ALMARAI COMPANY

A SAUDI JOINT STOCK COMPANY

THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

ALMARAI COMPANY
A SAUDI JOINT STOCK COMPANY

INDEX

ERNST & YOUNG

P.O. Box 2732
Al Faisaliah Office Tower - Levels 6 & 14
King Fahad Road
Riyadh 11461, Saudi Arabia
Tel: +966 1 273 4740
Fax: +966 1 273 4730
www.ey.com/me
Registration No. 45

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

Scope of audit:

We have audited the accompanying consolidated balance sheet of Almarai Company, a Saudi Joint Stock Company (the Company), and its subsidiaries (the Group) as of 31 December 2010 and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements are the responsibility of the Group's management and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

Unqualified opinion:

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

i) present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2010 and the results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

ii) comply with the requirements of the Regulations for Companies and the Company's Bye-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

for Ernst & Young

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

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

Riyadh: 13 Safar 1432H
(17 January 2011)

ALMARAI COMPANY
A SAUDI JOINT STOCK COMPANY

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2010

	Notes	2010	2009
		SAR '000	SAR '000
ASSETS			
Current Assets			
Cash and Cash Equivalents	4	240,750	507,666
Derivative Financial Instruments	22	6,529	-
Receivables and Prepayments	5	613,756	455,492
Inventories	6	1,299,337	1,218,575
Total Current Assets		**2,160,372**	**2,181,733**
Non Current Assets			
Investments and Financial Assets	7	957,683	963,131
Property, Plant and Equipment	8	7,866,639	6,282,208
Biological Assets	9	769,505	734,689
Intangible Assets - Goodwill	10	793,468	793,468
Deferred Charges		23,550	31,766
Total Non Current Assets		**10,410,845**	**8,805,262**
TOTAL ASSETS		**12,571,217**	**10,986,995**
LIABILITIES AND EQUITY			
LIABILITIES			
Current Liabilities			
Short Term Loans	11	545,902	395,534
Payables and Accruals	12	1,253,424	962,585
Derivative Financial Instruments	22	79,120	82,153
Total Current Liabilities		**1,878,446**	**1,440,272**
Non Current Liabilities			
Long Term Loans	11	4,301,301	3,981,193
Employees' Termination Benefits		206,088	165,814
Total Non Current Liabilities		**4,507,389**	**4,147,007**
TOTAL LIABILITIES		**6,385,835**	**5,587,279**
EQUITY			
Shareholders' Equity			
Share Capital	13	2,300,000	1,150,000
Share Premium		1,600,500	1,600,500
Statutory Reserve		654,903	526,361
Other Reserves		(155,828)	(81,390)
Retained Earnings		1,734,039	2,187,164
Total Shareholders' Equity		**6,133,614**	**5,382,635**
Minority Interest		**51,768**	**17,081**
TOTAL EQUITY		**6,185,382**	**5,399,716**
TOTAL LIABILITIES AND EQUITY		**12,571,217**	**10,986,995**

The accompanying notes form an integral part of these consolidated financial statements.

ALMARAI COMPANY
A SAUDI JOINT STOCK COMPANY

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	2010	2009
		SAR '000	SAR '000
Sales	14	6,930,910	5,868,805
Cost of Sales	15	(4,194,989)	(3,503,013)
Gross Profit		**2,735,921**	**2,365,792**
Selling and Distribution Expenses	16	(1,045,973)	(887,147)
General and Administration Expenses	17	(230,423)	(199,735)
Net Operating Income		**1,459,525**	**1,278,910**
Share of Results of Associates and Joint Ventures	7	(5,913)	(2,003)
Bank Charges		(120,621)	(147,518)
Income from Main and Continuing Operations		**1,332,991**	**1,129,389**
Zakat and Income Tax	18	(26,021)	(29,229)
Income before Minority Interest		**1,306,970**	**1,100,160**
Minority Interest		(21,553)	(3,438)
Net Income for the Year		**1,285,417**	**1,096,722**
Earnings per Share (SAR)	19		
Attributable to Income from Main and Continuing Operations		5.80	5.12
Attributable to Net Income for the Year		5.59	4.97

The accompanying notes form an integral part of these consolidated financial statements.

