

- a) If, at or prior to 10.00 am on the Closing Date or such other time as the Lead Underwriter may agree, there has occurred:
  - i. A suspension or material limitation in trading in securities generally on Tadawul;
  - ii. A moratorium on commercial banking activities in Riyadh declared by the relevant authorities or a material disruption in commercial banking or securities settlement or clearance services in the Kingdom of Saudi Arabia;
  - iii. A change or development involving a prospective change in law, regulations or taxation adversely affecting the Company, the Shares, the transfer of Shares or the Offering;
  - iv. An outbreak or escalation of hostilities or a terrorist incident involving the Kingdom of Saudi Arabia or the declaration by the Kingdom of Saudi Arabia of a national emergency or war;

## UNDERWRITING

- v. Any material adverse change, disruption or other condition in the domestic money, debt, capital or any other financial markets in the Kingdom of Saudi Arabia including without limitation any material adverse change to the Tadawul All Share Index; or
- vi. Other calamity or crisis or any change in financial, political, monarchical or economic conditions or currency exchange rates or controls in the Kingdom of Saudi Arabia,

that may, in the sole opinion of the Lead Underwriter, prejudice or make it impractical or inadvisable to proceed with the Offering or delivery of the Offer Shares as contemplated by the Prospectus, the Lead Underwriter may, in its absolute discretion, by notice to the Company terminate the Underwriting Agreement on behalf of the Underwriters.

- b) If, at or prior to 10.00 am on the Closing Date or such other time as the Lead Underwriter may agree, an internationally recognized rating agency has in respect of any sovereign securities relating to the Kingdom of Saudi Arabia issued any notice:
  - i. downgrading such securities;
  - ii. indicating that it intends to downgrade, or is considering the possibility of downgrading, such securities; or
  - iii. indicating that it is reconsidering the rating of such securities without stating that this is with a view to upgrading them,

that, in any such case, in the opinion of the Lead Underwriter makes the success of the Offering doubtful or which, in the opinion of the Lead Underwriter would make it impracticable or inadvisable to proceed with the Offering, then the Lead Underwriter will consult with the Company and the Selling Shareholders to the extent practicable, but the Lead Underwriter may, in its absolute discretion, by notice to the Company terminate the Underwriting Agreement on behalf of the Underwriters.

### 23.2.3 Commission and Expenses

The Selling Shareholders will pay to the Lead Underwriter (on behalf of the Underwriters) an underwriting fee based on the gross proceeds of the Offer, which will be distributed among Underwriters in accordance with the underwriting proportions presented in Exhibit 23-1. Moreover, the Selling Shareholders will pay to the Lead Underwriter fees, costs and expenses in connection with the Offering.



## 24. Subscription Terms & Conditions

*All Subscribers must carefully read the Subscription Terms and Conditions prior to completing the Subscription Application Form, since the execution of the Subscription Application Form constitutes acceptance and agreement to the Subscription Terms and Conditions.*

### 24.1 Subscription to Offer Shares

The Selling Shareholders are soliciting applications from Subscribers for acquiring the Offer Shares. A signed Subscription Application Form submitted to any of the Lead Manager or Co-Managers represents a legally binding agreement between the Selling Shareholders and the Subscriber.

The Selling Shareholders own 100% of the issued share capital of the Company. 30% of the total number of Shares will be available to Saudi nationals under this Offering. Potential investors may obtain both the main and abridged Prospectus in addition to the Subscription Application Form from the following banks:



**The Saudi British Bank**  
P.O. Box 9084, Riyadh 11413



**Arab National Bank**  
P.O. Box 9802, Riyadh 11423



**Banque Saudi Fransi**  
P.O. Box 56006, Riyadh 11554



**Riyad Bank**  
PO Box 22622, Riyadh 11614



**Samba Financial Group**  
P.O. Box 833, Riyadh 11421

The Lead Manager and Co-Managers will commence receiving Subscription Application Forms at their branches throughout Saudi Arabia from 27/5/1426H (corresponding to 4/7/2005G) up to and including 7/6/1426H (corresponding to 13/7/2005G). Once the Subscription Application Form is signed and submitted, the Lead Manager and Co-Managers will stamp it and provide the Subscriber a copy of the completed Subscription Application Form. In the event the information provided in the Subscription Application Form is incomplete or inaccurate, or not stamped by the Lead Manager and/or Co-Managers, the Subscription Application Form will be considered void.

