A year of continued growth and commitment to all stakeholders

On behalf of the Board of Directors, I am delighted to present Almarai Company’s Annual Report, covering the year ending 31 December 2014. This year Almarai maintained leadership in its core categories and markets. Strong growth was achieved in poultry and in Egypt.

The economic environment
Consumer confidence remained strong in 2014 thanks to the steady rise in regional GDP and access to credit. Commodity prices started a downward trend. While the recent dip in oil prices could apply pressure in all oil producing countries, the Gulf economies continue to grow and remain buoyant.

Inflationary pressures in Argentina and instability in Ukraine created challenges within their respective economies, but Almarai’s integrated feed stocks procurement model was not significantly affected.

With the blessings of Almighty Allah, 2014 was another record year. Sales increased by 12.4% to SAR 12,605.6 million (2013: SAR 11,219.2 million), yielding a Net Operating Income increase of 8.5% to SAR 1,950.1 million (2013: SAR 1,796.6 million). Overall performance was strong, in line with expectations.

Conserving water
Further progress was made towards our goal of importing all agricultural feed requirements. Employing rigorous quality control, more animal feed comes from the Company’s own controlled facilities in the USA, South America and from third party imports that meet the Company’s quality requirements. Almarai increased the amount of overseas arable land it manages, directly and indirectly, to approximately 68,000 hectares (680km2). This contributes to Almarai’s strategy for conservation of the Kingdom’s water resources.

Strategically managing our joint ventures
Almarai’s Joint Venture, International Dairy and Juice Limited (IDJ), saw continued growth. Almarai and PepsiCo, the IDJ partners, agreed a strategic investment plan in spring 2014 to expand the IDJ Egyptian subsidiary, Beyti. Beyti sales increased by 35.0% YOY and Beyti reached a positive operating profitability for the first time.

During the first quarter Almarai took full control of International Paediatric Nutrition Company (IPNC), previously a Joint Venture with Mead Johnson Nutrition. This provides the Company with a strong platform from which to grow its infant nutrition business across the GCC and North Africa. The Company launched its own proprietary brands, Nuralac and Nuralac Plus.

MFI, Almarai’s Joint Venture in the bakery segment, registered strong profit growth, leveraging past investments in this product category.

Continuously managing risk
Two of the Company’s Western Bakeries’ plants caught fire on 9th October, causing structural and operational damage. With the blessings of Almighty Allah, no injuries were sustained. The management team worked with local authorities throughout the investigation and are grateful to the Civil Defence Unit, which rapidly deployed to the site.

The fact that there were no injuries is testament to the Company’s well established HSE (Health Safety Environment) measures.

Through its existing insurance policies, Almarai will be fully covered for all damages. All efforts are currently
being made to provide consumers with the full range of quality bakery products at pre-incident market levels.

Corporate governance
In September the Board announced the resignation, for personal reasons, of non-Executive Director Dr. Abdulraouf bin Mohammed Manna. The board thanks Dr. Manna for his continuous wisdom and visionary contribution during his tenure.

HE Engr. Abdullah bin Mohammed Noor Rihaimi, who currently sits on the Board of Savola Group, joined the Almarai Board as a non-executive Board Member in September. HE Engr. Rihaimi has held many senior leadership positions, most notably as Chairman of the General Authority for Civil Aviation.

The Board continued to perform its duties throughout 2014, ensuring that the Company’s operations are run in accordance with its corporate governance protocols. The performance of the Board of Directors has been instrumental in Almarai’s strategic direction, investments and growth.

Investing for the long-term
Investments totaling SAR 2,820.2 million were focused on enhancing local manufacturing, supply-chain capabilities and cost-efficiencies. This clearly demonstrates Almarai’s vision and reflects confidence in future success. These investments will support local business communities and our unwavering commitment to operating ethically and sustainably.

Valuing investors & shareholders
Total market capitalisation reached SAR 46,032 million as of 31 December 2014, an increase of 45.4% from 31 December 2013. Almarai’s share price reached SAR 76.72 on 31 December 2014, outpacing the market index. The Total Shareholders Return (TSR) of Almarai shares since its first day of listing has reached 21% per annum. This appreciation has been supported across a stable investor base with corporate and individual shareholders equally represented.

The Almarai Board recommends a Dividend of SAR 600.0 million or SAR 1.00 per share, representing 35.8% of the Consolidated Net Profits achieved during 2014.

Strategic pathway for 2015
The Company’s aims for 2015 are to deliver sustainable, profitable performance in key sectors and to focus on further developing poultry, which is expected to reach positive cash generation on a full year basis. The infant nutrition business is also expected to perform well. This growth will, as ever, be supported by a commitment to quality.

We will continue growing the business outside the GCC. The Company plans to expand its policies on good governance, Internal Audit, sustainability and health & safety to ensure that it continues to act as a standard-bearer for good business practices.

This annual report, in conjunction with the Annual Consolidated Financial statements and Auditors’ report will provide you with a comprehensive review of Almarai’s operating and financial performance for the year 2014. This report has been established according to the presentations and disclosures of Almarai, without the prejudice of any of Almarai’s interested stakeholders.

On 29th January 2015 our CEO, HE Engr. Abdul Rahman bin Abdul Mohsen Al-Fadley, was nominated as the new Minister for Agriculture and resigned from his position. As Chairman of the Board I would like to express my personal recognition, along with that of all Board Members, to HE Engr. Al-Fadley for his exceptional contribution and wise leadership over the last 15 years. We wish him all the best in his future role.

The Board of Directors, in its meeting on 31st January 2015, nominated Mr. Georges Schorderet as the new Chief Executive Officer. Georges joined Almarai in 2004 as Chief Financial Officer and became Chief Operating Officer in 2011. The Board is confident that Mr. Schorderet will steer the Company forward, and wishes him all the best in his endeavours.