ALMARAI COMPANY
A SAUDI JOINT STOCK COMPANY

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	2010	2009
		SAR '000	SAR '000
OPERATING ACTIVITIES			
Net Income for the Year		1,285,417	1,096,722
Adjustments for:			
Depreciation of Property, Plant and Equipment	20	635,320	505,201
Net Appreciation of Biological Assets	20	(210,358)	(217,175)
Profit on Sale of Property, Plant and Equipment	20	(11,251)	(3,636)
Loss on Sale of Biological Assets	20	71,248	78,819
Bank Charges		120,621	147,518
Share of Results of Associates and Joint Ventures		5,913	2,003
Change in Employees' Termination Benefits		40,274	26,202
Share of Minority Interest in Net Income of Consolidated Subsidiaries		21,553	3,438
Changes in:			
Receivables and Prepayments		(158,264)	26,086
Inventories		(80,762)	(32,779)
Payables and Accruals		285,689	169,757
Cash Flows from Operating Activities		**2,005,400**	**1,802,156**
INVESTING ACTIVITIES			
Additions to Property, Plant and Equipment	8	(2,230,332)	(1,334,987)
(Additions) / Purchase Price Rebates to Biological Assets	9	(6,880)	183
Proceeds from the Sale of Property, Plant and Equipment	20	21,832	16,216
Proceeds from the Sale of Biological Assets	20	111,174	91,180
Investments in Associates and Joint Ventures, Net	7	(84,465)	(457,864)
Acquisition of Subsidiaries, Net of Cash Acquired		-	(25,730)
Cash Flows used in Investing Activities		**(2,188,671)**	**(1,711,002)**
FINANCING ACTIVITIES			
Increase in Loans		470,476	689,625
Dividends Paid		(454,850)	(379,977)
Distribution to Minority Interests		(866)	(707)
Bank Charges		(120,621)	(147,518)
Change in Deferred Charges		8,216	8,504
Minority Interest Share in Modern Food Industries Limited		14,000	-
Cash Flows (used in) / from Financing Activities		**(83,645)**	**169,927**
(Decrease) / Increase in Cash and Cash Equivalents		**(266,916)**	**261,081**
Cash and Cash Equivalents at 1 January		507,666	246,585
Cash and Cash Equivalents at 31 December	4	**240,750**	**507,666**

The accompanying notes form an integral part of these consolidated financial statements.

ALMARAI COMPANY
A SAUDI JOINT STOCK COMPANY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010

	Attributable to equity holders of the parent							
	Share Capital	Share Premium	Statutory Reserve	Other Reserves	Retained Earnings	Total Shareholders' Equity	Minority Interest	Total Equity
	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000
Balance at 1 January 2009	**1,090,000**	**612,000**	**416,689**	**(83,161)**	**1,581,614**	**3,617,142**	**14,350**	**3,631,492**
Net Income for the Year	-	-	-	-	1,096,722	**1,096,722**	3,438	**1,100,160**
Transfers from Retained Earnings	-	-	109,672	-	(109,672)	**-**	-	**-**
Net Movement on Financial Investments	-	-	-	(17,500)	-	**(17,500)**	-	**(17,500)**
Distribution to Minority Interests	-	-	-	-	-	**-**	(707)	**(707)**
Dividends Approved	-	-	-	-	(381,500)	**(381,500)**	-	**(381,500)**
Net Movement on Cash Flow Hedges	-	-	-	19,271	-	**19,271**	-	**19,271**
Share Capital Issued	60,000	988,500	-	-	-	**1,048,500**	-	**1,048,500**
Balance at 31 December 2009	**1,150,000**	**1,600,500**	**526,361**	**(81,390)**	**2,187,164**	**5,382,635**	**17,081**	**5,399,716**
Net Income for the Year	-	-	-	-	1,285,417	**1,285,417**	21,553	**1,306,970**
Transfers from Retained Earnings	-	-	128,542	-	(128,542)	**-**	-	**-**
Net Movement on Financial Investments	-	-	-	(84,000)	-	**(84,000)**	-	**(84,000)**
Distribution to Minority Interests	-	-	-	-	-	**-**	(866)	**(866)**
Dividends Approved	-	-	-	-	(460,000)	**(460,000)**	-	**(460,000)**
Net Movement on Cash Flow Hedges	-	-	-	9,562	-	**9,562**	-	**9,562**
Minority interest share in Modern Food Industries Limited	-	-	-	-	-	**-**	14,000	**14,000**
Bonus Share Issue	1,150,000	-	-	-	(1,150,000)	**-**	-	**-**
Balance at 31 December 2010	**2,300,000**	**1,600,500**	**654,903**	**(155,828)**	**1,734,039**	**6,133,614**	**51,768**	**6,185,382**

The accompanying notes form an integral part of these consolidated financial statements.

1. THE COMPANY, ITS SUBSIDIARIES AND ITS BUSINESS DESCRIPTION

Almarai Company (the "Company") is a Saudi Joint Stock Company, which was converted on 2 Rajab 1426 A.H. (8 August 2005). The Company initially commenced trading on 19 Dl' Hijjah 1411 A.H. (1 July 1991) and operates under Commercial Registration No. 1010084223. Prior to the consolidation of activities in 1991, the core business traded between 1976 and 1991 under the Almarai brand name.

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

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

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

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

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

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

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

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

On 14 Rabi-Thani 1431 A.H. (30 March 2010) the Company announced the creation of International Pediatric Nutrition Company (IPNC) a 50:50 joint venture with Mead Johnson to produce, market and distribute infant nutrition products in the GCC. On 8 Rajab 1431 A.H. (21 June 2010) the Company paid SAR 20.5 million representing 50% of the share capital of IPNC. In December 2010 IPNC launched its co-branded products (Almarai – Enfamil) in Saudi Arabia, which are manufactured by Mead Johnson and imported into Saudi Arabia. The joint venture will lease the plant under construction from the Group, which is scheduled for commissioning during 2011.

