

A worker in a white lab coat and hairnet is shown from a top-down perspective, working on a production line. The worker is wearing a yellow watch and is reaching for a small white container. The background is a blue-tinted image of a factory floor with a hexagonal tile pattern.

**A dynamic business,  
a dynamic future**

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**Annual Report  
2019**



**dynamic** adjective

dy.nam.ic | \di-na-mik\

of a process or system characterized by constant change, activity, or progress.

The past year has shown that this characterization applies to Almarai's strategy and operating model.

Our Annual Report explains what this means for the Company of today and tomorrow.

# Highlights 2019

Almarai's management and staff focused on building a dynamic future for the business.

## Our purpose

Our purpose is simple: to deliver on our promise of 'Quality you can trust'. Our commitment to the people and consumers of the Middle East is unwavering. We will continue to deliver nutritious and high-quality food and beverages across the markets in which we operate and grow.

Read our 2019 Annual Report on  
<https://annualreport.almarai.com/>



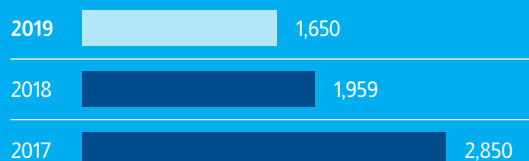
## Total Sales (SAR million)



## Operating Cash Flow (SAR million)



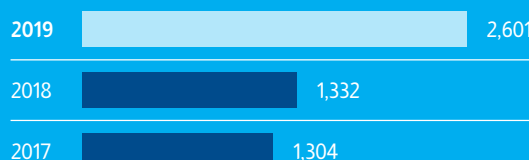
## CAPEX (SAR million)



## Net Profit\* (SAR million)



## Free Cash Flow (SAR million)



## Total Head Count



\* Profit attributable to the Shareholders of the Group

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# Almarai®

As at 31 December 2019,  
Almarai's paid up share  
capital amounted to

**SAR 10 billion**

Founded in 1977, Almarai Company is the world's largest vertically integrated dairy company and the region's largest food and beverage manufacturing and distribution company.

Headquartered in the Kingdom of Saudi Arabia, Almarai is ranked as the

number one Fast Moving Consumer Goods (FMCG) brand in the (MENA) Middle East and North Africa region and is the market leader in most of its categories across the Gulf Cooperation Council (GCC).

After more than 40 years of sustainable growth, Almarai continues to provide nutritious and healthy products to consumers of all ages, with success derived from the bedrock principle of 'Quality you can trust'.

In addition to its high-quality dairy products, Almarai has diversified its product portfolio to include juices, bakery, poultry and infant formula under the brand names Almarai, L'usine, 7days, Alyoum and Nuralac. Meanwhile, the Company operates successful joint ventures with Chipita and PepsiCo.

As at 31st December 2019, Almarai's paid up share capital amounted to SAR 10 billion, consisting of 1 billion fully paid and issued shares of SAR 10.00 each.

## Values



To be the consumers' preferred choice by leading in chosen markets with superior food and beverage products.

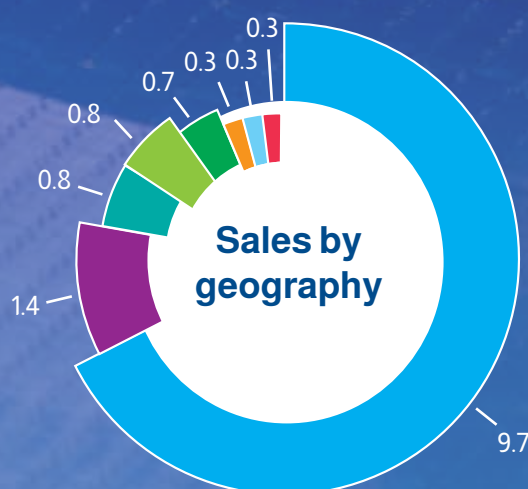
## Mission



To provide quality and nutritious food and beverages that enrich consumers' lives every day.

**A**daptable **S**haring **P**assionate **I**nnovative **R**espect **E**xcellence

# Revenue segmentation



■ KSA 
 ■ UAE 
 ■ Egypt 
 ■ Oman 
 ■ Kuwait 
 ■ Bahrain 
 ■ Jordan 
 ■ Others



■ Fresh Dairy 
 ■ Cheese Butter and Cream 
 ■ Poultry 
 ■ Bakery 
 ■ Fruit Juice 
 ■ Long Life Dairy 
 ■ Other sales

# Awards and recognition



Best Global Sukuk Programme

**Forbes**

2000 Global Best Regarded Companies

**GlobalCapital**

2nd Most Impressive Middle East Corporate Issuer

**Brand Finance®**

7th Most Valuable Dairy Brand Worldwide



Most Improved Corporate for IR



3rd Best Annual Report

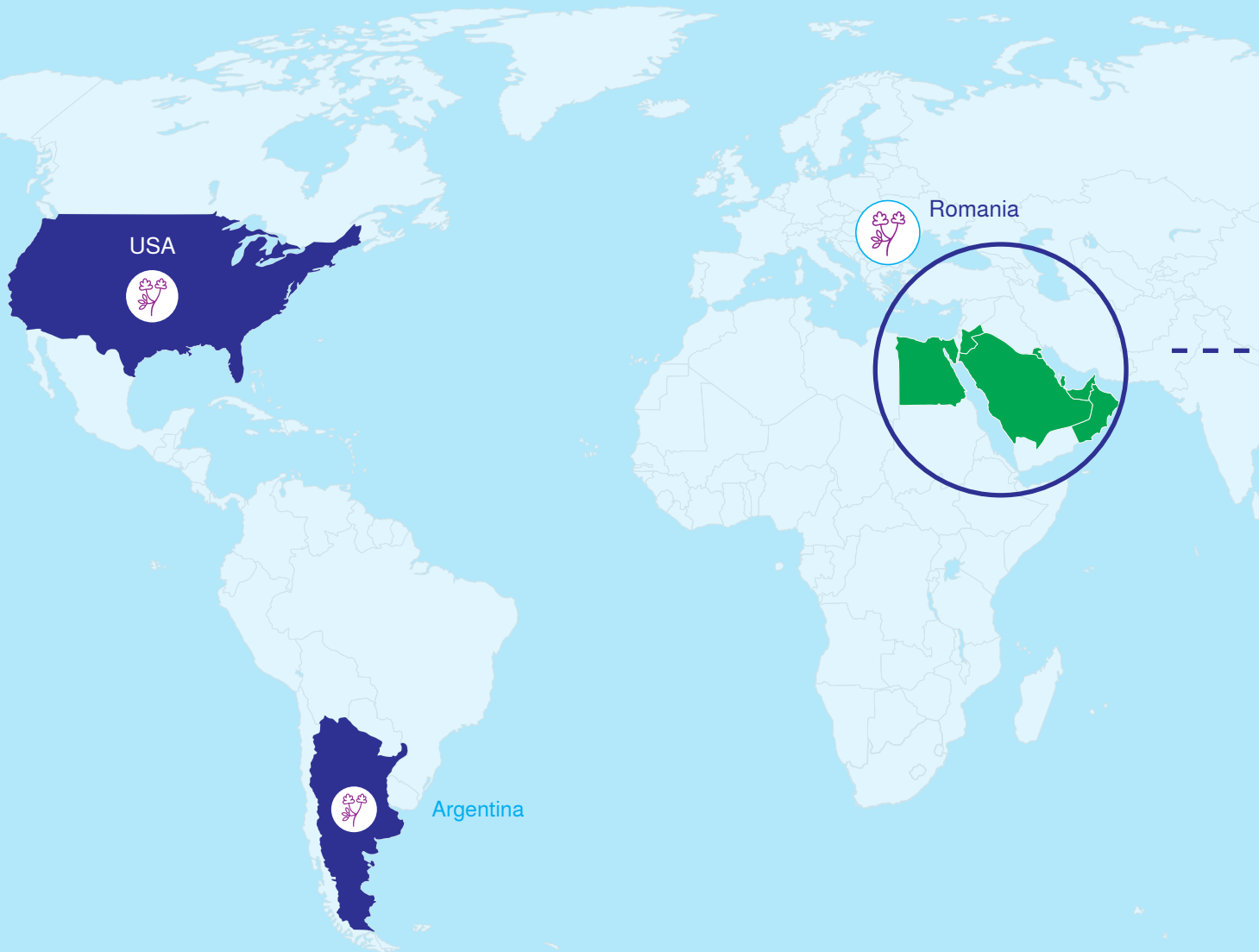


جائزة الملك خالد  
KING KHALID AWARD

2019 King Khalid Award for Sustainability  
Best Performer in Innovating Social Development Solutions

Almarai in 2019

## Where we are



## What we do



**Dairy**

Dairy is the cornerstone of Almarai's range, including Fresh Dairy, Long Life Dairy and Dairy Foods. We have earned the trust of our consumers for more than 40 years and are the regional market leader in a wide range of sub-categories. New product launches in 2019 included Mango-flavored set yoghurt, Blueberry-flavored Greek yoghurt, Date-flavored milk, and 2.2l fresh milk bottles. We have also implemented a facelift of our butter packaging and expanded the range of food services.



**Bakery**

We deliver a wide range of bakery products to consumers across the GCC, marketed under the L'usine and 7Days brands. From bread and snacks to cupcakes, Almarai provides consumers with exciting and innovative treats. In 2019, we launched Coconut Swiss Roll, Red Velvet Muffin, Bran Cream Cheese Sandwich, and Zatar Cream Cheese Sandwich.



Arable farms



Dairy farms



Poultry farms



Manufacturing



Sales depots



Head Office



## Juice

Almarai is the GCC leader in fresh juice, offering consumers a range of juices, nectars and drinks, as well as products for children. Over the last year, Almarai has been expanding its footprint into other lucrative areas of the juice market including premium not-from-concentrate juice, super fruit and everyday segment carton juices with the Joosy Life product range.



## Infant Nutrition

Almarai's Infant Nutrition products are available across Saudi Arabia and other markets in the Middle East and Asia. Our brands include Nuralac and other brands in export markets.



## Poultry

Alyoum is regarded by the market as synonymous with quality and innovation – that's why it is the brand of choice for over 35.0% of Saudi Arabia's fresh poultry consumers. The product range includes a comprehensive selection of whole, part and value-added stock-keeping units under the Alyoum and Albashayer brands. In 2019, two versions of our new Oven Ready Chicken product were launched on a test-market basis.



# MANAGEMENT REVIEW

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# Chairman's statement



**Sultan bin Mohammed bin Saud Al Kabeer**  
Chairman

On behalf of the Board of Directors, it is my pleasure to introduce Almarai's 2019 Annual Report. Over the past year the Company has built on its dynamism, strengthening its ability to overcome challenges and seize the opportunities available to it. We are in an exciting phase of the 2025 journey, and the pages that follow will provide a clear picture of the achievements we have delivered in the last twelve months.

## Our operating environment

The global economy remains a challenging environment to do business, with headwinds for trade putting pressure on growth around the world. The MENA and GCC regions are not immune to these difficulties, making it incumbent on a business of Almarai's size and sophistication to remain strategically agile. Cost pressures in our home market of Saudi Arabia – and in the wider region – continue to weigh on growth in the Food & Beverage sector, while shifting consumer behaviours require innovation to maintain a competitive advantage.

Short term GDP forecasts for MENA are mostly modest, as oil-importing economies seek to manage down the pressure of high public debt while stimulating private sector growth. Oil-exporting countries continue to pursue diversification, which will attract foreign direct investment and generate better productivity. After a record national budget in 2019, Saudi Arabia continues to forge ahead with the ambitious Vision 2030 programme and this year will host the G20 summit for the first time – an exciting milestone for the Kingdom's increasingly prominent place on the world stage.

### A sustainable business

In our mission to build a genuinely sustainable business, we have reformulated our sustainability framework, which now focuses on three key pillars, having previously comprised six. The pillars address the issues that matter most to us: caring for people, protecting the planet, and producing responsible products. With this framework in mind, we are confident that the impact of our business on the world around it will be positive – and supportive of our long term viability.

Highlights in 2019 included our ongoing commitment to supporting the national labor force, which saw another cohort of talented graduates join Almarai as part of the Future Leaders and Graduate Professional Trainee programmes, with more graduating from the Company's Dairy & Food Polytechnic. We are proud to say that we now employ more than 8,500 Saudi nationals. Meanwhile, we are securing the future of the business by sending a growing number of senior executives to international business schools, preparing them for succession to some of the Company's most senior roles.

Another major achievement for the year was the completion of the Al Kharj Solar Project – the largest renewable energy installation of its type within the private sector in Saudi Arabia. The facility will reduce the fuel and energy consumption of our manufacturing plants, mitigating our environmental impact by offsetting 8,100 tons of CO<sub>2</sub> per year, which is equivalent to planting 8,000 trees. Having already secured 100% of our alfalfa supplies through our overseas

farming operations - this is another important step in our efforts to meaningfully reduce our impact on the natural environment.

In keeping with our commitment to 'Quality you can trust', and the delivery of first-class products, the integrity of our quality assurance systems is independently evaluated by globally recognized certification bodies. With our facilities already certified for ISO 22000 Food Safety Management and ISO 9001 Quality Management, in 2019 our Infant Nutrition and Poultry processing plants were honoured with the FSSC 22000 award, the Global Food Safety Initiative (GFSI) recognized scheme, with other sites under review for certification.

### Governance

In 2019, the Board continued to diligently perform its fiduciary responsibilities. In May, it approved the Company's five year business plan for 2020-2024, completing the second milestone review of the 2025 strategy; and in August, following the Company's Extraordinary General Meeting, shareholders approved the appointment of myself as Chairman, Mr. Suliman bin Abdulgader Al Muhaideb as Vice Chairman, and the formation of a new Board and its committees for the next three-year term.

### Value for our shareholders

Almarai's total market capitalization as at 31 December 2019 was SAR 49.5 billion, with 1 billion shares in issue. At the forthcoming Annual General Meeting on 5 April 2020 the Board of Directors will propose a cash distribution of SAR 850 million, equivalent to SAR 0.85 per share or 46.9% of audited Net Income.

### Our gratitude to stakeholders

My gratitude is due to members of the Board of Directors, for the guidance and support that they provide to management, as well as their commitment to representing the interests of our shareholders. I would also like to record my heartfelt thanks to the Company's management and employees, whose unwavering dedication to our strategy continues to yield fruit for shareholders and consumers alike. On behalf of Almarai, I would like to thank our consumers, shareholders and quality makers who work diligently each and every day to ensure the Company's success. The continued trust in our business and products demonstrates the quality we have become accustomed to delivering. Expectations are high, and we remain wholeheartedly committed to meeting them and build on that good work through the rest of 2020 and beyond.

# A dynamic business, a dynamic future





Against the backdrop of challenging market conditions, Almarai has worked to create a dynamic future for the business. We have built a platform for a new chapter in our growth journey. This platform is supported by the adaptability of our business model, which enables us to navigate headwinds and exploit opportunities. By definition, the business has become increasingly **‘dynamic’**.



# CEO's review



**Majed Nofal**  
Chief Executive Officer

On 1<sup>st</sup> January 2020, it was my privilege to be appointed to the role of CEO at Almarai, where we are building a dynamic future. After a challenging period for the sector and the business, we can be confident in our claim to put the Company back on its path for growth, and we have every reason to look forward to realizing more optimistic outcomes in the year ahead.

## Highlights of 2019

The Group's Net Income for 2019 was SAR 1,812 million, decreasing by 10% from SAR 2,012 million in 2018. Net Revenues improved by 5.9% to reach SAR 14,351 million. Our core GCC markets benefitted from stabilization

after a period of volatility, with Saudi Arabia returning to growth and other markets improving gradually. Total fresh milk production in Saudi Arabia has been balanced by higher market growth, which is resulting in generally lower discounting for Dairy products – a positive development for Almarai.

While operating margins remain under pressure due to higher input costs, in part driven by overseas sourcing of animal feed requirements, increased labor expenses and higher cost of funding, Almarai continued to focus on controlling input expenses, reducing both OPEX and CAPEX, and improving Free Cash Flow. Meanwhile, the diversification of

the business has been critical for supporting its return to top-line growth. Poultry continued to perform strongly, as did the burgeoning Foodservice channel, while revenue growth has been resurgent across geographies – improving by 6.1% in Saudi Arabia, 2.4% in the GCC and by 12.6% in other MENA markets.