Each Subscriber is required to specify the number of Offer Shares applied for in the Subscription Application Form at the Offer Price of SAR 512 per Share. Subscriptions for less than 10 Offer Shares or fractional numbers will not be accepted. In addition, each Subscriber may not apply for more than 5,000 Offer Shares.

Each Subscriber is required to submit the Subscription Application Form during the Offering Period accompanied by the original and a copy of the national identification card, family identification card in addition to sufficient funds in an amount equal to the number of Offer Shares applied for multiplied by the Offer Price of SAR 512 per Share. In the event an application is made on the behalf of a Subscriber (parents and children only), the name of the person signing on behalf of the Subscriber should be stated in the Subscription Application Form accompanied by the original and a copy of the power of attorney supporting such person's authority to act on the behalf of the Subscriber. The power of attorney must be issued before a notary for those who are in Saudi Arabia and must be legalised through the Saudi Embassy or Consulate in the relevant country for those who are outside Saudi Arabia. The Lead Manager and Co-Managers will verify all copies against the originals and will return the originals to the Subscriber.

One Subscription Application Form should be completed for each household (i.e. family members appearing on the family identification card) if dependent Subscribers apply for the same number of Offer Shares as the prime Subscriber. In this case: (i) all Offer Shares allocated to the prime Subscriber and dependent Subscribers will be registered in the prime Subscribers' name; (ii) the prime Subscriber will receive any refund in respect of amounts paid for Offer Shares applied by the prime Subscriber and dependent Subscribers and not allocated, and (iii) the prime Subscriber will receive all dividends distributed in respect of the Offer Shares allocated to the prime Subscriber and dependent Subscribers (in the event the Shares are not sold or transferred). Separate Subscription Application Forms must be used if: (i) the Shares that will be allocated are to be registered in a name other than the name of the prime Subscriber; or (ii) dependent Subscribers are to apply for a different quantity of Offer Shares than the prime Subscriber.






Each Subscriber agrees to subscribe for and purchase that number of Offer Shares specified in the Subscription Application Form submitted by the Subscriber for an amount equal to the number of Shares applied for multiplied by the Offer Price of SAR 512 per Share. Each Subscriber shall have purchased the number of Offer Shares allotted to him upon: (a) delivery by the Subscriber of the Subscription Application Form to the Lead Manager or Co-Managers; (b) payment in full by the Subscriber to the Lead Manager or Co-Managers of the total value of Offer Shares subscribed for; and (c) delivery to the Subscriber by the Lead Manager or Co-Managers the allotment letter specifying the number of Offer Shares allotted to him.

The Total value of the Offer Shares subscribed for must be paid in full to a branch of the Lead Manager or Co-Managers by authorising a debit of his/her account held with the Lead Manager or Co-Managers where the Subscription Application Form is being submitted. If the Subscriber is not an account holder with either the Lead Manager or the Co-Manager at which the Subscription Application Form is submitted, he must open an account with that Lead Manager or Co-Manager to submit his application.

If a submitted Subscription Application Form is not in compliance with the terms and conditions of the Offering, Almarai shall have the right to reject, in full or in part, such an application. The Subscriber shall accept any number of Shares allocated to him or her.