On 20 Jumad-Thani 1431 A.H. (3 June 2010) Almarai Company W.L.L. (Qatar) was incorporated (which is 50% owned by the Group and 50% by Khalid for Foodstuff & Trading Company) for the purpose of holding intellectual property in Qatar.

On 4 Muharram 1432 A.H. (13 December 2010) Alyoum for Food Products Company L.L.C (Oman) was incorporated (which is 100% owned by the Group) for the purpose of trading bakery products in Oman.

Details of the subsidiary companies are as follows:

Name of Subsidiary	Country of Incorporation	Business Activity	Direct and Beneficial Ownership Interest		Shares	
			2010	2009	Capital	Issued
Almarai Investment Company Limited	Saudi Arabia	Holding Company	100%	100%	SAR 1,000,000	100,000
Almarai Baby Food Company Limited	Saudi Arabia	Manufacturing and Trading Company	100%	100%	SAR 200,000,000	20,000,000
Hail Agricultural Development Company	Saudi Arabia	Poultry / Agricultural Company	100%	100%	SAR 300,000,000	30,000,000
Western Bakeries Company Limited	Saudi Arabia	Bakery Company	100%	100%	SAR 200,000,000	200,000
International Baking Services Company Limited	Saudi Arabia	Trading Company	100%	100%	SAR 500,000	500
Modern Food Industries Limited	Saudi Arabia	Bakery Company	60%	60%	SAR 70,000,000	70,000
Agricultural Input Company Limited (Mudkhalat)	Saudi Arabia	Agricultural Company	52%	52%	SAR 25,000,000	250
Almarai Company Bahrain S.P.C.	Bahrain	Sales Company	100%	100%	BHD 100,000	1,000
Almarai International Holding W.L.L.	Bahrain	Holding Company	100%	100%	BHD 250,000	2,500
Almarai Investment Holding W.L.L.	Bahrain	Holding Company	99%	99%	BHD 250,000	2,500
Markley Holdings Limited	Jersey	Dormant	100%	100%	-	-
Arabian Planets for Trade and Marketing L.L.C.	Oman	Sales Company	90%	90%	OMR 150,000	150,000
Alyoum for Food Products Company L.L.C	Oman	Sales Company	100%	-	OMR 20,000 (Unpaid)	20,000

During the year the capital of the subsidiary companies listed below was increased:

Name of Subsidiary	Number of Shares Issued	Share Capital Increase SAR
Almarai Baby Food Company Limited	19,500,000	195,000,000
Western Bakeries Company Limited	100,000	100,000,000
Modern Food Industries Limited	35,000	35,000,000

All legal formalities to effect these increases in capital have been completed during the year.

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

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

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

(c) These consolidated financial statements include assets, liabilities and the results of the operations of Almarai Company (the company) and its subsidiaries (the Group) as set out in note (1) above. A subsidiary company is that in which the Company has, directly or indirectly, long term investment comprising an interest of more than 50% in the voting capital or over which it exerts practical control. A subsidiary company is consolidated from the date on which the Company obtains control until the date that control ceases. The consolidated financial statements are prepared on the basis of the individual financial statements of the company and the audited financial statements of its subsidiaries, as adjusted by the elimination of all significant inter group balances and transactions. The Company and its subsidiaries have identical reporting periods. Minority interests represent the portion of profit or loss and net assets not controlled by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated balance sheet.

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

3. SIGNIFICANT ACCOUNTING POLICIES

A. Use of Estimates

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

B. Cash and Cash Equivalents

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

C. Accounts Receivable

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

D. Inventory Valuation

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

E. Investments in Securities

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

F. Investment in Associates and Joint Ventures

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

G. Property, Plant and Equipment

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

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

H. Biological Assets

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

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

I. Impairment

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

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

J. Intangibles-Goodwill

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

K. Accounts payable and accruals

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

L. Zakat and Income Tax

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

M. Derivative Financial Instruments and Hedging

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

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

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

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

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

N. Employees' Termination Benefits

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

O. Statutory Reserve

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

P. Conversion of Foreign Currency Transactions

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

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

Q. Revenue Recognition

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

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

R. Government Grants

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

S. Selling, Distribution, General & Administration Expenses

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

T. Management Fees

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

U. Operating Leases

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

V. Segmental Reporting

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

4. CASH AND CASH EQUIVALENTS

	2010	2009
	SAR '000	SAR '000
Cash at Bank	139,547	437,823
Cash in Hand	101,203	69,843
Total	240,750	507,666

5. RECEIVABLES AND PREPAYMENTS

		2010	2009
		SAR '000	SAR '000
Trade Accounts Receivable	- Third Parties	414,223	376,945
	- Related Parties (Refer note 25)	81,146	67,464
		495,369	444,409
Less: Provision for impairment of trade receivables		(38,135)	(56,728)
Less: Provision for sales returns		(13,795)	(11,331)
Net Accounts Receivable		443,439	376,350
Prepayments		170,317	79,142
Total		613,756	455,492