The product innovation pipeline remained healthy, with over 24 new SKUs (Stock Keeping Unit) introduced to the market in 2019. What is most promising about the pipeline is that it is proving effective across categories, from new or updated Dairy flavors through to a growing range of premium Juice options, innovative and market-savvy Bakery products, and value-added Poultry options – including oven-ready whole chickens.

In February, we were pleased to announce the 100% acquisition of Premier Foods, a manufacturer of meat and poultry products for the hospitality and catering sector. This important growth initiative adds tangible value to our Foodservice business and is a demonstration of our commitment to developing channels that will broaden and strengthen our value proposition. Later in the year we announced another strategic acquisition, increasing our stake in the Pure Breed Company to 93.5%. The acquisition bolsters Almarai's supply of poultry parent stock, deepening the vertical integration of our Poultry operation.

## A dynamic business, a dynamic future

As the momentum and dynamism of the Saudi economy gathers pace,

so does that of Almarai. In the course of the year, we proved adept at navigating headwinds and creating our own opportunities. While we have continued to work on enhancing our efficiencies, we have focused on working smarter and making our business more agile. Sustainability also plays a key role in building for our future and long term growth prospects. We have refined our sustainability framework down from six core pillars to three to refocus our efforts on the issues that matter most to us. In essence, we have created a platform that will enable greater dynamism and, ultimately, the delivery of the ambitions of Almarai 2025.

The impact of the process is apparent across the business – including in our non-core markets of Egypt and Jordan, where we are now achieving profitable performance. At the same time, we are listening carefully to the market, so we know exactly where we need to scale-up our efforts. This approach is most apparent for Foodservice and the diversification of our retail product range into both value and premium categories. While sectoral challenges continue to impact all industry players – especially in relation to sugar taxation – it is our responsibility to maneuver our business to adapt to societal change. We are already known for the quality of our products – so the next phase in our mission to achieve dynamism will be to make ourselves attractive to younger demographics, while growing our foothold in the health and wellness space.

### Committed to our people

We have a reputation for developing talent and harnessing the power of an engaged workforce. Our

commitment to people is aligned with our own strategic vision and that of the Kingdom itself – from the creation of career opportunities to building a dynamic working environment. With over 42,000 full-time staff across MENA we are an immensely diverse organization employing 65 different nationalities. We are proud to say that we now employ more than 8,500 Saudi nationals. Of this cohort, 1,709 were hired as recent graduates in 2019 comprising of 1,582 Saudi men and 127 Saudi women. We remain wholeheartedly committed to the Saudization goals outlined in the 2030 Vision for Saudi Arabia, and we will continue to pursue this through 2020 and beyond.

Hiring is one thing, but engagement and development is another. An area of significant investment has been in succession planning and associated training, to build a leadership team that truly represents the next generation for the Company. Future leaders are engaged in a rigorous development and evaluation programme – including both internal and external training modules. At the same time we are enhancing our engagement methods to better enfranchise colleagues and respond to their requirements on a real-time basis, through the ‘We at Almarai’ initiative. More details can be found later in this report.

### Almarai 2025

With the Board having approved the latest phase of our five year strategic plan, our strategy is focused on achieving full potential in core markets, while boosting the performance of non-core or underperforming business units and developing high-potential new

segments. To this end, we can be very satisfied with our progress to-date as borne out in particular by the continued success of our Poultry business, profitability in Egypt and Jordan, and the rapid growth of our Foodservice offering.

Looking to 2020 and the years that follow, we will sustain our focus on cost reduction and the optimization of our assets, more impactful innovation and marketing, improvements in our operating model, talent acquisition and retention, organic and inorganic growth projects, and the roll-out of new technologies – with a focus on digitization.

### With thanks

On behalf of the entire Company, I would like to place on record our heartfelt thanks to my predecessor as CEO, Georges Schorderet, who retired after a career filled with achievements and generosity. Georges’ stewardship of the Company has been an inspiration to us all.

I would like to express gratitude to my colleagues for their loyalty and considerable efforts, and on behalf of the Company to thank both the Board of Directors and our shareholders for their support. We continue to welcome their guidance and feedback. Perhaps most importantly, the thanks of all at Almarai are owed to our consumers, to whom our promise is the continued production of products that enrich their lives.

# Year in review



Almarai confirmed the 100% acquisition of Premier Foods, a manufacturer of meat and poultry products for the Middle East's hospitality and catering sector. The acquisition adds value to Almarai's growing Foodservice channel.

The Company completed the issuance of its international USD fixed rate Reg S Senior Unsecured Sukuk, amounting to USD 500 million at a return of 4.311% for maturity in five years. The Sukuk is listed on the Irish Stock Exchange (Euronext Dublin).

February

Almarai completed redemption of its SAR 1 billion Sukuk – Series I. The redeemed Sukuk was issued in March 2012 and as of 7 March 2019 there was no further trading on the series. The principal and profit was transferred to account holders.

March

The Board of Directors approved the Company's five year strategic plan for 2020-2024, completing the second milestone review of the Almarai 2025 strategy, which was initiated in 2017.

May

Almarai announced the acquisition of an increased stake in Pure Breed Company, acquiring 37.6% of share capital for SAR 52.9 million. Almarai now holds 93.5% of Pure Breed's share capital. The Company's operations are focused on poultry broiler grandparent farming, strengthening Almarai's supply of poultry parent stock.

August

The Company announced the appointment of the Chairman, Vice Chairman and formation of the Board committees for the term starting 7 August 2019 and ending 6 August 2022.

December

The Company announced the comprehensive evaluation of the financial impact of the elimination of subsidy on imported feed except green fodder inputs.

Almarai announced the appointment of Mr. Majed Mazen Nofal as its new CEO effective 1 January 2020.

Almarai completed the Al Kharj Solar Project (Photovoltaic PV), the largest ground mounted Solar PV installation in Saudi Arabia. The project will reduce fuel and energy consumption – mitigating the Company's environmental impact while benefiting the financial bottom-line. The installation will offset 8,100 tons of CO<sub>2</sub> each year, equivalent to planting 8,000 trees.

# CFO's review



**Paul-Louis Gay**  
Chief Financial Officer

Although Almarai faced sustained top-line pressure, a key theme in 2019 was the return to growth of our core categories and geographies without compromising on a strategy for margin defence, with healthy margins restored in non-core categories and acceleration of the emergence of the Foodservice channel bearing fruit. As the Company came to the end of its latest investment cycle, we have placed a strong emphasis on reviewing and optimizing our balance sheet and cash flow generation.

## Performance highlights

With top-line growth positive during the year, ongoing cost challenges meant that operating performance was fairly flat with EBITDA of SAR 4,013 million as compared to SAR 4,012 million a drop in EBITDA margin of -1.7%pp at 28.0%. The Dairy, Poultry and Bakery segments were the main drivers for top-line growth of 5.9%, while Juice performance was poor as a consequence of a contracting market. Growth in the Foodservice channel has been important for supporting growth across segments.

Gross profit for the Group increased by 0.7% to SAR 5,367 million, with revenue growth offset by higher operating costs resulting from increased alfalfa imports and expenses associated with labor reform in Saudi Arabia. Selling and distribution expenses rose by 9.0% on the back of expansion in the Foodservice channel and higher marketing and trade support expenses across segments. Notwithstanding of our ongoing cost efficiency programme, general and administration expenses increased by 6.7% to SAR 400 million.

## Focus on deleveraging

With net debt levels stable, financing costs increased by SAR 114 million, due to higher interest rates earlier in the year, the accounting treatment of the perpetual Sukuk profit payment against equity and the lower capitalization of funding costs for qualified projects. As Almarai has come to the end of its investment cycle and achieved improved top-line performance, free cash flow generation more than double to record and increased of 113.8% to reach SAR 2,602 million

at year-end, as compared with SAR 1,217 million in 2018.

The Net Debt/EBITDA ratio stands at 3.2 at year-end, within the strategic limit set by the Board, and the net debt to equity ratio reached 83%, below the 100% target. The strategic direction remains to de-lever the company towards a net debt to EBITDA ratio of between 2.75 to 2.50 times, and the current trends of lower capital investment requirements, stable working capital and growing operating cash flow are likely to help us achieve this target within 18 months.

### Managing risk

During 2019, the maturity profile of existing debt facilities reduced from 4.2 years to 4.1 years, and we will continue to review and consolidate the debt profile to ensure alignment of maturities with free cash flow expectations. With an established interest rate hedging programme and a high percentage of debt on fixed interest rate terms, Almarai was well-insulated from unfavourable interest rate conditions early in 2019, while volatile currency risk was managed by minimal Foreign Exchange rates exposure in Egypt and Argentina. During the year, Almarai consolidated its commodities hedging for inputs including corn, soybean and sugar, with a robust framework in place for protecting the business against price volatility. The commodity hedging programme has also been expanded to provide cover for plastics used in packaging.

At governance level, an important priority in 2019 was the work of the Risk Committee, with an

Enterprise Risk Management (ERM) function established, along with a series of initiatives aimed at better structuring the Company's approach to risk. These included new and improved versions of Almarai's risk registers, risk maps, associated compliance and response measures, and policies for employees Code of Conduct recognition, conflict of interests declaration and whistleblowing system and processes – to aligning the Company with international best practice standards.

### Efficiency and optimization

With significant cost increases endured during the last three years, we have so far been successful in partially offsetting the effect by strict margin and cost management measures. Increased operating costs are now 'here to stay', in response to which Almarai is attempting to redefine its operating model both for support and go-to-market functions, which consume significant resource – especially human capital expenditures. Meanwhile, we are making extensive efforts to optimize sales activities in order to make Almarai more relevant to market developments – for example, the rise of the Foodservice segment, digitalization of channels, and opportunities in new geographies. These developments have created a need for a more proactive and agile business that exploits new technologies and addresses new consumer trends – both of which factors remain a high priority for management.

### The year ahead

Almarai has maintained a healthy credit profile with local lenders

– as well as with international fixed income investors – as a consequence of predictable and positive operating cash flows and a clearly defined path for sustainable top-line growth. At year-end, unutilized bank facilities and available government funding totalled SAR 8,780.2 million, and with a constant need to finance operations and potential future investments, Almarai will continue to diligently review opportunities for cost efficient borrowing facilities and solutions.

As in 2019, the achievement of efficiencies and optimization in 2020 will remain a top priority, as we seek to tap the growth opportunities identified by our strategy and to deliver on an improved operating model. To achieve these objectives, we are strengthening the quality of our team, developing capabilities and careers at all levels, and putting an ever-stronger focus on succession planning and management skills improvement.

## Five year financial highlights

| (SAR million)                                 | 2019    | 2018    | 2017    | 2016    | 2015    |
|-----------------------------------------------|---------|---------|---------|---------|---------|
| <b>Operational Performance</b>                |         |         |         |         |         |
| Revenue                                       | 14,351  | 13,558  | 13,936  | 14,339  | 13,795  |
| Gross Profit                                  | 5,367   | 5,327   | 5,584   | 5,522   | 5,283   |
| Operating Profit                              | 2,473   | 2,521   | 2,583   | 2,518   | 2,262   |
| Profit Attributable to Shareholders           | 1,812   | 2,012   | 2,182   | 2,148   | 1,916   |
| <b>Balance Sheet</b>                          |         |         |         |         |         |
| Net Working Capital                           | 2,668   | 2,689   | 1,429   | 1,318   | 1,383   |
| Property Plant and Equipment                  | 22,577  | 22,607  | 22,402  | 21,145  | 18,696  |
| Right of Use Assets                           | 461     | 548     | -       | -       | -       |
| Biological Assets                             | 1,478   | 1,465   | 1,283   | 1,271   | 1,228   |
| Intangible Assets                             | 1,129   | 1,038   | 1,047   | 1,040   | 1,009   |
| Investments                                   | 88      | -       | 129     | 97      | 198     |
| Net Debt                                      | 12,545  | 12,743  | 10,910  | 10,883  | 9,344   |
| Total Equity                                  | 15,259  | 14,463  | 14,881  | 13,478  | 12,618  |
| Total Assets                                  | 33,148  | 32,783  | 31,896  | 29,194  | 27,371  |
| Total Liabilities                             | 17,889  | 18,320  | 17,015  | 15,716  | 14,753  |
| <b>Cash Flow</b>                              |         |         |         |         |         |
| Cash Flow generated from Operating Activities | 4,732   | 3,669   | 4,614   | 4,473   | 4,932   |
| Addition to Property, Plant and Equipment     | (1,517) | (1,919) | (2,797) | (4,515) | (4,005) |
| Free Cash Flows*                              | 2,601   | 1,332   | 1,304   | (509)   | 523     |
| <b>Key Indicators</b>                         |         |         |         |         |         |
| EBIT to Sales                                 | 17.2%   | 18.6%   | 18.5%   | 17.6%   | 16.4%   |
| EBITDA to Sales                               | 28.0%   | 29.7%   | 28.1%   | 25.9%   | 24.2%   |
| Return on Net Operating Assets                | 9.1%    | 9.4%    | 10.5%   | 11.1%   | 11.2%   |
| Net Debt to Equity Ratio                      | 82.2%   | 88.1%   | 73.3%   | 80.7%   | 74.0%   |
| EPS - Basic                                   | 1.83    | 1.98    | 2.13    | 2.10    | 1.88    |
| EPS - Diluted                                 | 1.81    | 1.96    | 2.11    | 2.08    | 1.87    |
| DPS                                           | 0.85    | 0.85    | 0.75    | 0.72    | 0.69    |

\*Net of investments





# A dynamic business, a dynamic future

## Current and future growth

**Current and future growth** will be stimulated by our return to healthy top-line performance, supported by both core and non-core categories; along with better free cash flow generation. We maintain an emphasis on improving future profitability by growing margins, while investing ahead of the curve to ensure first-class manufacturing and distribution capabilities.



1



# STRATEGIC REVIEW

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# A dynamic business, a dynamic future

## Diversification

**Diversification** is a driver for dynamism, especially our widening portfolio of channels, categories and SKUs – for example, our recent entry into the Foodservice market. At the same time, we are expanding our geographic footprint, as we turn around operations in Egypt and Jordan and tap new opportunities in the wider Middle East region.



# Strategy: Almarai 2025

To deliver on our strategic objectives, we have established where we will operate, how we will win and what the results of our strategy will be. In essence, our objectives are to realize our full potential in core GCC markets, turn around non-core businesses, and develop high-potential new businesses. The key drivers of the strategy are:

1. **Strong focus on cost reduction and asset optimization**
2. **Increased investment in innovation and marketing**
3. **Continued refinements to our operating model**
4. **Expansion into new growth areas, organically and via acquisition**
5. **Technology enhancements, with a focus on digitization**

## Where to play



### **Focus on GCC core full potential**

- Core full potential in Saudi Arabia
- Leadership in UAE
- Optimized pricing strategy



### **Turnaround/divest non-core businesses**

- Infant Nutrition
- IDJ (International Dairy & Juice)



### **Seed high-potential new business**

- Dedicated food service division
- Evaluate and selectively enter new product categories

## How to win



### **Lean costs & assets**

- Cost reduction
- Asset optimization



### **Operating model & talent**

- Role of centre
- Superstructure
- Governance
- Ways of working
- Resources
- Saudization
- Succession plan

# Case study: Fondomonte farms



## The challenge

In 2014, the Saudi government decreed that by 2018, all local green fodder production for the purpose of herd consumption would be stopped, in an effort to preserve the Kingdom's precious water resources.

## The strategy

In response, Almarai established a five year strategic plan to build a supply chain to ensure the reliable procurement of animal feed, while supporting the government's environmental mission.

The Company established strategic supply centres around the world, to produce and manage the continuous availability of green fodder for its herds.

The objective was to produce 40% of Almarai's high-grade alfalfa

requirements on its own arable farms, with 60% procured, to guarantee the inputs required for the dairy herd to run at maximum productivity.

Each of the three supply centres has been established in a different

geographic location (USA in February 2014, Argentina in January 2015, and Romania in 2019), each supplying 20-40% of the total requirement, with the capacity to increase production in case of interruption elsewhere.