## 24.2 Allocation and Refunds

The Lead Manager and Co-Managers shall open and operate an escrow account named as follows:

Lead Manager/Co-Managers	Escrow account
 <b>The Saudi British Bank</b> P.O. Box 9084, Riyadh 11413	Almarai IPO
 <b>Arab National Bank</b> P.O. Box 9802, Riyadh 11423	Almarai IPO
 <b>Banque Saudi Fransi</b> P.O. Box 56006, Riyadh 11554	Almarai IPO
 <b>Riyad Bank</b> PO Box 22622, Riyadh 11614	Almarai IPO
 <b>Samba Financial Group</b> P.O. Box 833, Riyadh 11421	Almarai IPO

Each of the Lead Manager and Co-Managers shall deposit all amounts received by the Subscribers into the escrow account “(Lead Manager/Co-Manager Name) – Almarai IPO”.

After around eight days following the end of the Offering Period, the Offer Shares will be allocated to the subscribers as follows: if the Offering is oversubscribed, each Subscriber will be allocated a minimum of 10 Offer Shares with the remaining Offer Shares being allocated on a pro-rata basis. The Company does not guarantee the minimum allocation of 10 Offer Shares in the event that the number of subscribers exceeds 450,000. In that case, the Offer Shares will be allocated equally between all subscribers. If the number of subscribers exceeds the number of Offer Shares, the allocation will be left to the discretion of the CMA.

The final number of Offer Shares allocated to each Subscriber, together with any refund due to the Subscriber, is expected to be announced no later than 12/6/1426H (corresponding to 18/7/2005G). Almarai will make an announcement in the national newspapers in Saudi Arabia informing the Subscribers of the above and instructing the Lead Manager and Co-Managers to begin the refund process.

The Lead Manager and Co-Managers will send confirmation/notification letters, to their Subscribers informing them of the final number of Offer Shares allocated together with the amounts, if any, to be refunded. The Lead Manager and Co-Managers will also refund to the Subscribers any funds in respect of which no Offer Shares have been allocated to the relevant Subscribers, as provided in the confirmation/notification letters. Refunds will be made in full without any charge or withholding by either crediting Subscribers' accounts at the bank. Subscribers should communicate with the branch of the Lead Manager or the Co-Managers where they submitted their Subscription Application Form for any further information.

## 24.3 Acknowledgements

By completing and delivering the Subscription Application Form, the Subscriber:

- Accepts subscribing for the Company's shares with the number of shares specified in the Subscription Application Form.

- ▶ Warrants that he had read the Prospectus and understood all its contents.
- ▶ Accepts the By-Laws of the Company and all subscription instructions and terms mentioned in the Prospectus.
- ▶ Keeps his right to sue the Company for damages caused by incorrect or incomplete information contained in the Prospectus, or by ignoring major information that should have been part of the Prospectus and could effect the Subscribers' decision to invest.
- ▶ Declares that neither himself nor any of his family members included in the Subscription Application Form has previously subscribed to Almarai's shares and the Company has the right to reject all applications.
- ▶ Accepts the number of shares allocated to him and all other subscription instructions and terms mentioned in the Prospectus and the Subscription Application Form.
- ▶ Warrants not to cancel or amend the Subscription Application Form after submitting it to the Lead Manager or the Co-Managers.

## 24.4 Miscellaneous

The Subscription Application Form and all related terms, conditions and covenants hereof shall be binding upon and inure to the benefit of the parties to the subscription and their respective successors, permitted assigns, executors, administrators and heirs; provided that, except as specifically contemplated herein, neither the Subscription Application Form nor any of the rights, interests or obligations arising pursuant thereto shall be assigned or delegated by any of the parties to the subscription without the prior written consent of the other party.

The Prospectus has been released in both Arabic and English Languages. In the event of a discrepancy between the English and Arabic text, the Arabic text of the Prospectus will prevail.

## 24.5 The Saudi Arabian Stock Exchange (Tadawul)

Tadawul was founded in 2001G as the successor to the Electronic Securities Information System. In 1999G, full electronic trading in Saudi Arabia equities was introduced. The market capitalisation was in excess of SAR 1,947 billion as of 19 June 2005G. 76 companies are currently listed and traded on Tadawul.