A. The Group's policy is to provide 100% impairment provision for all trade receivables due over three months. As at 31 December 2010, trade receivables more than three months due and impaired were SAR 38.1 million (2009: SAR 56.7 million). Movement in the group provision for impairment of trade receivables was as follows:

	2010	2009
	SAR '000	SAR '000
Provision for Impairment of Trade Accounts Receivables		
Balance at 1 January	56,728	11,726
Provisions (released) / made during the year	(18,593)	45,002
Balance at 31 December	38,135	56,728

	2010	2009
	SAR '000	SAR '000
Trade Accounts Receivable		
Up to 3 months	457,234	387,681
More than 3 months	38,135	56,728
Total	495,369	444,409

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

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

6. INVENTORIES

	2010	2009
	SAR '000	SAR '000
Raw Materials	958,245	874,765
Finished Goods	178,137	201,455
Spares	101,107	102,883
Work in Progress	61,848	39,472
Total	1,299,337	1,218,575

7. INVESTMENTS AND FINANCIAL ASSETS

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

		2010	2009
		SAR '000	SAR '000
Investments in Associates and Joint Ventures			-
International Dairy and Juice Limited (IDJ Limited)	48.0%	513,485	455,080
Pure Breed Company (PB Company)	21.5%	32,764	29,050
International Pediatric Nutrition Company	50.0%	16,229	-
Almarai Company WLL	50.0%	204	-
		562,682	484,130
Investments in Securities			
Zain Equity Investment	2.5%	271,250	355,250
Zain Subordinated Founding Shareholders' Loan	-	109,587	109,587
National Company for Tourism	1.1%	4,500	4,500
National Seeds and Agricultural Services Company	7.0%	2,064	2,064
Jannat for Agricultural Investment Company	10.0%	7,000	7,000
United Dairy Farms Company	8.3%	600	600
		395,001	479,001
Total		957,683	963,131

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

	31 December 2010	31 December 2009
	SAR '000	SAR '000
International Dairy & Juice Limited		
Opening Balance	455,080	-
Add : Capital Introduced	64,756	458,451
Less : Share of Results for the year	(6,351)	(3,371)
Closing Balance	513,485	455,080
Pure Breed Company		
Opening Balance	29,050	-
Add : Capital Introduced	-	28,269
Less : Distributions	(995)	(587)
: Share of Results for the year	4,709	1,368
Closing Balance	32,764	29,050
International Pediatric Nutrition Company		
Opening Balance	-	-
Add : Capital Introduced	20,500	-
Less : Share of Results for the year	(4,271)	-
Closing Balance	16,229	-
Almarai Company WLL		
Opening Balance	-	-
Add : Capital Introduced	204	-
Less : Share of Results for the year	-	-
Closing Balance	204	-

(a) The Zain equity investment of 35 million shares at a par value of SAR 10 per share is measured at fair value based on a quoted market price for the shares on the Saudi Arabian (Tadawul) stock exchange at 31 December 2010 of SAR 7.75. This has resulted in an unrealised loss of SAR 83.2 million which is included within other reserves in shareholders' equity. The founding shareholders have extended the repayment date of the shareholders' loans to ZAIN KSA and have agreed to pledge their ZAIN's shares for and on behalf of the preferred creditors until 27 July 2012 in order to enable ZAIN KSA to refinance its existing debts. On 21 August 2010 Zain KSA announced a restructuring proposal in respect of its share capital. Any financial impact will be quantified in the course of 2011.

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

8. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings [(a)]	Plant, Machinery & Equipment	Motor Vehicles	Capital Work-in-Progress	Total 2010	Total 2009
	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000
Cost						
At the beginning of the year	3,402,893	4,228,197	832,893	778,228	9,242,211	6,564,994
Acquisition of Subsidiaries	-	-	-	-	-	1,444,443
Additions during the year	144,451	208,511	41,728	1,835,642	2,230,332	1,334,987
Transfers during the year	182,232	472,930	181,675	(836,837)	-	-
Disposals during the year	(91,887)	(196,181)	(43,269)	-	(331,337)	(102,213)
At the end of the year	**3,637,689**	**4,713,457**	**1,013,027**	**1,777,033**	**11,141,206**	**9,242,211**
Accumulated Depreciation						
At the beginning of the year	651,227	1,930,236	378,540	-	2,960,003	1,860,421
Acquisition of Subsidiaries	-	-	-	-	-	684,014
Depreciation for the year	103,022	392,237	140,061	-	635,320	505,201
Disposals during the year	(91,887)	(191,617)	(37,252)	-	(320,756)	(89,633)
At the end of the year	**662,362**	**2,130,856**	**481,349**	**-**	**3,274,567**	**2,960,003**
Net Book Value						
At 31 December 2010	**2,975,327**	**2,582,601**	**531,678**	**1,777,033**	**7,866,639**	
At 31 December 2009	**2,751,666**	**2,297,961**	**454,353**	**778,228**		**6,282,208**