## The result

Today, Almarai procures 100% of its alfalfa requirements internally and from overseas.

The most recently established farming venture – Maria Fondomonte in Romania – received Board approval to proceed as a strategic alliance with Maria Group in February 2019.



### Innovation & marketing

- Trend monitoring
- Increased speed and quality of adaption (time to market)
- Brand architecture



### Technology (digital & IT)

- E-commerce and engagement
- Complete transition of legacy systems



### Acquisitions

- Acquisition to support development of core businesses
- Strategic acquisitions to enter categories or countries

## Goals



~1.5x market growth

New adjacencies revenue share ~30%

RONA > WACC +2%

Top quartile employee satisfaction

Preferred consumer brand

# Key performance indicators

To deliver on the objectives of our strategy, we have set Key Performance Indicators (KPIs) that ensure progress throughout the programme's lifetime. The KPIs address both our vision and our 'quality-driven, consumer-focused' working culture. Almarai has long term objectives and a corporate scorecard for the delivery of its KPIs, along with a three-pillar roadmap for the year, which focuses on: growth drivers, operations/efficiency and capabilities/enablers.

## Vision

The consumers' preferred choice for Food and Beverages in the Arab World

## Corporate scorecard

Normalized net sales growth: **5.9%**

Market share growth:

**0.50% to 0.75%**  
in selected products

On track for the year 2025 with successful acquisition of Premier Food Industries LLC and investment in Maria Fondomonte, Romania, in 2019

RONOA on net operating assets: **9.0%**

**Platinum status**

in all categories for Nitaqat purposes

Culture : quality driven, consumer focused



## KPIs 2019

### 1. Growth drivers:

- Defend number one position in key product categories
- Drive market share in under-indexed categories
- Launch new products
- Expand Foodservice
- Grow Exports
- Accelerate Poultry momentum

### 2. Operations / efficiency:

- Improve forecast accuracy
- Reduce wastage
- Optimize new facilities
- Improved end-to-end planning
- Pursue efficiency projects
- Complete central warehousing project
- Reduce out-of-stock

### 3. Capabilities / enablers

- Full implementation of new structure
- No Head Office headcount growth
- Saudization, to maintain platinum in Nitaqat rating
- Leadership development across management grades
- Robust succession planning
- Upgrade systems to manage regulatory and operational changes

# Business model

## INPUTS

### RAW MATERIALS

- 1,600+ suppliers
- Supplying 47,685 items
- SAR 5.9 billion spent on raw materials in 2019

### ADVANCED MANUFACTURING

- Four ultra-modern dairy processing facilities
- State-of-the-art Infant Nutrition facility
- Three bakeries

### LEADING INNOVATION

- Innovative systems and processes
- Innovative product development to delight consumers

### BEST-LOVED BRANDS

- 7x leading brands

### INNOVATIVE PEOPLE

- 42,382 qualified employees
- World-class training and development programme
- 65 nationalities

### STRONG FINANCIAL SUPPORT

- Robust financial management, low leverage
- Access to funding from global capital markets



## HOW WE DO IT

### Extraordinary care for farm animals

- Dairy herds and poultry flock have 24 - hour veterinary care
- Temperature controlled housing
- Highly nutritious feed
- Ensures maximum yield and first-class end product

### Crop cultivation and selection

- Animals consume highest quality feed
- Almarai imports 100% of its yearly green fodder requirements through its oversea arable operations

### Innovation in our DNA

- Commitment to innovation is a core value
- Innovation underwrites the Almarai quality culture
- Digitalization of production and automation of business processes

## ADDING VALUE

### Business unit structure:

- Almarai transitioned from a functional structure to business unit model
- Management focus on end-to-end sales, profitability and return on net operating assets (RONOA) for each category

### Commitment to quality:

- Quality you can trust is in our DNA
- The Almarai Quality 4.0 Programme covers process, people and technology, unifying the quality architecture across the Group
- Core values (ASPIRE) are directly connected to our world-class quality management system



Our business model is structured to deliver on the promise of 'Quality you can trust'. It is tailored to our commitment to ongoing improvement and exists as a guiding force for operations across the Company. The business model enables management and staff to work in accordance with a clearly defined operating framework. It facilitates the practical application of a working culture that has efficient and effective process management at its heart.

## OUTPUT

### SHAREHOLDER VALUE

- For 40 years, consistent delivery of strong returns to shareholders
- Almarai is committed to creating shareholder value by paying dividends and realizing compelling returns for long-term investors

### PEOPLE

- Almarai is recognized among the GCC's best employers
- All staff are encouraged to participate in training and develop their careers

### SOCIETY

- Social responsibility and sustainability programmes designed to support Vision 2030
- Connecting all levels of society and the environment from helping children in need to reducing our environmental footprint

### CONSUMERS

- Delighting consumers across the Middle East with healthy and nutritious food and beverages, at affordable prices from a brand they know and trust



### Best-in-class manufacturing

- Cutting-edge technology to mass-produce nutritious products while reducing costs (Manufacturing 4.0)
- Continuous facilities expansion and renovation
- Meeting growing demand

### Exceptional transport and logistics

- Transport and Logistics division larger than any logistics company in the Middle East
- 9,069 vehicles deliver 2 billion kg of product on time and in perfect condition

### Consumer insights and powerful branding

- Earned the trust of consumers to become the trusted brand across the Middle East
- Ongoing feedback process for maintaining quality and consumer satisfaction

- All business units served by Sales, Distribution and Logistics, Procurement and other corporate functions
- Exports team to grow opportunities for sales across GCC and beyond (worldwide) corporate functions

### Almarai innovation management:

- Stage-gate innovation management process captures product ideas and managing them to final launch
- 200+ projects in pipeline meet new consumers trends and maximize operational efficiency



# A dynamic business, a dynamic future

## Dynamism

**Dynamism** at Almarai is supported by an unwavering focus on highly competitive performance, which is delivered at both operational and financial levels. For our operations, we are committed to an ongoing efficiency and optimisation programme, while in the context of our financials we work to manage down costs and improve top- and bottom-line performance.

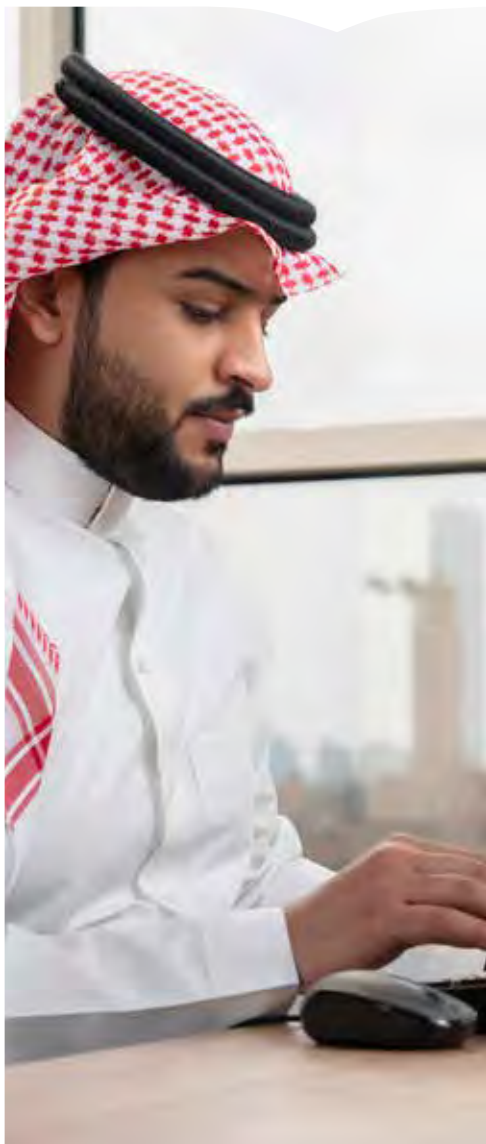


# Operating environment

The World Bank forecasts GDP growth to rise to

# 2.2%

by 2021



Almarai's operating markets continued to experience significant change, along with headwinds that have driven the need for an innovative and agile approach to doing business. Cost pressures that have built up since 2016 have remained, but the Company's business model and strategy have proved resilient and adaptable, bolstering Almarai's competitive advantage. Management continuously monitors developments in local and international markets, enabling the Company to react to challenges and exploit opportunities in real-time.

## Economic conditions in MENA<sup>1</sup>

According to International Monetary Fund (IMF) research, global economic trends continue to weigh on the MENA region, with worldwide growth forecasts revised down to 3.0% in 2019 and 3.4% in 2020. Reduced global demand could be partially offset by a relaxed monetary policy, but a concentrated slowdown for trading partners in China and Europe amplifies headwinds for the Middle East.

Short term growth forecasts for oil-exporting MENA economies are subdued, with oil prices likely to remain volatile, coupled with tepid global growth, sustained geopolitical tension and fiscal vulnerabilities. Sustainable growth and a reduced dependence on oil revenues will most likely be driven by fiscal consolidation underpinned by improving fiscal frameworks. Meanwhile, structural reform and financial sector development are expected to boost foreign direct

investment (FDI), private domestic investment, economic diversification and improve productivity.

Growth for oil-importing MENA countries is expected to be slow, with high levels of public debt and associated financing costs causing fiscal stress. Global economic headwinds mean that policymakers are required to choose between rebuilding fiscal buffers and addressing growth, but accommodative global financial conditions and current oil prices are helping to ease this trade-off. Fiscal consolidation and policies that deliver higher and more inclusive growth are expected to prove important for managing down public debt.

## Saudi Arabia's economy<sup>2</sup>

While slower economic growth is expected to be recorded in 2019, it is expected to rebound on a medium term basis as oil production cuts are eased and reversed, and structural economic reform in the Kingdom delivers results. Saudi Arabia's record 2019 budget maintained an 'expansionary' path, deepening initiatives for the mobilization of non-oil revenue and future spending restraint. Global trade disputes in the continue to weigh heavily on the regional economic outlook, but it is clear that the Kingdom's budget for 2020 is well-equipped to weather external developments and facilitate growth.

The World Bank forecasts GDP growth to rise to 2.2% by 2021, driven by both oil revenues and ongoing diversification reform,

<sup>1</sup> International Monetary Fund: Regional Economic Outlook Middle East and Central Asia (October 2019)

<sup>2</sup> World Bank: Saudi Arabia Economic Update (October 2019)

which is gathering momentum. The public finance deficit is expected to narrow during the next two years. The Kingdom's Fiscal Balance Programme has set a target of balancing its budget by 2023, which will require sustained fiscal consolidation and an improving oil price environment. Meanwhile, Saudi Arabia's current account surplus is set to widen as the trade surplus shrinks on the back of oil export receipts and improving private demand, as well as extensive Vision 2030 infrastructure imports. The Kingdom will chair the G20 summit in 2020, which will raise its global profile and is likely to further stimulate the progress of structural reforms.

### The regional Food and Beverage market

Trends in Almarai's sector are influenced by global and regional factors, as well as local fluctuations. Broader international trends are affected by changing consumption habits and shifts in consumer sales channels, while regional trends include both of these factors, in addition to demographic and socio-economic change. In evaluating the regional market, we have categorized essential as 'challenges' and 'opportunities'.

#### Challenges

##### A new standard for industry growth

- MENA's Food and Beverage industry is experiencing a shift from historical double-digit growth to low-single-digit growth
- There is pressure on consumer spending and increased product costs are impacting top - and bottom-lines across the sector

##### Slower growth for mature categories

- Traditional product categories are maturing
- In the longer term, responses to these slower growth trends are expected to include private labels, ready-to-eat products, and health and wellness options

##### Cost inflation puts pressure on pricing

- Production costs are rising as a result of higher labor costs and operating expenses including importation of fodder for livestock, higher taxes and VAT
- Pressure on pricing strategies is on the rise

##### Core product pricing will increase

- Due to rising costs and the shift to a free market environment, manufacturers will need to increase prices if they are to maintain product quality and profitability

#### Opportunities

##### Major channel shifts are occurring

- Societal and regulatory changes are leading major channel shifts
- Manufacturers and distributors will pivot towards the growing of Food Service and Modern Trade segments and away from Traditional Trade (or 'bakala') retailers
- Online delivery and e-commerce present exciting opportunities for direct sales

##### The B2B market is growing

- Business-to-business sales are gaining in importance to regional F&B manufacturers
- In particular, the rapid development of the Foodservice and Hotel and Catering Industry (HORECA) customer segment provides fresh opportunities to open up exciting new B2B sales channels

##### Understanding consumers

- Improving availability of high-quality market intelligence gives FMCG companies the opportunity to understand consumer behaviour, develop a closer connection at points-of-sale, and develop products to meet changing demands

##### White space exists

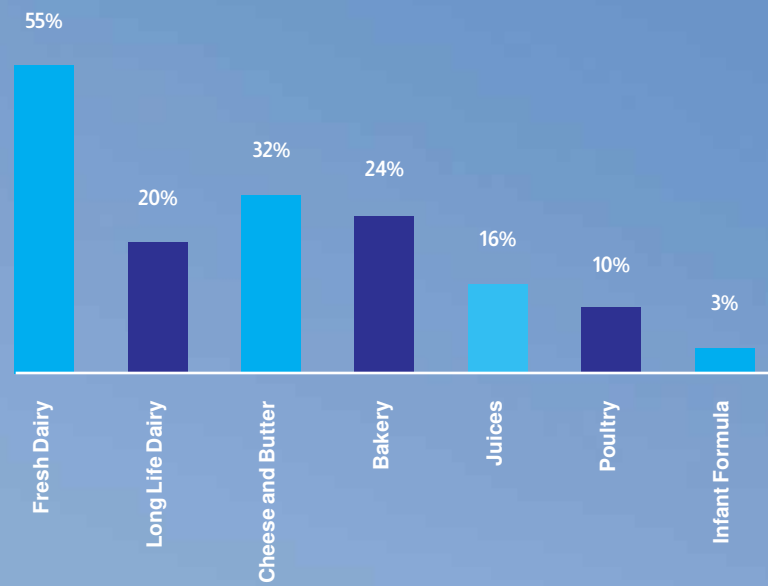
- There remains untapped potential in emerging categories and geographies, where the size of the available profit pool justifies investment in product development and regional expansion

### Leading in the GCC

By successfully navigating the regional market landscape, Almarai has sustained its healthy share of the GCC consumer's food and beverage shopping basket. Almarai maintained its position of either the market share leader or runner-up in all food categories except infant nutrition, 5% higher than any of its regional competitors. This strong market share is reflected in the following product categories:



## GCC market share by category



# Risk management and internal control framework

Almarai has defined its risk management process according to the COSO2 Framework principles, which define industry best practice. Almarai's Board of Directors and Senior Management use these principles in the course of setting the strategy and making decisions. Management then plans, organizes and directs the performance of sufficient actions to provide reasonable assurance that the Company's objectives, stated below and articulated as per the COSO Framework, can be achieved while ensuring that associated risks are kept within an acceptable risk level. The Company's internal controls and risks are grouped within the COSO Framework categories:

- **Strategy** – high-level goals, aligned with and supporting the Company's mission
- **Operations** – effective and efficient use of resources
- **Reporting** – reliability of financial reporting
- **Compliance** – compliance with applicable laws and regulations

## Internal control participants

### Senior management and oversight

Senior management is responsible for Almarai's Internal Control System, while the Audit Committee is responsible for oversight of the effectiveness of Almarai's internal controls over financial reporting. To this end, senior management relies primarily upon the finance function and various second line of defense functions disseminated throughout Almarai, assurance providers such as the quality audit team, the risk champions and the operational reporting lines (by business locations, regions, business units and/or subsidiaries).

### Corporate Finance Department

The Corporate Finance Department is responsible for the finance function within the Company, both directly through centralized functions (Financial Planning and Analysis; Financial Policy and Regulatory Compliance Consolidation; Treasury and Financing; Tax; Corporate Legal and Compliance and through functional ties with the financial controllers of the various business locations, regions, business areas and subsidiaries.

The Corporate Finance Department's additional responsibility regarding risk management and internal

control consists of a direct oversight over regulatory and compliance-related matters. The Chief Financial Officer (CFO) chairs monthly meetings of the Finance Executive Committee, which comprises of Corporate and Divisional Finance; Legal and Compliance, Business Systems Department, Investor Relations, Treasury and Risk Management, and Internal Control.