Finally, in addition to the continued support of the government of Saudi Arabia, I would like to thank my fellow Directors, the executive leadership team and all Almarai employees for their outstanding contributions over the past 12 months. And, I thank our Shareholders, who have continued to support Almarai in delivering upon its Mission of providing quality and nutritious food and beverages that enrich our consumers’ lives every day.

HH Prince Sultan bin Mohammed bin Saud Al Kabeer
Chairman
Almarai’s distinct business model continues to deliver sustained profitable growth

The Company continued on its growth trajectory, reporting a solid increase in sales across all product categories and geographical areas. There was significant growth in Net Income. Almarai maintained its strategic focus on delivering high quality products to consumers, leveraging its reliable distribution network.

Group Sales reached SAR 12,605.6 million, a YOY increase of more than 12.4%. EBITDA rose to SAR 2,964.3 million – a rise of 8.4% on 2013. The Company’s Net Income increased to SAR 1,674.3 million, a YOY increase of 11.5%. In addition, the Company’s Operating Cash Flow reached SAR 3,198.8 million, which represents a YOY increase of 23.7%.

Almarai’s operations and investments were underpinned by a commitment to social responsibility and sustainable growth. Such investments included securing ingredients and animal feed from outside the local supply chain, expanding the manufacturing footprint and investing in sales and distribution infrastructure, which created local jobs. Almarai implemented a number of new programmes designed to support career development.

Almarai outperformed underlying market growth in all our segments and geographies. The Company will continue managing its operational costs efficiently in order to achieve industry-leading EBITDA and a stronger balance sheet.

Committed to quality
At the heart of Almarai’s operations is an unrelenting focus on producing high quality food products across every segment. Quality includes rigorous health and safety standards, world-class processing facilities and fresh, natural ingredients sourced from leading local, regional and international suppliers.

Almarai now has more than 100 active sales and distribution sites across the Middle East. With one of the largest distribution fleets in the region, Almarai continues to service its distribution centres on a daily basis, supplying almost 100,000 retail outlets across the GCC, Jordan and Egypt. The expansion of Almarai’s supply chain and processing facilities enables it to work more closely with suppliers ensuring all stages of the supply chain adhere to
the highest standards of care. Delivering quality in a sustainable manner has enabled the Company to grow market share across all segments, add value to local markets and increase shareholder value.

Almarai announced its expansion plan in Egypt via International Dairy and Juice Limited (IDJ), its joint venture with PepsiCo. IDJ aims to expand the current Juice and Yoghurt plants of Beyti, its subsidiary in Egypt, as well as its distribution facilities. To further improve milk quality, IDJ announced plans to invest in dairy farming in Egypt.

After 100% acquisition of the infant nutrition Joint Venture, IPNC, in the first quarter, the business was successfully integrated into Almarai. With the launch of Nuralac and Nuralac Plus, its own infant nutrition brand, Almarai will make gains in this market segment in 2015.

Committed to innovation for consumers
Innovation is at the core of the Almarai’s strategy. Consumers continue to benefit from high quality food and beverages produced by a respected and trusted company. Almarai recognises the growing demand for healthier food and nutritious products. This underpinned much of the Company’s product innovation in the Health and Wellness sector. A large number of new products were launched in 2014, and Almarai witnessed particularly significant improvement in the performance of its poultry business. In addition, a number of new products were designed and launched for the younger age group - an increasingly significant proportion of the region’s demographic.

Committed to sustainability
Almarai has an environmental responsibility where resources, including water, are increasingly scarce. The Company’s commitment to protecting the natural environment is evidenced by its use of leading edge technology and processes throughout the supply chain.

Almarai moved towards its long term target of importing 100% of all animal feed. The Company acquired approximately 4,000 hectares in Arizona and by the end of the year had already begun importing alfalfa from this farm. Further expansion in the USA and other regions suitable for growing high quality alfalfa will take place in 2015. Superior quality animal feed is vital for a high yielding dairy herd, which during 2014 exceeded the previous benchmark of 40 litres per cow per day.

Committed to developing local talent
During the year Almarai significantly enhanced its career development programmes in order to provide talented local employees with a stimulating and progressive training environment. The Company’s career development philosophy is that all individuals will be able to realise their full potential if they are given the opportunity to learn new skills and are provided with adequate training. These programmes are of great benefit to existing employees and also act as a magnet to other Saudi nationals seeking strong career paths. The Company’s Dairy & Food Polytechnic, a joint project with the Technical and Vocational Training Corporation, and the Almarai Sales Academy are two educational programmes that have been set up to attract ambitious Saudi nationals and support the development of existing employees.

Through the Graduate Professional Trainee (GPT) programme, the Company has employed, for on-the-job training and professional development, hundreds of local and talented graduates across all departments. Almarai also established a Long Haul Driving school that provides training to over thirty drivers throughout the year.

Committed to future growth and investment
All of the Company’s operations and achievements were supported by a focus on quality, sustainability and meeting consumer demand. Investments are measured against their impact on the local supply-chain, quality standards, health and safety and shareholder value. Almarai has proved itself to be successful and resilient in 2014, during uncertain economic times. This success is due to the expertise and dedication of the entire Company’s workforce and management.

On behalf of the executive leadership team, I thank all employees for their passion, commitment and performance. I would like to put on record my thanks to HE Engr. Abdul Rahman bin Abdul Mohsen Al-Fadley, my predecessor, for his remarkable contribution to the Company’s success. He will remain a source of inspiration for me and for Almarai in the future. I am confident that in the coming years the Company will continue to deliver on its promise to all stakeholders and continue its growth trajectory.

Georges Schorderet
Chief Executive Officer