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

9. BIOLOGICAL ASSETS

	Mature Dairy	Immature Dairy	Mature Poultry	Immature Poultry	Mature Plantations	Immature Plantations	Total 2010	Total 2009
	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000
Cost								
At the beginning of the year	619,799	281,678	12,932	4,015	15,576	28,566	962,566	821,217
Acquisition of Subsidiaries	-	-	-	-	-	-	-	58,302
Additions / (Purchase Price Rebates) during the year	-	-	-	6,880	-	-	6,880	(183)
Appreciation	-	327,800	-	-	-	-	327,800	313,064
Transfers during the year	217,334	(217,334)	7,356	(7,356)	-	-	-	-
Disposals during the year	(183,544)	(80,546)	-	-	-	-	(264,090)	(229,834)
At the end of the year	**653,589**	**311,598**	**20,288**	**3,539**	**15,576**	**28,566**	**1,033,156**	**962,566**
Accumulated Depreciation								
At the beginning of the year	215,689	-	8,081	-	4,107	-	227,877	182,482
Acquisition of Subsidiaries	-	-	-	-	-	-	-	9,341
Depreciation for the year	106,144	-	11,066	-	232	-	117,442	95,889
Disposals during the year	(81,668)	-	-	-		-	(81,668)	(59,835)
At the end of the year	**240,165**	**-**	**19,147**	**-**	**4,339**	**-**	**263,651**	**227,877**
Net Book Value								
At 31 December 2010	**413,424**	**311,598**	**1,141**	**3,539**	**11,237**	**28,566**	**769,505**	
At 31 December 2009	**404,110**	**281,678**	**4,851**	**4,015**	**11,469**	**28,566**		**734,689**

10. INTANGIBLE ASSETS – GOODWILL

	2010 SAR '000	2009 SAR '000
Western Bakeries and International Baking Services	548,636	548,636
HADCO	244,832	244,832
Total	793,468	793,468

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

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

Assets are tested for impairment by comparing the residual carrying amount of each cash-generating unit to the recoverable amount which has been determined based on a value in use calculation using cash flow projections based on financial forecasts approved by senior management covering a five-year period. The discount rate applied to cash flow projections is 12% and the residual value at the end of the forecast period has been calculated by applying an earnings multiple to the net income for the final year in the forecast period.

Key Assumptions Used in Value in Use Calculations

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

The calculation of value in use is most sensitive to the assumptions on sales growth rate and cost of sales inflation used to extrapolate cash flows beyond the budget period as well as the earnings multiple applied to the net income for the final year of the forecast period.

Sensitivity to Changes in Assumptions – Western Bakeries and International Baking Services

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

(a) Sales Growth Assumption

The current sales growth in 2010 is 1% and in the forecast period has been estimated to be a compound annual growth of 16%. All other assumptions kept the same; a reduction of this growth rate to 9% would give a value in use equal to the current carrying amount.

(b) Cost of Sales Inflation

The current cost of sales in 2010 is 42% and in the forecast period has been estimated at an average of 37%. All other assumptions kept the same; an increase in the rate to an average of 54% would give a value in use equal to the current carrying amount.

(c) Terminal Value Multiple

The multiple applied to net income for the final year of the forecast period to determine the terminal value is 14.7. All other assumptions kept the same; a reduction of this multiple to 0.3 would give a value in use equal to the current carrying amount.

Sensitivity to Changes in Assumptions – HADCO

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

(a) Sales Growth Assumption

The current sales growth in 2010 is 1% and in the forecast period has been estimated to be a compound annual growth of 41%. All other assumptions kept the same; a reduction of this growth rate to 36% would give a value in use equal to the current carrying amount.

(b) Cost of Sales Inflation

The current cost of sales in 2010 is 45% and in the forecast period has been estimated at an average of 43%. All other assumptions kept the same; an increase in the rate to an average of 54% would give a value in use equal to the current carrying amount.

(c) Terminal Value Multiple

The multiple applied to net income for the final year of the forecast period to determine the terminal value is 10.0. All other assumptions kept the same; a reduction of this multiple to 5.1 would give a value in use equal to the current carrying amount.

11. TERM LOANS

	2010	**2009**
	SAR '000	SAR '000
Islamic Banking Facilities (Murabaha)	4,248,815	3,756,739
Saudi Industrial Development Fund	593,388	612,270
Agricultural Development Fund	5,000	7,718
Total	4,847,203	4,376,727

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

B. The borrowings from the Saudi Industrial Development Fund (SIDF) are secured as follows:
   (i) in respect of borrowings amounting to SAR 593.4 million for 31 December 2010 (2009: SAR 612.3 million) by a mortgage on specific assets;
   (ii) in respect of uncollateralized borrowings, no payment guarantee was given for both the years ended 31 December 2010 and 2009.