### Risk Management

Almarai's risk identification and risk management system adopts the COSO-based enterprise risk management framework geared to achieving an entity's objectives. The Risk Management function comprises a dedicated corporate team as well as one assigned risk champion in each business area. The function is overseen by the Senior Management and the Risk Committee. The process of identifying and managing Almarai's risks is described below under the subheading 'Risk identification and assessment'.

### Internal Control Department

The Internal Control Department comprises a dedicated central team, which is supported by a network of local finance managers who report to the corporate managers of the business areas, but who are ultimately answerable to the CFO. The role of these finance managers is to ensure, through close and recurrent controls, that the Company policies and procedures are properly applied within their area of the Company. The Internal Control Department's main responsibilities are as follows:

- Ensuring company-wide implementation of Almarai's internal control framework
- Defining (i) priorities related to internal control and (ii) the methodology to be used for self-assessment, its testing and documentation
- Managing and analyzing (i) the internal control indicators and (ii) the results of the assessments and action plans implemented by the community of finance managers
- Supporting and overseeing finance managers through coordination, communication and training initiatives
- Identifying gaps in current policies and procedures and recommending changes to the Group Policies

### Internal Audit Department

Almarai has a fully developed and independent Internal Audit Department reporting directly to the Chairman of the Audit Committee on all functional matters. Internal Audit Department develops a risk-based audit plan that the Audit Committee reviews and approves annually. All control gaps identified during the audits are discussed with the Senior Management and remediation plans along with expected timelines are agreed. Internal Audit Department independently follows up to ensure gaps are closed as expected. The Head of Internal Audit reports quarterly to the Audit Committee on all key matters and provides the Committee (and, through the Committee, the Board and the shareholders) overall assurance of the effective operation of internal control systems.

### Other internal control participants

Apart from the financial governance in place within Almarai, the following departments perform regular internal reviews to ensure operational effectiveness and compliance with industry benchmarks and standards (ISO 3 9001:2015, 14001:2015, 22000:2005 and 27001:2013, FSSC 22000, 45001:2018):

- Quality, Regulatory, Health, Safety and Security, Sustainability (QRHSSS)
- Manufacturing
- Farming
- Sales Distribution and Logistics
- Information Security

### Internal control and risk management process

The internal control and risk management processes consist of the following five closely related components:

- Control environment
- Risk identification and assessment
- Control activities
- Dissemination of information
- Continuous monitoring

### Control environment

The aim of the control environment is to make staff aware of the usefulness and necessity of internal control. Such awareness is the foundation of all other components of internal control. Almarai's control environment is based on the following:

- Almarai's core values, including its Code of Conduct, which are widely communicated across the Company
- Almarai's Corporate Governance Rules
- Human Resources and social policies, particularly regarding employee development and training
- Directions given by the Board of Directors and Almarai's Senior Management to achieve continuous improvements in all operating procedures
- Standardization of Almarai's operating processes and the regular use of a single integrated information system for the majority of functions
- Deployment of the Almarai operating processes and the single integrated information system across all Almarai subsidiaries and geographies
- Overlay of Almarai's internal control framework and Company-wide authority matrix, which is periodically reviewed to ensure Almarai's internal control and governance framework is up to date
- An intranet providing standardization and governance documents that allow staff within Almarai's financial and non-financial community to stay abreast of Almarai's internal control and quality best practices
- Written guidance on internal control, assessment and remediation distributed each quarter by the Internal Control Department

### Risk identification and assessment

Almarai defines risk as 'the possibility of an event occurring that will have an impact on its essential business processes and activities or the compliance, reporting or strategic objectives of the Company'. Risks are evaluated via a combination of the consequences of an event and the likelihood of its occurrence.

### Almarai's approach to risk

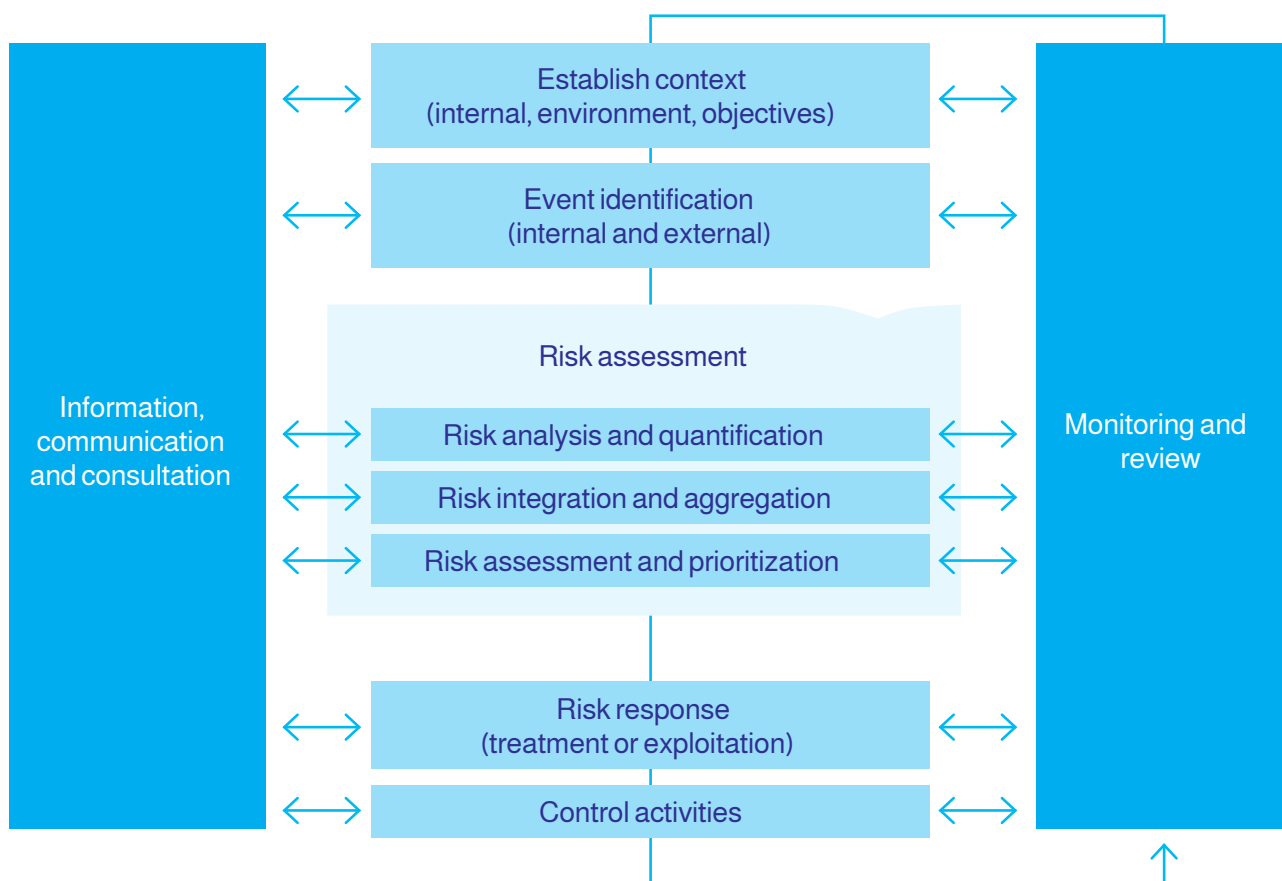
Almarai has developed a methodology to manage potential business risks. This is aligned with recognized industry standards and best practices, based on: the COSO Enterprise Risk Model – Integrated Framework; and ISO 31000:2009, Risk Management – Principles and Guidelines.

The methodology is reviewed regularly and, where necessary, adapted to ensure it evolves with the Company's business needs, thereby allowing Almarai to manage risks effectively and efficiently, supporting the achievement of short- and long term objectives.

The Almarai Risk Management framework is aligned to the COSO model components and the process defined

in ISO 3100:2009. This cyclical process is supported by Almarai's Enterprise Risk Management Function through the provision of education, training and monitoring, review and assessment through guidance to business management teams and the use of an ancillary toolset for recording, analyzing and reporting on risks.

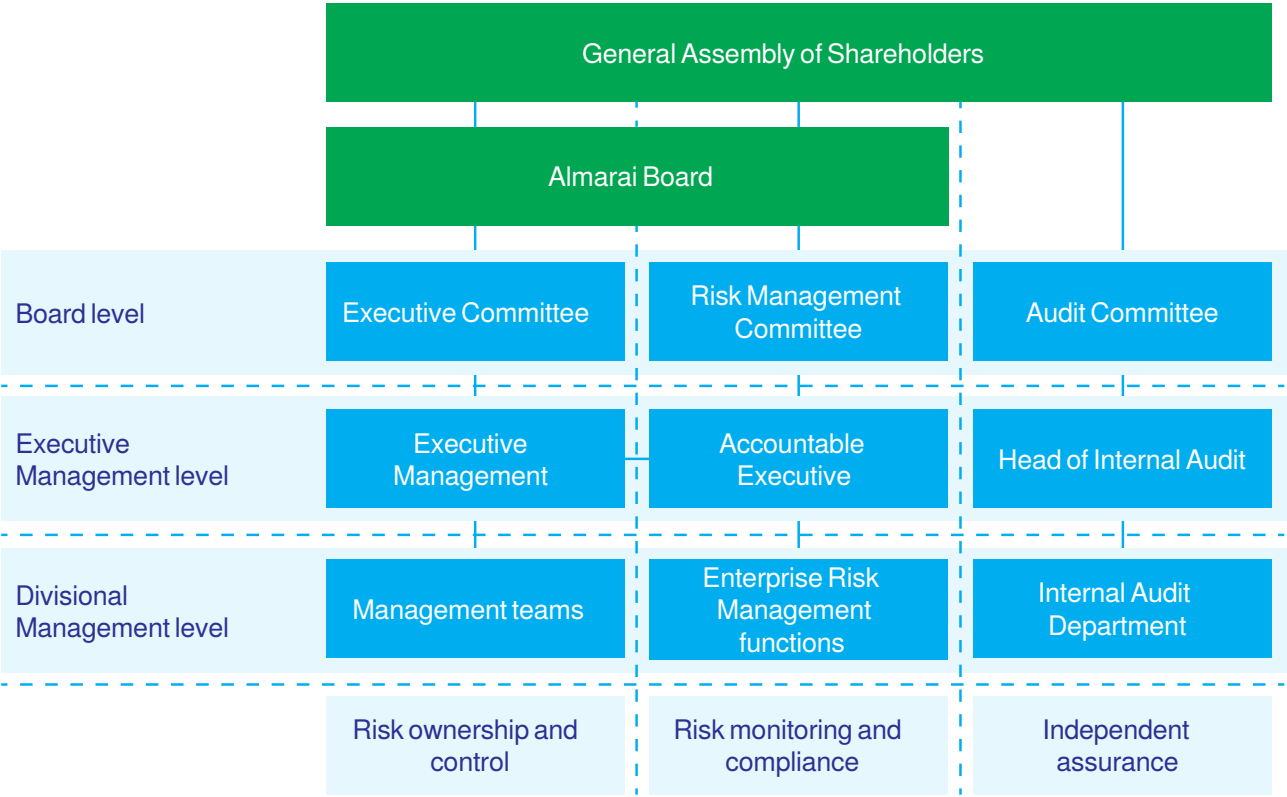
### Almarai risk management process



Managing risk

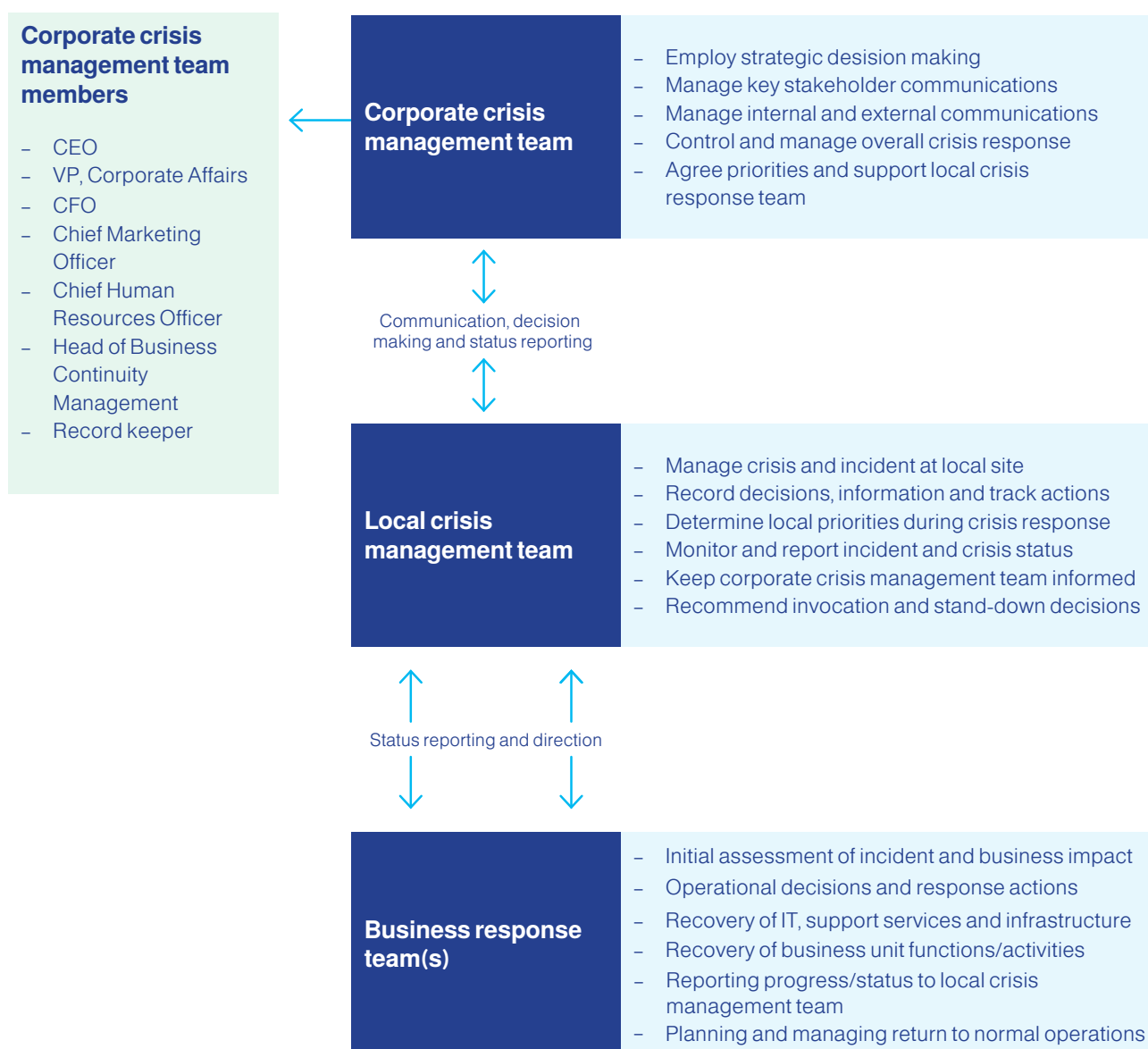
Aligned with industry-recognized and adopted best practice, Almarai operates a three-lines-of-defense model to ensure accountability across the Company for governance, management and reporting of risks and the control environment.

Almarai three-lines-of-defense model



### Almarai Crisis Management Structure (CMT)

Almarai has developed a major incident and crisis management protocol, that can be activated if an abnormal or unstable event threatens the Company's strategic objectives, reputation or ongoing viability. The approach to these types of incidents is based on industry standards and best practice. It incorporates a three-tiered response system to ensure rapid decision making and action.



### Risk monitoring

Almarai's business risk register is reviewed quarterly by the risk champions and respective Executive Vice Presidents of each business area. It is then consolidated and challenged by the Enterprise Risk Management (ERM) Department at Almarai's corporate head office. The Enterprise Risk Management Department presents the most significant risks that Almarai faces to the Company's CEO, CFO and all other Executives. A map of Almarai's major risks and risk mitigation plans is reviewed and assessed and this work serves as the basis for the presentations made to Almarai's Audit Committee and Risk Committee.