Trading on Tadawul occurs through a fully integrated trading system covering the entire process from trade order through settlement. Trading occurs each business day between 10:00 am to 12:00 p.m. and 4:30 p.m. to 6:30 p.m. Tadawul also trades on Thursday between 10:00 a.m. and 12:00 noon. After close of exchange trading, orders can be entered, amended or deleted until 8:00 p.m. From 8:00 a.m. (the system is not available between 8:00 p.m. and 8:a.m) new entries and inquiries can be made. For the opening phase (starting at 10:00 a.m.) the system starts opening procedures, it establishes the opening prices and determine orders to be executed according to the matching rules.

Transactions take place through the automatic matching of orders. Each valid order is accepted and generated according to the price level. In general, market orders (orders placed at best price) are executed first, followed by limit orders (orders place at a price limit), provided that if several orders are generated at the same price, they are executed according to the time of entry.

Tadawul distributes a comprehensive range of information through various channels, including in particular the Tadawul website and Tadawul Information Link. The Tadawul Information Link supplies Tadawul in real time to information providers such as Reuters.

Exchange transactions are settled on a T+0 basis, meaning that ownership transfer takes place immediately after the trade executes.

Issuers are required to report all material announcements via Tadawul for onward dissemination to the public.

Surveillance and monitoring is the responsibility of Tadawul as the operator of the market. The aim of supervision is to ensure fair trading and an orderly market.

## 24.6 Trading on Tadawul

It is expected that dealing in the Shares will commence on Tadawul upon finalization of the allocation process. Tadawul will announce the start date of trading once determined. Dates and times included in this Prospectus are indicative only and may be changed or extended subject to the approval of CMA.

Furthermore, Shares can only be traded after allocated Shares have been credited to Subscribers' accounts at Tadawul and the Company has been registered in the Official List and its Shares listed on the Saudi Stock Exchange. Pre-trading is strictly prohibited and Subscribers entering into any pre-trading activities will be acting at their own risk. The Company shall have no legal responsibility in such an event.

## 25. Documents Available for Inspection

The following documents will be available for inspection at Almarai's head office located at Exit 7, North Circle Road, Al Izdihar District, between the hours of 8:30 a.m. to 5:00 p.m. one week prior to and during the Offering Period:

- ▶ Company's Bylaws
- ▶ Partners Resolution concerning the conversion of the Company into a joint stock company
- ▶ Resolution of the Minister of Commerce and Industry No. 773 dated 6/5/1426H (corresponding to 13/6/2005G) authorizing the conversion of the Company into a joint stock company
- ▶ CMA approval to the Offering
- ▶ Audited Financial Statements for the years 2002, 2003 and 2004
- ▶ Material Feed Procurement Agreements with related parties
- ▶ Material Supply and Purchase Agreements with related parties
- ▶ Trademark License Agreements with Markley Holdings Limited for Egypt, Yemen and Lebanon
- ▶ Conquest AMRB study on the relative strength of the Almarai brand versus its core competitors in addition to the standing of Almarai against competition
- ▶ IMES Consulting Dairy Market Report
- ▶ Canadian Dairy Information Centre Report
- ▶ University of Arizona, Department of Animal Services Report
- ▶ United States Department of Agriculture, Foreign Agricultural Service
- ▶ Conquest AMRB written consent to the publication in the Prospectus of the findings of their study.
- ▶ IMES Consulting written consent to the publication in the Prospectus of their Dairy Market Report
- ▶ Aldar Audit Bureau written consent to the publication in the Prospectus of their Accountant's Report
- ▶ Legal opinion by Legal Advisors, Torki A. Al-Shubaiki in association with Baker & McKenzie Limited
- ▶ Valuation Report prepared by the Financial Advisor

THIS PAGE IS INTENTIONALLY LEFT BLANK