C. The borrowings from Agricultural Development Fund are secured by a bank payment guarantee.

D. Maturity of Financial Liabilities:

	Facilities available at 31 December	Outstanding Term Loans 2010	2009
	SAR '000	SAR '000	SAR '000
Less than one year	3,191,817	545,902	395,534
One to two years	2,425,919	2,373,155	1,452,227
Two to five years	3,019,143	1,924,659	2,527,966
Greater than five years	184,486	3,487	1,000
Total	8,821,365	4,847,203	4,376,727

The Islamic banking facilities (Murabaha) with a maturity period of less than two years are predominantly of a revolving nature.
During 2010 the group secured an additional SAR 750.0 million of Islamic Banking Facilities (Murabaha) with maturities between three to five years (2009: SAR 790.0 million).

As at 31 December 2010 SAR 3,295.3 million Islamic Banking Facilities (Murabaha) were unutilized and available for drawdown (2009: SAR 2,515.3 million).

As at 31 December 2010 the Group had SAR 678.9 million of unutilized SIDF facilities available for draw down with maturities predominantly greater than five years (2009: SAR 481.8 million).

12. PAYABLES AND ACCRUALS

		2010	2009
		SAR '000	SAR '000
Trade Accounts Payable	- Third Parties	645,885	446,686
	- Related Parties (Refer note 25)	30,944	23,593
Other Payables		511,359	431,790
Zakat and Income Tax Provision (Refer note 18)		65,236	60,516
Total		1,253,424	962,585

13. SHARE CAPITAL

On 28 Thul Hijja 1431 A.H. (5 December 2010) the shareholders' approved an increase in the share capital from SAR 1,150.0 million to SAR 2,300.0 million through the distribution of one bonus share for each outstanding share.

The Company's share capital at 31 December 2010 and 31 December 2009 amounted to SAR 2,300.0 million and SAR 1,150.0 million respectively, consisting of 230 million and 115 million respectively fully paid and issued shares of SAR 10 each.

14. SEGMENTAL REPORTING

The Group's principal business activities involve manufacturing and trading of dairy and juices products under the Almarai brand, bakery products under the brands L'usine and 7 Days, poultry products under the ALYOUM brand, arable and horticultural products as well as other activities. Other activities include our investment in Zain and infant formula. Selected financial information as of 31 December 2010 and 2009 and for the years then ended categorized by these business segments, are as follows:

	Dairy and Juice	Bakery	Poultry	Arable and Horticulture	Other Activities	Total
	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000
31 December 2010						
Sales	5,910,086	873,045	176,135	245,274	-	7,204,540
Third Party Sales	5,885,867	821,211	176,135	47,697	-	6,930,910
Depreciation	(278,916)	(76,488)	(23,708)	(45,850)	-	(424,962)
Share of Results of Associates and Joint Ventures	(6,351)	-	4,709	-	(4,271)	(5,913)
Income before Minority Interest	1,198,658	116,912	(10,530)	17,279	(15,349)	1,306,970
Share of Net Assets in Associates and Joint Ventures	513,689	-	32,764	-	16,229	562,682
Additions to Non-Current Assets	1,633,303	411,004	261,487	-	344,678	2,650,472
Non-Current Assets	6,304,313	1,620,194	621,783	1,047,601	816,954	10,410,845
Total Assets	8,070,426	1,787,018	688,706	1,204,056	821,011	12,571,217
Total Liabilities	(5,395,390)	(273,440)	(69,604)	(121,740)	(525,661)	(6,385,835)
31 December 2009						
Sales	5,204,614	646,416	44,498	158,926	-	6,054,454
Third Party Sales	5,177,730	618,122	44,498	28,455	-	5,868,805
Depreciation	(206,632)	(56,468)	(2,696)	(22,230)	-	(288,026)
Share of Results of Associates	(3,371)	-	1,368	-	-	(2,003)
Income before Minority Interest	972,450	139,770	8,395	(7,910)	(12,545)	1,100,160
Share of Net Assets in Associates	455,080	-	29,050	-	-	484,130
Additions to Non-Current Assets	1,537,741	338,253	383,365	847,917	88,706	3,195,982
Non-Current Assets	5,663,992	1,280,632	377,916	922,179	560,543	8,805,262
Total Assets	7,490,557	1,467,132	454,201	1,010,519	564,586	10,986,995
Total Liabilities	(4,666,296)	(218,375)	(70,241)	(131,717)	(500,650)	(5,587,279)

The business activities and operating assets of the Group are mainly concentrated in GCC countries, and selected financial information as at 31 December 2010 and 2009 and for the years then ended, categorized by these geographic segments are as follows:

	Sales	Non-Current Assets
	SAR '000	SAR '000
2010		
Saudi Arabia	4,935,258	9,763,889
Other GCC Countries	1,931,954	126,471
Other Countries	63,698	520,485
Total	6,930,910	10,410,845
2009		
Saudi Arabia	4,061,912	8,239,294
Other GCC Countries	1,744,249	103,888
Other Countries	62,644	462,080
Total	5,868,805	8,805,262