### Other elements of risk identification and analysis

Procedures such as competitive monitoring, training, risk prevention and protection, along with the initiatives of specialized departments such as the Quality, Regulatory, Health, Safety and Security Department and Information Security, all contribute to the identification, analysis and management of risks.

The Quality, Regulatory, Health, Safety and Security Department also helps to identify threats against Almarai's employees and assets. Almarai's Business Continuity function uses information in risk maps to identify potential crises and to prepare appropriate responses in all cases.

### Control activities

Control activities are intended to ensure the application of the standards, procedures and recommendations that contribute to the implementation of financial policies. All business areas use a quarterly self-assessment process and send the results to the Internal Control Department, which analyzes them and sends summaries to relevant stakeholders. Appropriate action plans are put in place by the entities under the supervision of the Internal Control Department with the aim of facilitating continuous improvement. Internal reviews are subsequently carried out to validate that corrective measures have been taken. In addition, the performances and results of each operating unit in the area of internal control are regularly and systematically monitored by the management committee of the relevant entity.

### Transmission of information

Appropriate information is identified, collected, quantified and disseminated in a manner and within a time frame that enables each person to discharge their responsibilities. To this end, Almarai relies upon:

- Its organization and information system, which facilitates the communication of information needed for decision making
- Training sessions for the network of internal controllers, including workshops and information-sharing seminars

Almarai also uses an intranet site and various documentation database systems that enable information to be shared within the Company. This information includes not only financial information but also non-financial information that meets the needs of the various operating and administrative departments. Since 2011, Almarai has used social media to help transmit information and develop communication and experience sharing.

### Continuous monitoring

The internal control system's performance is ensured by the Internal Control Department, which reviews, updates and reports regularly on the operation and effectiveness of the established control structure. In addition, corporate and business finance managers at a corporate level obtain reasonable assurance through various layers of review and monitoring.

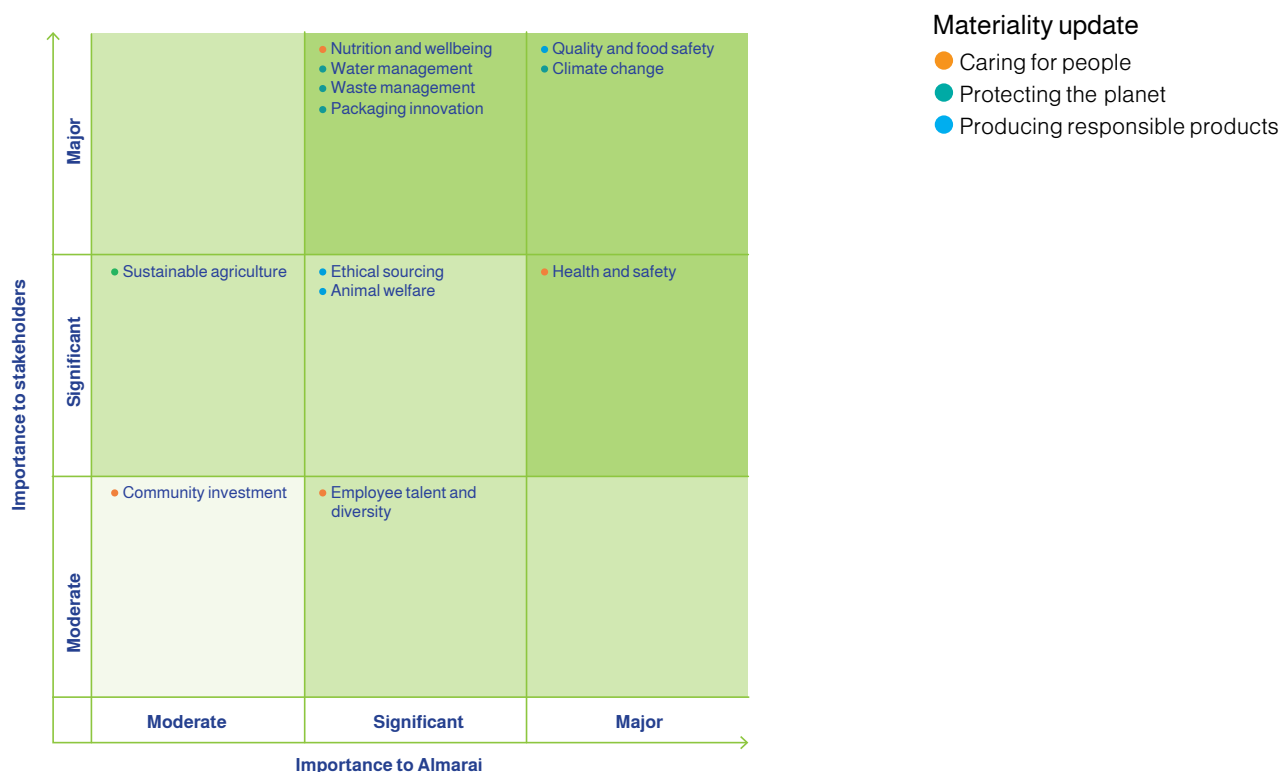
# Sustainability

Sustainability at Almarai is integral to the future success of the business. We have established a clear understanding of the Company's impact on multiple stakeholders and defined how this will influence long term performance. In 2019, we refined our sustainability strategy by developing a new five year plan to further create and sustain our values through to 2025. Our framework for sustainability has been distilled down from six key pillars to three, enabling Almarai to focus more clearly on its priorities towards caring for its people, protecting the planet and ensuring we produce responsible products for our consumers. A comprehensive overview of Almarai's five year strategic plan can be found in our 2019 Sustainability Report,

available on the corporate website, which outlines our targets and prospects for sustainable performance.

## Materiality

Almarai conducted an internal review of materiality during the course of 2019 to ensure that we prioritize our efforts on the issues that matter the most to our business. In line with the materiality assessment process prescribed by the Global Reporting Initiative (GRI) Standards, we compiled a ranking of sustainability issues. We have consolidated our list of material issues from 20 to 12, as plotted in the materiality matrix below. Further information on the materiality assessment can be found in our 2019 Sustainability Report.



## Sustainability framework

As part of Almarai's five year plan to take the Company through to 2025, our sustainability framework has grouped material issues into three key pillars. These pillars are geared toward the Company's overarching objective to be 'better every day'. This framework

has since provided the bases for our sustainability strategy for the next five years and summarizes what sustainability means for Almarai. It identifies areas that we endeavour to continually improve upon to ensure a more inclusive, resilient and successful business.

## Better every day

Almarai believes the world can be a better place if we are all committed to doing better every day. By living up to our commitments, we can make positive changes that support a better tomorrow.

## Our commitments



### Caring for people

Our promise to improve the lives of those that are integral to our business success every day.

#### Nutrition and wellbeing

We are working to make sure that our products and communications support healthy living every day.

#### Health and safety

We are working to make sure we foster a health and safety culture among our people every day.

#### Employee talent and diversity

We are working to make sure that our people are developed, valued and included every day.

#### Community investment

We are working to make sure that we are leveraging our resources to create a positive impact every day.



### Protecting the planet

Our promise to minimize our impact on our shared natural resources every day.

#### Water management

We are working to make sure we are effectively using water resources every day.

#### Packaging innovation

We are working to make sure we reduce the impact of our packaging on the environment every day.

#### Climate change

We are working to make sure we implement more sustainable solutions to reduce our emissions every day.

#### Waste management

We are working to make sure that we are moving towards zero to landfill every day.

#### Sustainable agriculture

We are working to make sure that our agricultural practices are regenerative every day.



### Producing responsible products

Our promise to deliver “Quality you can trust” and enhance supply chain sustainability every day.

#### Quality and food safety

We are working to make sure our products are safe and satisfy consumers’ needs every day.

#### Animal welfare

We are working to make sure that our animals are treated and handled humanely throughout their lifecycle every day.

#### Ethical sourcing

We are working to make sure we take a collaborative approach to elevate sustainability in our supply chain every day.

### Examples of our activity in 2019

A comprehensive overview of our activity for the year can be found in our 2019 Sustainability Report, which can be located on the company website. Below are several examples of initiatives taken throughout the year that highlight our commitment to sustainability, grouped into our three newly adopted pillars as part of our five year strategic plan.



## Caring for people

- **Supporting employee wellbeing:** Almarai organized a run for its staff in Hail in support of World Anti-Obesity Day. More than 100 staff participated, in partnership with the Ministry of Health, the Red Crescent and other public institutions. The run aimed to promote wellness in the workplace and to raise awareness around obesity control.
- **Supporting career progression:** A significant number of senior executives received first-class professional training at internationally renowned business schools, as part of Almarai's top-flight succession planning programme. Meanwhile, 23 Saudi graduates joined the Company as part of the Graduate Professional Training programmes, and 214 Saudi students graduated from Almarai's Dairy and Food Polytechnic institute.



## Protecting the planet

- **Committing to renewable energy:** Almarai completed its Al Kharj Solar Energy Project, the largest Solar PV installation in Saudi Arabia. The project will materially reduce fuel and energy consumption – mitigating the Company's environmental impact – and will offset 8,100 tons of CO<sub>2</sub> per year, equivalent to planting 8,000 trees.



## Producing responsible products

- **Promoting excellence in food safety:** In July, Almarai hosted its second Food Safety Conference in Riyadh, highlighting milestones achieved in the food safety journey and promoting the culture of 'Quality you can trust'. The conference was attended by in-house teams from across the region, as well as delegates from the Saudi Food and Drug Authority (SFDA); Ministry of Environment, Water and Agriculture (MEWA); and the GCC Standards Organization (GSO).

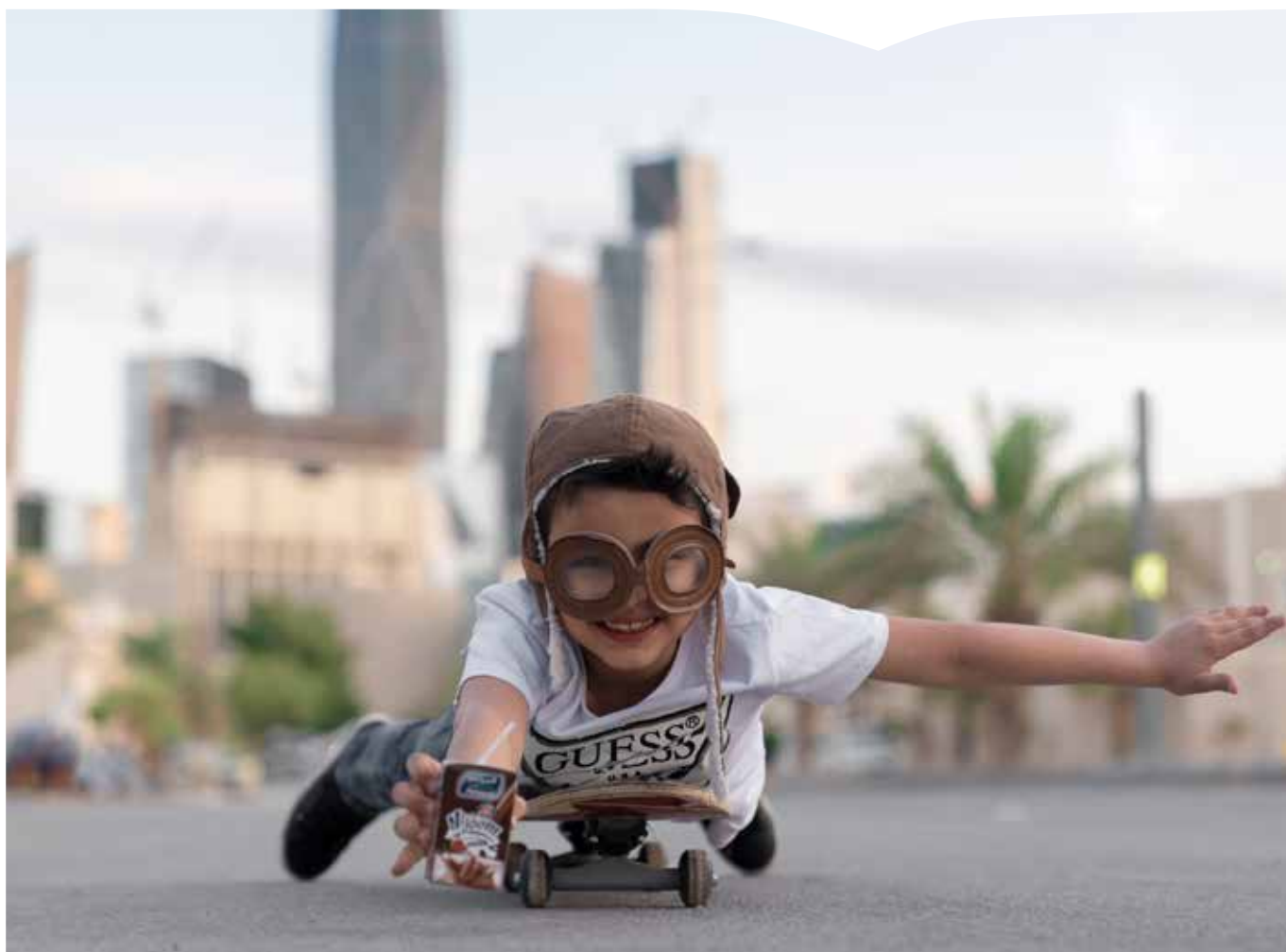
### Engaging stakeholders

We endeavour to maintain dialogue with stakeholders on a continual basis, whether consumers or investors, employees, regulators and civil organizations. In so doing, we use a range of communication channels that are most appropriate to their specific interests.

Among the most popular of our engagement programmes is the access we provide to the public at manufacturing facilities in Saudi Arabia. We take pride in offering the best-in-class technology and industry-

leading hygiene and safety standards that our plants comply with. There is no better way to showcase that pride than by opening our doors.

We invite and encourage schools, families and individuals to visit our assets to learn about our production processes, offering free bus services and refreshments to guests. In 2019, we welcomed more than 88,000 visitors, as well as over 85 investors and analysts at our Annual Investor Day.





# A dynamic business, a dynamic future

## Professional development

At the same time, we are investing heavily in **professional development**, enabling personal fulfilment for our team and preparing for succession to the most senior roles. Our people are essential to the dynamism of our business, which is why a first-class working environment coupled with industry-leading training opportunities is critical to our strategic planning.



# Our culture is collective



Our aim is to foster a positive working environment in which everyone is part of the organization's growth, where life and work within is defined by the values of the Company. We have an internal culture centered around the employee's progress and evolution. A process of continual feedback is well established, delivering constructive guidance for strengthening working culture. With an increasingly vibrant workplace, we have achieved better retention levels, with a lower turnover relative to prior years..

## WE grow together

Our consistent progress is the result of our belief in involving our quality makers and stakeholders in our evaluation process. This year, we activated our belief through running a company-wide employee survey to form an understanding of how Almarai is perceived from an employee's point of view.

## Our point of view is inclusive

The results of the survey, which were collected and evaluated by an independent third party, were positive. In light of the feedback received, we curated a more engaging and enhanced HR strategy, strengthening our Saudi employment process, empowering women in the workforce, and raising awareness with regards to our internal culture.

## WE@Almarai

We launched WE@Almarai, with a mission to bridge the communication gap in the organization and drive a deeper engagement in all dimensions.

## WE aim

We stand to empower the individual, elevate the sense of belonging, build a bridge through the hierarchy of the place, and build a deeper and more united culture.

## WE pillars

Derived from our values, we constructed a set of pillars to signify and strengthen our internal culture.

### WE Evolve:

Marks all initiatives that signify the growth and progress of the individual and the team alike within the culture of Almarai.

### WE Care:

Involves all employee-centered activations and initiatives, including promoting wellbeing and a healthy lifestyle, and team-building activities.

### WE Empower:

Involves presenting any learning activity, training for the employees, as well as charitable initiatives that help drive the people and the organization forward.

### WE Celebrate:

Signifies all celebratory events within the organization and out, such as National Day celebrations, International Days recognitions, Almarai achievements.

## WE empower our people

We believe that empowering people is the cornerstone of our organization, and so we work tirelessly to adopt the best talents, and power their growth and advancement, being the constant added value to our future evolution.

# 18%

increase in women  
hiring in 2019

# 168

No. of courses

# 3,540

No. of learners

# 579,152

No. of learning hours

# 37,231

Almarai quality makers

# 8,500+

Saudi nationals

# 4,964

newly hired in 2019

We walk progressively in line with Vision 2030 to reach the goals in constructing a Saudi workforce, empowering women and the qualified individuals from all over the world, to lead the future of Almarai, and contribute in the Saudi economy.

#### Our year in numbers.

Our quality makers, our biggest investment and most valuable gain.

#### WE are one

#### Our environment is accessible.

We are certified as a Gold member in Mowaamah's Certification programme, as we adopt the best standards and practices in creating work environments suitable and supportive for our quality makers with disabilities.

We are certified as a Gold and Founder member in Qadeeron programme, which provide services to include people with disabilities as equal effective members of the workforce.

#### Our digital culture

Our digitalization approach aims to enrich the people's experience and to support our objective to be an environment friendly culture.

#### Almarai digital platforms

- Our internal platform where our quality makers can reach all the services online
- We have WE@Almarai Mobile App where the internal services are at your fingertips
- We have several e-learning platforms, which provide more learning solutions and opportunities for skills

development, e-Learning is a way to provide quick delivery of courses and support to accommodate our quality makers' development needs. Our platforms support our objectives where our people can be trained in remote locations and in a consistent fashion, making learning more accessible for the users, e-Learning trains an increasing number of the Almarai workforce, where the learning libraries is online and users are able to access courses from anywhere and at any time



## WE unlock future possibilities

### Almarai Academy

We believe in the human potential in shaping the future of Almarai, and we are consciously responsible for taking our part in developing talents and unlocking potentials. Almarai Academy is designed to discover and develop leadership skills at all levels of the Company, identifying the leaders of tomorrow, while building the skills of the leaders of today.

The programme starts from junior leadership schemes, such as the Foundation of Personal Leadership scheme, through more advanced, up to Senior Leadership Programmes developed and delivered in collaboration with international business schools. The senior-level courses, in particular, have a critical role in succession planning for roles at the very top of the Company.

### Our coaching culture

We have established an active culture of coaching and training in which all our human assets are involved in creating a stream of educational progress; we take responsibility for ensuring the quality makers across divisions are briefed, trained and operating in accordance with their designated roles.

### On-the-job training (OJT)

OJT training exists across the Company, from transport to warehouse operations. In addition, training is provided to Dairy and Food Polytechnic (DFP) candidates, who rotate through different roles on a six month basis. In general, rotation opportunities across the business have proved their value, widening an employee's opportunity and encouraging knowledge transfer between colleagues and teams.

## Our future is powered

### Almarai Future Leaders

Almarai Future Leaders Programme has been in place since 2016, supporting the long term leadership pipeline. The Programme begins with a rigorous recruitment process that uses a qualitative and quantitative approach to identify high-caliber Saudi graduates. The two year development programme focuses on expanding their knowledge and enhancing their skills to better understand the complexity of the Food and Beverage

industry. The success of the Programme rests on its ability to enable Saudi Future Leaders to think big on macro and strategic issues – particularly in relation to the Vision 2030 agenda – while at the same time focusing on micro issues relevant to Almarai's vision and strategy.

### Almarai Co-Op and Almarai Club

Almarai Co-Op and Almarai Club are recently launched initiatives to provide educational schemes to Saudi students, and in so doing highlight the career opportunities that exist at Almarai. The Co-Op admits students to a six month professional learning course with Almarai, while the Club provides non-financial sponsorship to up to 1,000 undergraduates. Recruits to Almarai Club have the opportunity to apply for roles at the Company ahead of graduation, while at the same time being inducted to the business and using its operations for their academic case studies. Both male and female students are already participating in the Co-Op and Club programmes, demonstrating the considerable promise that exists among future graduate intakes.

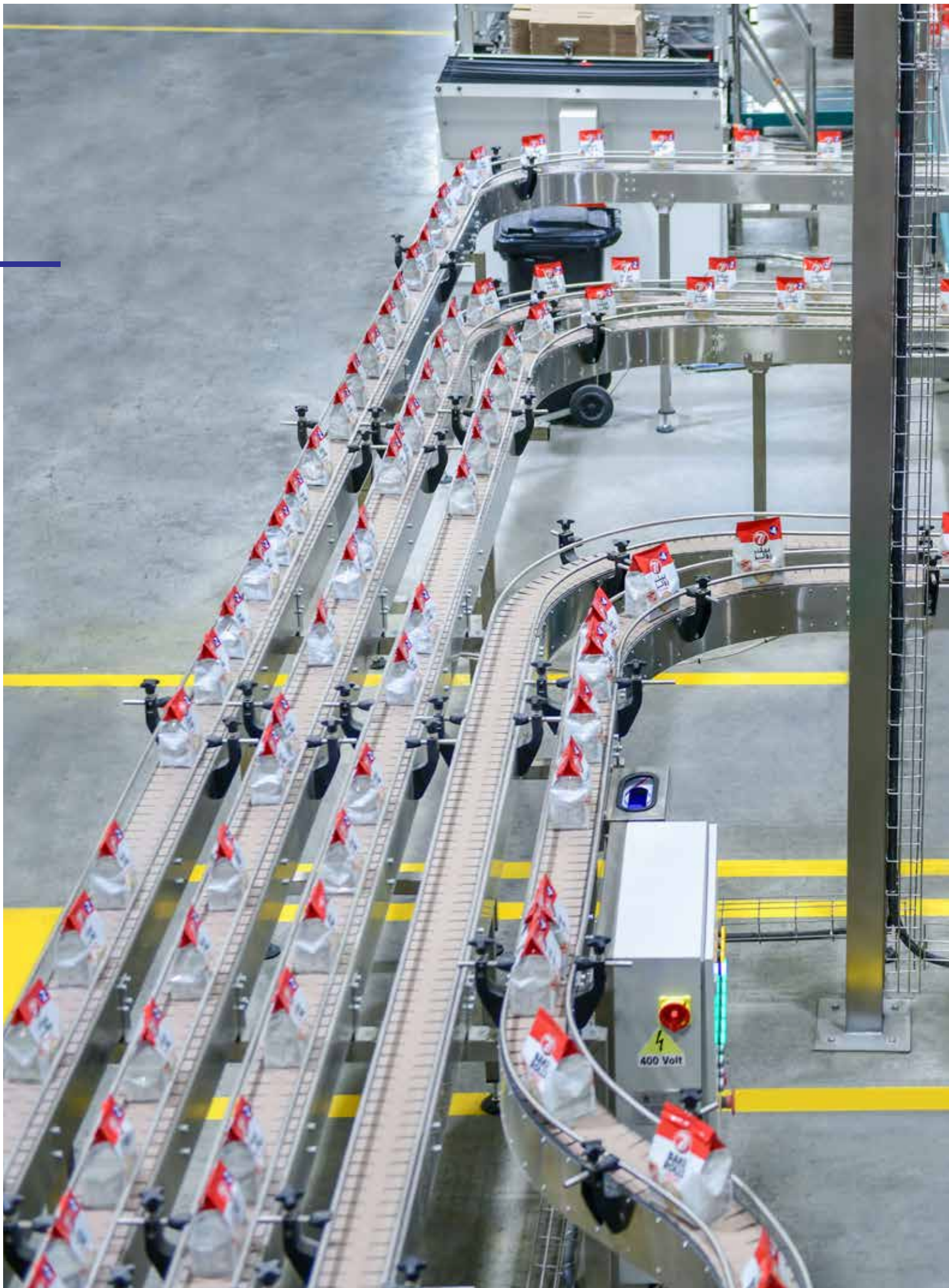
### WE rewards

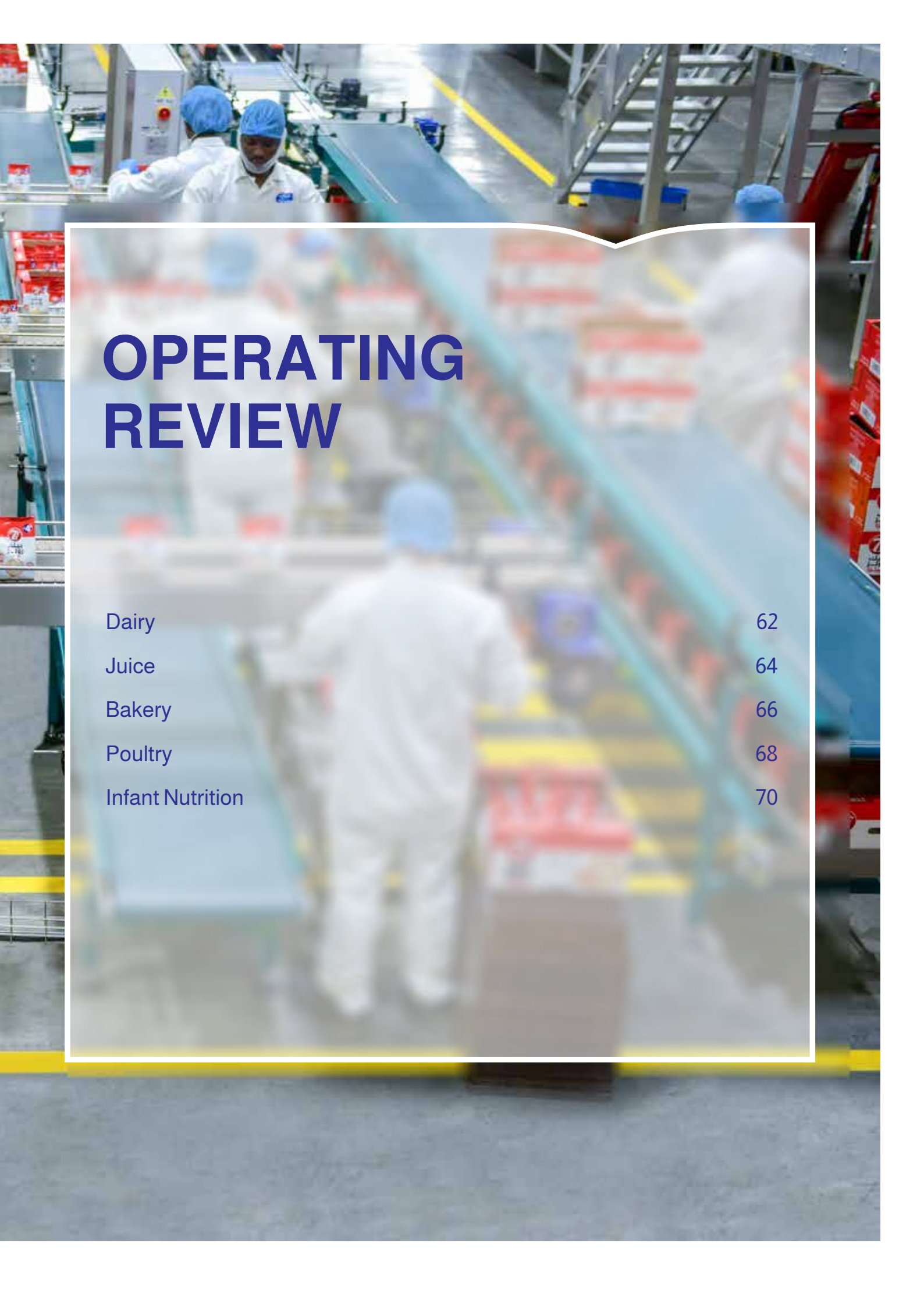
We have a compensation philosophy which allows us to harbor new talent and motivate our existing caliber to further achieve exceptional business results.

We have implemented a Performance Management Process to promote a healthy competitive environment among our team, achieving a more powerful sense of recognition – while at the same time helping the Company to effectively deliver its objectives.

In addition, the Almarai Long Term Incentives (LTI) scheme is a nomination-based annually launched share programme, designed to reward high-achieving employees. The LTI is run over three year periods, after which nominated employees receive possible incentive payouts after the allocation year.







# OPERATING REVIEW

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| Dairy            | 62 |
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# A dynamic business, a dynamic future

## Innovation

**Innovation** is vital for ensuring dynamism. Through the adoption of new technologies including Artificial Intelligence (AI), robotic processes, improved digital architecture and channels, and the launch of new products, we are venturing into new avenues for optimization and growth.





Our Dairy products have been at the heart of Almarai's category range since the Company's foundation in 1977. The business segment offers Fresh Dairy, Long Life Dairy and Dairy Foods.

# No.1

in GCC fresh dairy value share

## Performance

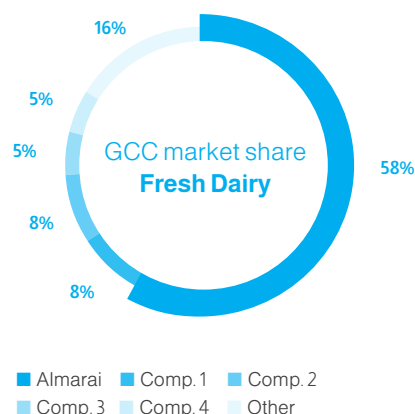
At year-end, the cornerstone Fresh Dairy category represented 37.0% of total revenue, with Almarai maintaining its leadership of the wider GCC Dairy market at 55.0% market share. The challenge of a milk surplus across the industry prompted discounting by some players, while rising labor costs and animal feed import expenses put pressure on the segment.

An underlying commitment to quality saw Almarai recover well from the impact of a Fresh Dairy price increase in 2018, despite a variance to competitors, with market share quickly regenerating. Potted products including Labneh,

Gishta, Zabadi and other yoghurts performed particularly well, with focus areas for improved performance including long life products such as UHT, Evaporated Milk and Powdered Milk – where margins improved strongly.

The Dairy Foods segment maintained a healthy growth curve and was mostly unaffected by industry headwinds. Almarai was successful in growing market share in the UAE and other GCC countries, and most sub-categories increased share with room to occupy more. Margins for Dairy Foods remained healthy, driving improved performance for the category. Strategic sourcing and careful ingredient pricing management remain important for safeguarding profitability.

Sales growth in non-traditional channels including Foodservice and Wholesale accelerated rapidly, with both showing exceptional potential for tapping a host of opportunities in 2020.



## New products in 2019

- Set Mango Yoghurt 150g
- Greek Yoghurt Blueberry 150g
- Date Milk 250ml
- Full-Fat Milk 2.2l
- Low-Fat Milk 2.2l
- Expanded food service portfolio
- Face lifted butter packaging





# Juice

Almarai's juices are distributed throughout the Middle East, with a wide range that includes juices, nectars and not-from-concentrates, as well as products for children. The Juice portfolio also includes products marketed by IDJ in Egypt and Jordan, with Almarai offering a total of more than 18 flavors.

## SAR 1,410 million

total juice revenue in 2019

### Performance

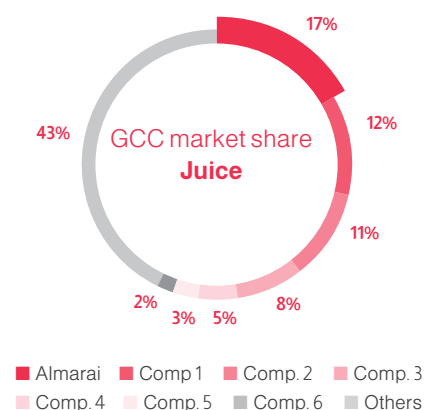
In 2019, Juice accounted for 9.8% of Almarai's total revenue. The marketplace remained fragmented, with limited consolidation.

The wider juice market remains under considerable pressure, with all players straining to maintain relevance and share of the consumer shopping basket as purchasing slows. There has been a considerable regulatory impact in the GCC, particularly in relation to taxation on sugar content that is influencing pricing strategy as consumers seek more affordable options.

Almarai's strategy for its Juice category is to diversify the product portfolio and improve penetration in new sub-categories, particularly long life juice and not-from-concentrate options, which are covered by the Super Juice product range. Premium long life products performed above expectations in 2019, while cartons will be a focus area for improved performance in 2020. Another high priority will be revamping our products with no added sugar, both to meet new regulations and for the nutritional benefit of consumers.

Meanwhile, Almarai is exploring options for entering the wider beverage market, which is expected to support the long term growth of the category in future years.