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

	2010	2009
	SAR '000	SAR '000
Fresh Dairy	3,168,709	2,817,587
Long Life Dairy	658,911	562,619
Fruit Juice	745,143	620,162
Cheese & Butter	1,282,423	1,143,002
Bakery	821,211	618,122
Poultry	176,135	44,498
Arable and Horticulture	47,697	28,445
Other Dairy	30,681	34,370
Total	6,930,910	5,868,805

15. COST OF SALES

	2010 SAR '000	2009 SAR '000
Direct Material Costs	2,991,477	2,580,261
Government Grants	(100,151)	(93,812)
Employee Costs	477,684	363,440
Depreciation of Property, Plant and Equipment	490,928	390,750
Depreciation of Biological Assets	117,442	95,889
Biological Asset Appreciation	(327,800)	(313,064)
Loss on Sale of Biological Assets	71,248	78,819
Other Expenses	474,161	400,730
Total	4,194,989	3,503,013

16. SELLING AND DISTRIBUTION EXPENSES

	2010 SAR '000	2009 SAR '000
Employee Costs	452,077	376,909
Marketing Expenses	351,690	297,442
Depreciation of Property, Plant and Equipment	123,437	96,680
Other Expenses	118,769	116,116
Total	1,045,973	887,147

17. GENERAL AND ADMINISTRATION EXPENSES

	2010 SAR '000	2009 SAR '000
Employee Costs	159,834	144,077
Insurance	23,416	22,527
Depreciation of Property, Plant and Equipment	20,955	17,771
Profit on Sale of Property, Plant and Equipment	(11,251)	(3,636)
Other Expenses	37,469	18,996
Total	230,423	199,735

18. ZAKAT AND INCOME TAX

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

	2010	2009
	SAR '000	SAR '000
Zakat Charge	24,839	27,966
Income Tax Expense for Foreign Subsidiaries	1,182	1,263
Charged to Consolidated Statement of Income	26,021	29,229

B. **Zakat and Income Tax Provisions**

	2010	2009
Balance at 1 January	60,516	22,782
Acquisition of Subsidiary	-	26,070
Charged to Consolidated Statement of Income	26,021	29,229
Payments	(21,301)	(17,565)
Balance at 31 December	65,236	60,516

C. The Company has filed its Zakat returns for all the years up to 2009 and settled its Zakat liabilities accordingly. The Zakat assessments have been agreed with the DZIT for all the years up to 2006 while 2007, 2008 and 2009 Zakat returns are still under review by DZIT.

HADCO has filed its Zakat returns for all years up to 31 December 2008 and has settled its Zakat liabilities accordingly. The Zakat assessments have been agreed with the DZIT for all years up to 31 December 2002. From 2009 onwards HADCO is not required to file a return as results are consolidated in to the Group's return.

19. EARNINGS PER SHARE

Earnings per Share are calculated on the weighted average number of issued shares for the years ended 31 December 2010 and 31 December 2009 amounting to 230 million shares and 220.6 million shares respectively. The weighted average number of shares of issued shares has been retrospectively adjusted for the prior period to reflect the effect of the bonus share issue.

20. DEPRECIATION AND DISPOSAL OF ASSETS

	2010 SAR '000	2009 SAR '000
A. Depreciation		
Property, Plant and Equipment		
Depreciation	635,320	505,201
Biological Assets		
Depreciation of Biological Assets	117,442	95,889
Biological Assets Appreciation	(327,800)	(313,064)
Net Biological Assets Appreciation	(210,358)	(217,175)
Total	424,962	288,026
B. (Profit)/Loss on the Sale of Assets		
Property, Plant & Equipment		
Proceeds from the Sale of Property, Plant and Equipment	(21,832)	(16,216)
Net Book Value of Property, Plant and Equipment Sold	10,581	12,580
Profit on Sale of Property, Plant and Equipment	(11,251)	(3,636)
Biological Assets		
Proceeds from Sale of Biological Assets	(111,174)	(91,180)
Net Book Value of Biological Assets Sold	182,422	169,999
Loss on Sale of Biological Assets	71,248	78,819
Total	59,997	75,183

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Commission Rate Risk is the exposure associated with the effect of fluctuations in the prevailing commission rates on the Group’s financial position and cash flows. Islamic banking facilities (Murabaha) amounting to SAR 4,248.8 million at 31 December 2010 (2009: SAR 3,756.7 million) bear financing commission charges at the prevailing market rates.

The Group’s policy is to manage its financing charges using a mix of fixed and variable commission rate debts. The policy is to keep between 50% to 60% of its borrowings at fixed commission. The following table demonstrates the sensitivity of the income to reasonably possible changes in commission rates, with all other variables held constant. There is no impact on the Company’s equity.