In the GCC, Almarai's market share held up well. In Saudi Arabia, we maintained a 17.0% share of the total juice segment and 44.0% of the fresh juice segment. Total Juice revenue for 2019 was SAR 1,410 million, as compared with SAR 1,517 million in 2018.



### New products in 2019

- Super Pomegranate 250ml
- Super Grapes-Berries 250ml
- Super Pineapple 1l
- Super Pineapple 250ml
- Revamped total fresh juice portfolio to no added sugar and 100%
- Revamped total cartons to no added sugar and 100% under Almarai brand





# Bakery

Almarai's L'usine brand, along with 7Days (a JV with Chipita and Olayan Group), offer a range of sweet and savoury baked goods to consumers throughout GCC markets. The Bakery category is characterized by innovation and diversification.

More than  
**1,000**  
quality tests were  
performed daily in 2019

## Performance

Almarai's bakery business remains the Saudi leader, with three state-of-the-art bakery facilities that ensure use of the highest quality raw materials, sourced locally and globally. Every product passes an intensive series of validations and quality checks before market launch. This year, more than 1,000 quality tests were performed daily.

In 2019, Bakery accounted for 12.2% of Almarai's total revenue. Market share improved across key categories, with Almarai brands holding a 24.0% share of the total bakery segment in GCC. The brand health of both L'usine and 7Days was supported by significant differentiation from competitors, which was either maintained or increased.

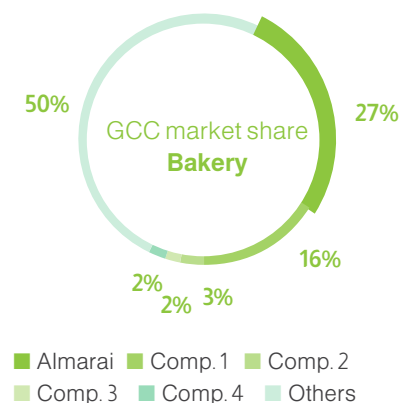
## New products in 2019

- Potato Burger Buns 6x67g
- Enrobed Swiss Roll Coconut 10x38g
- Red Velvet Muffin 60g
- Zaatar Cream Cheese Sandwich 105g
- Bran Cream Cheese Sandwich 112g

Priorities for the Bakery business in 2019 were to sustain a healthy level of market leadership, excite consumers through product innovation, and grow presence in the burgeoning Foodservice segment.

The innovation team launched a number of SKUs from cream cheese sandwiches to red velvet muffins and new varieties of swiss roll, all of which contributed to sales volume while directly benefiting consumers by offering a wider set of choices. Meanwhile, the presence of Bakery products in the Foodservice channel experienced strong growth, resulting in sales volumes through the channel improving significantly.

Total Bakery sales for 2019 were SAR 1,749 million, as compared with SAR 1,641 million in 2018.







# Poultry

The fresh Poultry range, under the Alyoum brand, comprises fresh whole chickens and portion packs, as well as a fresh value-added range of marinated chicken and chicken parts, and minced chicken. Meanwhile, the Albashayer-value branded range caters to consumers seeking a lower price-point, while maintaining Almarai's exceptionally high quality standards.

**Retail-channel sales outperformed market growth by more than**

## 7.0%

### Performance

In 2019, the Poultry business accounted for 14.8% of Almarai's total revenue. The Alyoum brand maintained its leadership position in the Saudi market, with 22.0% of value share. Total Poultry revenues increased by 18.0% to reach SAR 2,125 million, and total output for the year was 189 million birds, increasing by 20.0%. Approximately 51.0% of the total poultry sales were to fresh retail channels. A significant win for the

business was to grow retail sales by 13.0%, outperforming the market growth rate by at least 7.0%.

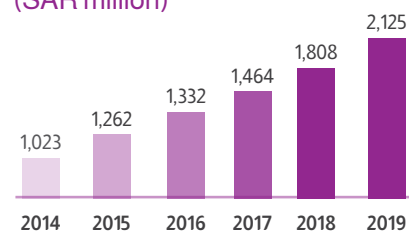
After a landmark year in 2018, the Poultry business achieved strong overall volume growth along with robust EBIT growth. A key highlight was Almarai's ability to drive volumes through boneless and mixed parts products, having diversified beyond whole bird sales. Improvements in quality and consistency were delivered, in terms of both shelf-life and product presentation.

In manufacturing, key achievements were associated with increasing

capacity through facilities, thereby improving output volumes while establishing efficiencies to keep costs down. Meanwhile, the health of the poultry flock continues to improve, boosting efficiency and supporting better food conversion.

Looking ahead to 2020, the Poultry business will focus on improving core competencies, maintaining retail growth, innovating new products and tailoring products to the Foodservice channel. There will also be a pivot towards the health and nutrition space, primarily through the Alyoum brand.

**Poultry revenues (SAR million)**



### New products in 2019

- Oven Ready Chicken – Arabian Herbs and Spice
- Oven Ready Chicken – Mandi







# Infant Nutrition

Almarai's Infant Nutrition business – IPNC – manufactures the Nuralac and Nurababy range of products which are distributed across the Saudi market and co-manufactured for other brands that are distributed in different countries in Asia and Africa. Our state-of-the-art production facility in Al Kharj, Saudi Arabia, is among the most advanced in the world and has a capacity of 20,000 tons of powder and 25 million litres of liquids.

## IPNC share remains

# 3.0%

at total infant  
nutrition market

## Performance

IPNC operates in a highly competitive market with a large number of competitors. Despite the increasing cost of doing business, the company, until 2018, has been successful in improving top-line performance. Its commitment to parents is that 'your journey is our journey', and it is this principle that guides the development of its products.

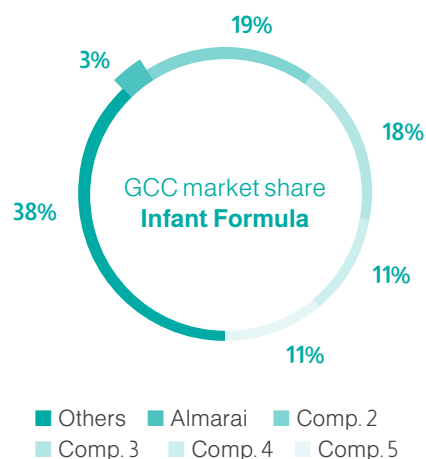
In 2019, the Infant Nutrition business encountered major challenges where

the breastfeeding code extended to Stage 3 products. The Infant Nutrition market has since declined by 8.0%. Despite these challenges, Nuralac managed to maintain its market share at 3.0%, which was a solid result in the light of headwinds including the removal of a subsidy for Stage 3 products and an extended government breastfeeding code, which restricted advertising and promotions.

For the product portfolio, 2019 was a year for consolidation, having built up a diverse and comprehensive range of SKUs in the last two years. Two new products were launched, while a Nuralac distribution agreement was

completed with Chemical Company for Commercial Investment (CCCI) to widen distribution within the pharma industry. This will help IPNC in achieving its goal of continuously improving top line growth and efficiency.

IPNC was awarded the tender by (NUPCO) National Unified Procurement Company for supplying innovative Infant Nutrition Products to government hospitals. Almarai remains committed to improving local products across different categories for the distribution and supply of high quality Infant Nutrition to government hospitals across Saudi Arabia.







# GOVERNANCE

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# Board of Directors

HH Prince Sultan bin Mohammed  
bin Saud Al Kabeer, Chairman



*from left to right*

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

Mr. Suliman bin Abdulkader Al Muhaideb,  
Vice Chairman



*from left to right*

Mr. Bader bin Abdullah Al Issa,  
Director

Engr. Anees bin Ahmed Moumina,  
Director



*from left to right*

Mr. Ammar bin Abdulwahid Alkhodairi,  
Director

Mr. Saad bin Abdulmohsen Al Fadly,  
Director



*from left to right*

Mr. Sultan bin Abdulmalek Al Alsheikh,  
Director

Mr. Peter Amon,  
Director



**HH Prince Sultan bin Mohammed bin Saud Al Kabeer, Chairman**

His Highness is the founder of Almarai Company, established in 1977 in the dairy industry. His Highness has investments in Yamama Cement Company, established in 1961, and Arabian Shield Insurance Company.

He is one of the founders of the Saudi Yemeni Cement Company (Yemen), Faraby Al Khaleej Petrochemical Co., Mobile Telecommunication Company Saudi Arabia (Zain KSA), Joussour Holding Company (part of Swicorp), Arab Company for Agricultural Services (ARASCO), Al Salam Bank (Bahrain), Arcapita Bank (Bahrain), Dana Gas (UAE), IBC Co. (Lebanon), Kuwaiti Chinese Holding Co. (Kuwait), Kuwaiti Sudanese Holding Co. (Kuwait), Kuwaiti Jordanian Holding Co. (Kuwait), and the First Education Co. (Kuwait).

In addition to his role at Almarai, His Highness is the Managing Director of Al Yamama Cement Co., and Owner of Nofa Al Jazeera Company. His Highness is a Member of the Graduates Association in the Capital Model Institute, and Al Ber Charity Society. He is Honorary Chairman of the Saudi Heart Association and the Saudi Hypertension Association.

Prince Sultan bin Mohammed bin Saud Al Kabeer holds a Bachelor's degree in Economics and Political Science from King Saud University, Kingdom of Saudi Arabia

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

His Highness is the Chairman of Mobile Telecommunication Company Saudi Arabia (Zain KSA), the Arabian Shield Cooperative Insurance Co, and the Arab Union for Cement and Building Materials Co.

He currently sits on the board of multiple companies throughout the Kingdom including Al Yamama Cement Co., Faraby Al Khaleej Petrochemical Co., Kuwaiti Chinese Holding Co., Tarabot for Investment and Development Co., Zohoor Alreef and Tejoury. In addition, His Highness is the General Manager of Nofa Aljazeera Company. His Highness is a Business Administration graduate of King Saud University, Saudi Arabia.

**Mr. Suliman bin Abdulkader Al Muhaideb, Vice Chairman**

Mr. Al Muhaidib is the Chairman of Al Al Muhaidib Group and a number of companies that include Savola Group, and RAFAL Real Estate Co. In addition, Mr. Al Muhaideb sits on the Board of Directors of Saudi British Bank, National Industrialization Company, Prince Salman Center for Disability Research, Prince Fahad bin Salman Charity Association for Renal Failure Patients Care and the Centennial Fund.

**Mr. Bader bin Abdullah Al Issa, Director**

Mr. Al Issa is the Chief Executive Officer (CEO) of Assila Investments, and a Member of the Board of Directors at the Savola Group, Banque Saudi Fransi and Dur Hospitality. He holds an MBA from Rice University and a BA from University of Virginia in the United States and is a Chartered Financial Analyst.

**Engr. Anees bin Ahmed Moumina, Director**

Eng. Moumina became the Group Chief Executive Officer of Savola in April 2018 after 25 plus years of experience in the private sector and financial services. Prior to joining Savola, he was the CEO of SEDCO Holding Group. Prior to this he worked with Samba Financial Group (Samba) and Procter and Gamble Co. He is serving on numerous boards which include: Knowledge Economic City Company, the National Commercial Bank (NCB), Herfy Foods Co., Panda Retail Co., Savola Foods Co. and Kinan International for Real Estate Development Co. He holds a Master of Science in Engineering Administration with honors and a Bachelor of Science in Civil Engineering with Honors, both from the George Washington University, the United States of America. He also attended a number of extended executive development programmes with Harvard, Columbia, and Wharton.

**Mr. Ammar bin Abdulwahid Alkhodairi, Director\*\***

Mr. Alkhodairi holds a Master of Engineering Business Administration from George Washington University. He is the Chairman of SAMBA Bank and a member of the Board of Directors of the Saudi Pharmaceutical Industries Company. He is also a member of the Executive Board of Amwal Al Khaleej Commercial Investment Company.

#### Mr. Saad bin Abdulmohsen Al Fadly, Director \*\*

Mr. Al Fadly is currently the Chief Executive Officer of Hasana Investment Company, Chairman of National Medical Care Company - Non-Executive, Board Member of Saudi British Bank - Non-Executive, and Board Member of Almarai Company - Independent. Mr. Al Fadly has more than 20 years of experience in the field of investment banking and banking, where he held various positions in NCB Capital, Saudi Morgan Stanley and SAMA. He holds a Master's degree in Financial Economics from Boston University in the USA and a Bachelor's degree in Accounting Science from King Saud University.

#### Mr. Sultan bin Abdulmalek Al Alsheikh, Director \*\*

Mr. Al Sheikh holds a Master of Science degree in Finance, currently he is a Senior Vice President, Local Holding Investment Division at the Public Investment Fund of Saudi Arabia (PIF). He is also a Board Member of the following: Gulf International Bank B.S.C, Gulf International Bank Saudi Arabia, Saudi Company for Exchanging Digital Information ("Tabadul"), The Helicopters Company, Saudi Fisheries Company and Tahakom Investment Company. In addition, a member of the Executive Committee of Saudi Telecom Company ("STC").

#### Peter Amon, Director \*\*

Mr. Amon is an international senior FMCG Executive with over 27 years of experience working for leading consumer goods companies like Unilever, Kraft and Nestlé and for a global professional service company, Aramark. He has a proven track record in building winning brands and services globally, successful innovation management and internationalization of businesses. In his previous position he was the Head of Global Food for Nestlé Professional. He is currently a Supervisory Board Member and Executive Director of More-Than-Meals (MTM), Luxembourg. Mr. Peter Amon holds a MBA degree from the University of Würzburg, Germany.

#### Mr. Abdulrahman bin Abdulaziz Al Muhanna, Director\*

Mr. Al Muhanna is a Board Member of Arcapita Bank (Bahrain), Arab Company for Agricultural Services (ARASCO) and the Al Jazirah Corporation for Press, Printing and Publishing. He is also a member of the National Committee for Biodiversity. He was appointed and served as Almarai Managing Director from 1997 until June 2015. Mr. Al Muhanna is an Agricultural Economics graduate of King Saud University, Saudi Arabia.

#### Dr. Ibrahim bin Hassan Al Madhoun, Director\*

In addition to his role on the Board of Directors at Almarai, Dr. Al Madhoun is a Member of the Board of Directors of the Red Sea Housing Services Co., and Fitaihi Company. He holds a PhD in Civil Engineering from the University of Arizona, the United States of America.

#### Engr. Mosa bin Omran Al Omran, Director\*

Engr. Al Omran is a Board Member of Banque Saudi Fransi and is an active member of the Young Manager's Association. He holds a Bachelor's degree in Industrial Engineering from King Saud University, Saudi Arabia, a Master's degree in Business Administration from St. Edward University, the United States of America, and a Diploma in Science and Technical Bread from Pittsburgh Institute, the United States of America.

#### Dr. Abdulrahman bin Suliman Al Turaigi, Director\*

Dr. Al Turaigi is the Chairman of the Board of Directors of Gulf Industrial Development Co. He has extensive professional experience across a range of activities and Board Memberships in both government and private sectors. Dr. Al Turaigi holds a PhD degree in Engineering Management from the University of Missouri, the United States of America.

\* Membership ended on 6 August 2019  
\*\* Membership started on 7 August 2019

# Executive Management

## Majed Nofal, Chief Executive Officer \*

Majed Nofal joined Almarai in 2010 and was appointed as CEO in January 2020. Prior to this Majed held a number of positions within Almarai Group including Deputy CEO, VP New Businesses, Head of Central Procurement, CEO and CFO of Western Bakeries Co. Prior to joining Almarai, Majed held posts within Audit and Assurance services at Ernst & Young. He holds a Bachelor of Arts in Business Administration from King Saud University (KSA).

## Abdullah Al Bader, Executive Vice President – Bakery

Abdullah Albader is the Executive Vice President for Bakery in Almarai leading L'usine and 7DAYS. Prior to being appointed to this position, he held several roles across the company and has been involved in a wide range of business sectors. Abdullah has been involved with the manufacturing, distribution, sales, marketing and corporate teams during his tenure at Almarai. He holds a Master's degree in Business from Leicester University, UK.

## Andrew Mackie, Executive Vice President – Farming

Andrew Mackie is the Executive Vice President for Farming in Almarai through which he is responsible for the global farming operations for Dairy, Poultry and Arable Farming. Andrew joined Almarai in 1977, after which he held several positions in the farming sector of the business. He was the General Manager of Farming from 1998 after serving as the Regional Manager of Farming. Andrew holds a qualification from the West of Scotland Agricultural College, UK.