		Increase / decrease in basis points of commission rates	Effect on income for the year SAR'000
2010			
	SAR	+30	12,727
	SAR	-30	(12,727)
2009			
	SAR	+30	11,141
	SAR	-30	(11,141)

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

The outstanding foreign currency forward purchase agreements were as follows:

	2010	**2009**
	SAR '000	SAR '000
Euro	1,005,085	703,642
Great British Pound	69,454	66,409
Other	20,482	30,924
Total	1,095,021	800,975

The Group uses forward currency contracts to eliminate significant currency exposures. Management believe that the currency risk for inventory and capital expenditure purchases is adequately managed primarily through entering into foreign currency forward purchase agreements. It is the Group's policy to enter into forward contracts based on the underlying exposure available from the group's business plan/commitment with the suppliers. The forward purchase agreements are secured by promissory notes given by the Group.

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

	Increase/decrease in Euro rate to SAR	Effect on income for the year SAR'000
2010		
	+10%	7,852
	-10%	(7,852)
2009		
	+10%	11,229
	-10%	(11,229)

Credit Risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Group limits its credit risk by trading only with recognized, creditworthy third parties. The Group's policy is that all customers who wish to trade on credit terms are subject to credit verification procedures. Trade and other account receivables are mainly due from local customers and related parties and are stated at their estimated realizable values. The Group seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and by monitoring outstanding receivables on an ongoing basis. The receivable balances are monitored with the result that the Group's exposure to bad debts is not significant. The five largest customers account approximately for 31% of outstanding accounts receivable at 31 December 2010 (2009: 19%).

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

Liquidity Risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds and bank facilities are available to meet the Group's future commitments. The Group's terms of sales require amounts to be paid either on a cash on delivery or on a terms basis. The average days of sales outstanding for 2010 were 25 days (2009: 24 days). Trade payables are typically settled on a terms basis, the average payables outstanding for 2010 were 50 days (2009: 45 days).

22. FINANCIAL INSTRUMENTS

Fair Value

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

Hedging Activities

At 31 December 2010 the Group had 10 commission rate swap agreements in place covering total notional amounts of SAR 300 million and US$ 210 million. At 31 December 2009 the Group had 8 commission rate swap agreements in place covering total notional amounts of SAR 100 million and US$ 210 million.

The swaps result in the Group receiving floating 6 month SIBOR/ 3 month US$ LIBOR rates while paying fixed rates of commission or floating 3 month US$ LIBOR rates under certain conditions. One had a deferred start of one year from trade date. The swaps are being used to hedge the exposure to commission rate changes of the Group's Islamic borrowings.

At 31 December 2010 and 2009 the Group had various forward foreign exchange contracts that were designated as hedges to cover purchases and other expenditures in a variety of foreign currencies.

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

All 2010 hedges were considered highly effective and the net gain on cash flow hedges during the year recognised in Other Reserves within equity was SAR 9.6 million (2009: net gain of SAR 19.3 million).

23. COMMITMENTS AND CONTINGENCIES

A. The contingent liabilities against letters of credit are SAR 144.5 million for 31 December 2010 (2009: SAR 170.9 million).

B. The contingent liabilities against letters of guarantee are SAR 70.2 million for 31 December 2010 (2009: SAR 83.0 million).

C. The Company had capital commitments to SAR 1,547.1 million for 31 December 2010 in respect of ongoing projects (2009: SAR 1,555.6 million). The majority of the capital commitments are for new production facilities, sales depot development, distribution fleet, fridges and information technology.

D. Commitments under operating leases expire as follows:

	2010	**2009**
	SAR '000	SAR '000
Within one year	63,095	63,517
Two to five years	94,533	61,759
After five years	41,156	20,104
Total	198,784	145,380

24. DIRECTORS REMUNERATION

The Directors' remuneration paid to the Board of Directors for year ended 31 December 2010 amounted to SAR 6.6 million (2009: SAR 6.3 million).

25. RELATED PARTY TRANSACTIONS AND BALANCES

During the normal course of its operations, the Group had the following significant transactions with related parties during the year ended 31 December 2010 and 31 December 2009 along with their balances:

Nature of Transaction	**Amount**	**Balance at 31 December**
	SAR '000	SAR '000
2010		
Sales	(374,776)	81,146
Purchases	193,699	(30,944)
2009		
Sales	(257,250)	67,464
Purchases	182,615	(23,593)

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

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

26. DIVIDENDS APPROVED AND PAID

On 26 Rabi Akher 1431 A.H. (11 April 2010) the General Assembly Meeting approved a dividend of SAR 460 million (SAR 4 per share based on 115 million shares) for the year ended 31 December 2009, which was paid on 12 Jamad Al Awal 1431 A.H. (26 April 2010).

27. DIVIDENDS PROPOSED

The Board of Directors proposes for approval at the General Assembly Meeting a dividend for the year ended 31 December 2010 of SAR 517.5 million (SAR 2.25 per share based on 230 million shares).

28. SUBSEQUENT EVENTS

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

29. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors on 13 Safar 1432 A.H. (17 January 2011).