## Faisal Alfahadi, Vice President – Corporate Affairs

Faisal Alfahadi is the Vice President of Corporate Affairs for Almarai where he leads on all corporate and government affairs throughout the organization and its investment portfolio. During his tenure at Almarai he has held several senior positions, including General Manager Human Resources and Support Services and General Manager of Juice Business. Faisal was awarded a Master's degree in Marketing from the University of Salford, UK.

## Fawaz Aljasser, Chief Human Resources Officer

Fawaz Aljasser is the Chief Human Resources Officer for Almarai and is responsible for the general management and running of Almarai's Human Resources and Support Services unit. He has held several positions throughout his time at Almarai including, Director of the Dairy and Food Polytechnic, and has also served as the General Manager

of Teeba, a joint venture of Almarai's based in Jordan.

Fawaz was awarded a Bachelor of Arts in English Literature from the Imam Mohammed bin Saud University, KSA, and holds a postgraduate diploma from Leicester University, UK.

## Hussam Abdulqader, Chief Marketing Officer

Hussam Abdulqader is Almarai's Chief Marketing Officer. His responsibility spans over Branding, Product and Packaging Development and Innovation, Marketing Services, Corporate and Marketing Communications and Public Relations. Since joining Almarai in 2003, he held several positions across a range of the company's divisions, including Marketing Services Manager, Marketing Manager, General Manager of Marketing, CEO of MFI, a joint venture of Almarai and Chipita, CEO of Teeba, the Jordan operation of the JV of Almarai and PepsiCo. Prior to joining Almarai, Hussam worked for Nielsen as Head of Retail Measurement Services for the Gulf Cooperation Council (GCC). He holds a Bachelor of Arts in Business Administration from Amman Private University, Jordan.

## Niall Mackay, Executive Vice President – Sales, Distribution and Logistics

Niall Mackay is the Executive Vice President of Sales, Distribution and Logistics for Almarai, a role in which he is responsible for the overall Almarai distribution supply chain and logistics alongside sales and product merchandizing. Prior to joining Almarai he held senior operational positions at Pedigree Pet Foods (a part of Mars Inc.), Coca-Cola Enterprises, British Bakeries (part of Rank and Hovis McDougal) and Royal Mail, UK. Niall was awarded a Master's degree in Chemical Engineering from Imperial College, UK, and holds an MBA from Henley Management College, UK.

## Omar Salim, Executive Vice President – Dairy and Juice

Omar Salim is the Executive Vice President for Dairy and Juice, a role in which he is responsible for all Dairy and Juice business units in the company. Prior to joining Almarai, he worked for Mars Inc. as Director of Marketing for the Africa, India and Middle East regions and he also worked at Proctor and Gamble across many regions in its research and development team. When he first joined Almarai he was appointed to the position of General Marketing Manager. Omar holds a Master's degree in

\* Appointed on 1 January 2020

Industrial Engineering from the University of Oklahoma, the United States of America.

#### **Sjur Fitje, Chief Technology Officer**

Sjur Fitje is the Chief Technology Officer for Almarai and has been with the Company since 2015. Sjur is responsible for the general management of six Dairy and Bakery manufacturing sites across the KSA as well as Group Technology. Prior to joining Almarai, Sjur held several senior posts including Vice President of Corporate Supply Chain Development at Arla Foods Group and Senior Vice President of Supply Chain at Arla Foods Group. Sjur was awarded a Master's of Science degree in Dairy Technology from the Norwegian University of Life Sciences combined with a Master's of Management Programme in Logistics.

#### **Paul-Louis Gay, Chief Financial Officer / Risk Committee Secretary**

Paul Gay was appointed as Almarai's CFO in September 2011. Prior to joining Almarai he was the CFO of Firmenich, the global leading Fragrances and Flavors house. Before that, he held senior finance and management positions at Givaudan, the Roche Group, Computerland Europe, ICL, National Semiconductor and IBM in China, Japan, USA and Europe. Paul holds an executive MBA from ESCP Europe (1980), a French Public Accountant Certificate, with Tax specialization (1982), the INSEAD Corporate Finance Diploma (2003) and a Diploma in Company Direction (2016).

#### **Paul Partelides, Chief Strategy and Planning Officer**

Paul Partelides is the Chief Strategy and Planning Officer for Almarai, leading the company's Strategic business unit with responsibility for Strategy and Mergers and Acquisitions (M&A) for existing and new businesses and markets. Prior to joining Almarai, Paul was Director of Global Strategy and Development at INVISTA and was responsible for growing the international scope of the business both organically and via M&A. Paul holds an MBA from INSEAD and a Bachelor of Science in Economics. He started his career at KPMG, where he qualified as a Chartered Accountant.

#### **Richard Salisbury, Vice President – Quality, Regulatory, Health, Safety, Security, and Sustainability**

Richard Salisbury is the Vice President for Quality, Regulatory, Health, Safety, Security and Sustainability. In this role it is his duty to protect and develop the Almarai brand and business by leading and safeguarding Almarai's

principles for Sustainable Excellence by implementing business strategies in line with the company's overall strategy. Prior to joining Almarai, Richard worked at Britvic Soft Drinks, where he held various positions in Product Development, Packaging Development and Project Management. He holds a Food Science and Technology qualification awarded by Seale-Hayne Agricultural College, UK.

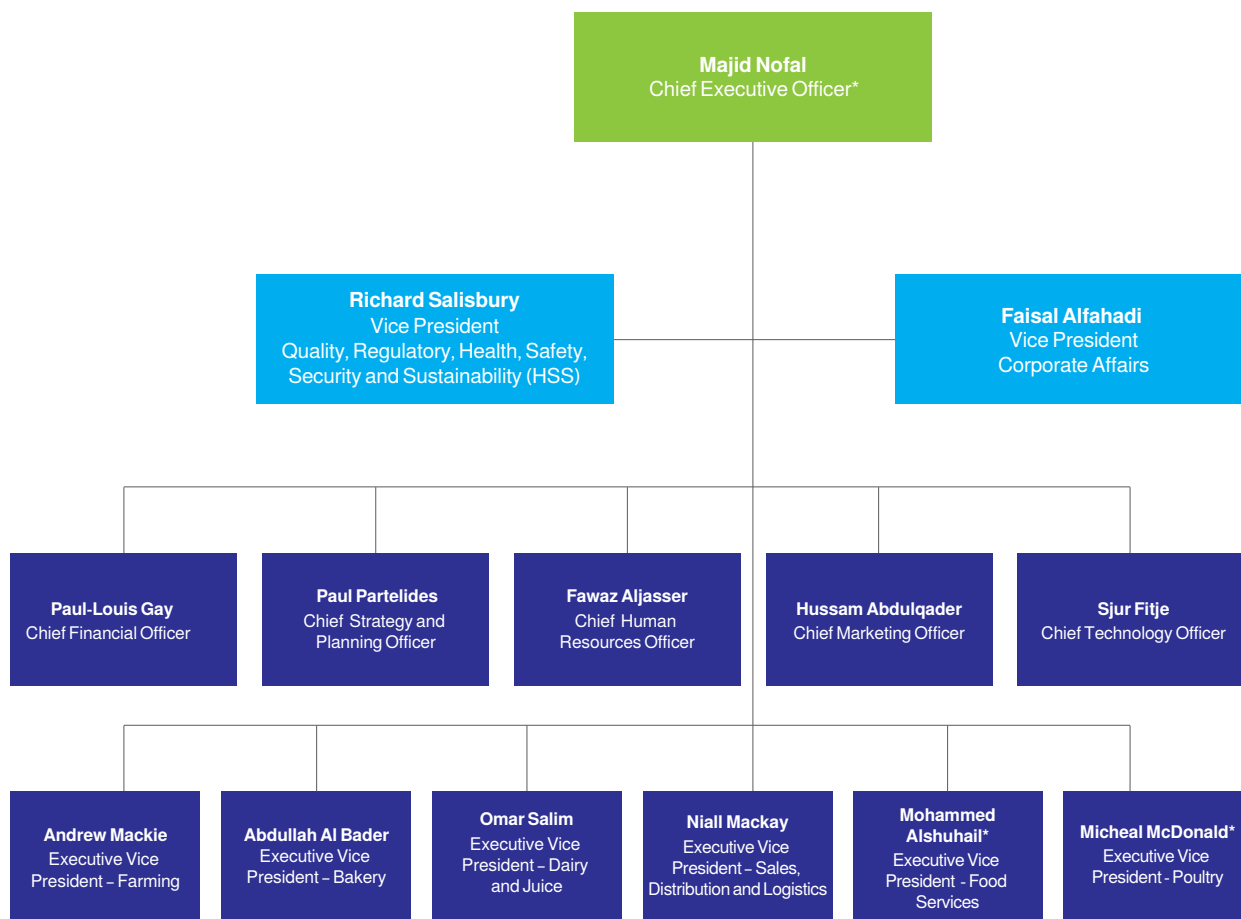
#### **Michael McDonald, Executive Vice President of Poultry**

Michael McDonald was appointed Executive Vice President of Poultry in January 2020, prior to which he held the role of Head of Business Unit Poultry. Michael joined Almarai in 2000, during his time he has held several positions within the Almarai Farming and Poultry divisions. He holds a Higher National Diploma from Greenmount Agricultural College, Postgraduate Certificate in Food Safety and Security from Queens University Belfast, as well as a Master's in Business Administration from Liverpool University, UK.

#### **Mohammed Al Shuhail, Executive Vice President – Food Service**

Mohammed Al Shuhail is the Executive Vice President of Food Service that manages B2B operations. Mohammed joined the company as Chief Executive Officer of the International Paediatric Nutrition Company (IPNC). Prior to this, he worked in Al Safi Danone and Danone Group in the Middle East and Spain, holding several key positions. These included CEO of Al Safi Dairy Company and EVP of Human Resource, where he built a sustainable B2B business model, developed the company's portfolio in the international markets, and managed different brands in the marketing department. In addition, he was the Innovation Manager in Danone Dairy Company in Spain. Mohammed was awarded an Executive MBA from London Business School (LBS), UK, and holds a Bachelor of Science in Marketing from King Fahad University of Petroleum and Minerals (KFUPM).

# Almarai Organizational Chart



\*Appointed 1 January 2020

# Tadawul Announcements

Almarai had a busy year, with a number of events and strategic activities announced to shareholders. The most important events, activities and strategic decisions were announced on the official website of the Saudi Stock Exchange (Tadawul), Almarai's corporate website

and on Almarai's Investor Relations application. In total, 30 announcements were made to shareholders. The following table summarizes the announcements by date, type and subject.

| No. | Date             | Announcement Type        | Title of Announcement                                                                                                                                                                               |
|-----|------------------|--------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1   | 1 January 2019   | Notice to Shareholders   | Almarai Company Announces the Sale of its Shares in United Farmers Holding Company ("UFHC") to Saudi Agricultural and Livestock Investment Company ("SALIC"), one of the Founding Partners of UFHC. |
| 2   | 20 January 2019  | Financial Results        | Almarai Company Announces its Annual Consolidated Financial Results for the Year Ended 31 December 2018 (12 Months)                                                                                 |
| 3   | 4 February 2019  | Notice to Shareholders   | Almarai Company Announces the Acquisition of 100% shares in Premier Foods LLC.                                                                                                                      |
| 4   | 11 February 2019 | Notice to Shareholders   | Almarai Company ("The Company") Announces the Retirement of its CFO and the Appointment of a New CFO                                                                                                |
| 5   | 17 February 2019 | Notice to Shareholders   | Almarai Company Announces its International Credit Rating by Moody's and Standard and Poor's Credit Rating Agencies                                                                                 |
| 6   | 19 February 2019 | Notice to Shareholders   | Almarai Company Announces its Intention to Commence Holding Meetings with Investors in Preparation for Potential Issuance of International Sukuk                                                    |
| 7   | 25 February 2019 | Notice to Shareholders   | Almarai Company Announces the Opening of Nominations for Membership to the Board of Directors                                                                                                       |
| 8   | 26 February 2019 | Notice to Shareholders   | Almarai Company Announces the Start of Issuing International Sukuk                                                                                                                                  |
| 9   | 27 February 2019 | Notice to Shareholders   | Almarai Company Announces the Completion of Issuing International Sukuk                                                                                                                             |
| 10  | 7 March 2019     | Notice to Shareholders   | Almarai Company Announces the Redemption of its SAR 1 Billion Sukuk – Series I                                                                                                                      |
| 11  | 13 March 2019    | Invitation to AGM        | Almarai Company Invites its Shareholders to The Extraordinary General Assembly Meeting. (The First Meeting)                                                                                         |
| 12  | 28 March 2019    | Invitation to AGM        | Almarai Company Invites its Shareholders to The Extraordinary General Assembly Meeting. (The First Meeting) (Reminder Announcement)                                                                 |
| 13  | 3 April 2019     | Electronic Voting of AGM | Almarai Company Announces to its Shareholders the Starting Date of Electronic Voting on the Items of the Extraordinary General Assembly Meeting (First Meeting)                                     |
| 14  | 7 April 2019     | Financial Results        | Almarai Company Announces its Condensed Consolidated Interim Financial Results for the Period Ended 31 March 2019 (Three Months)                                                                    |
| 15  | 8 April 2019     | Results of AGM           | Almarai Company Announces the Results of The Extraordinary General Assembly Meeting. (The First Meeting)                                                                                            |
| 16  | 23 April 2019    | Invitation to AGM        | Almarai Company Invites its Shareholders to The Extraordinary General Assembly Meeting. (The First Meeting)                                                                                         |
| 17  | 9 May 2019       | Invitation to AGM        | Almarai Company Invites its Shareholders to The Extraordinary General Assembly Meeting. (The First Meeting) (Reminder Announcement)                                                                 |
| 18  | 14 May 2019      | Electronic Voting of AGM | Almarai Company Announces to its Shareholders the Starting Date of Electronic Voting on the Items of the Extraordinary General Assembly Meeting (First Meeting)                                     |
| 19  | 15 May 2019      | Notice to Shareholders   | Almarai Company Announces the Approval by its Board of Directors of its Five Year Business Plan for the Period 2020 – 2024                                                                          |
| 20  | 20 May 2019      | Results of AGM           | Almarai Company Announces the Results of the Extraordinary General Assembly Meeting. (The First Meeting)                                                                                            |
| 21  | 27 May 2019      | Notice to Shareholders   | Almarai Company Announces the Completion of the Acquisition of 100% shares in Premier Foods LLC.                                                                                                    |
| 22  | 7 July 2019      | Notice to Shareholders   | Almarai Company Announces The Resignation of its CEO and the Appointment of a New CEO, and Changes to the Executive Management                                                                      |
| 23  | 7 July 2019      | Financial Results        | Almarai Company Announces its Condensed Consolidated Interim Financial Results for the Period Ended 30 June 2019 (Six Months)                                                                       |
| 24  | 5 August 2019    | Notice to Shareholders   | Almarai Company Announces the Acquisition of Additional Stakes in Pure Breed                                                                                                                        |
| 25  | 7 August 2019    | Notice to Shareholders   | Almarai Company Announces the Appointment of the Chairman of the Board, Vice Chairman and Formation of the Board's Committees for the New Term                                                      |
| 26  | 21 August 2019   | Notice to Shareholders   | Almarai Company Announces the Completion of its Al Kharj Solar Project (Photovoltaic PV)                                                                                                            |
| 27  | 2 October 2019   | Notice to Shareholders   | Almarai Company Announces the Resignation of an Audit Committee Member and the Appointment of Another Member                                                                                        |
| 28  | 6 October 2019   | Notice to Shareholders   | Almarai Company Announces its Condensed Consolidated Interim Financial Results for the Period Ended 30 September 2019 (Nine Months)                                                                 |
| 29  | 9 December 2019  | Notice to Shareholders   | the Board of Almarai Proposes to Pay a Cash Dividend for the Financial Year 2019                                                                                                                    |
| 30  | 9 December 2019  | Notice to Shareholders   | Almarai Company Announces the financial impact of the resolution to remove subsidies on feed inputs, with the exception of green folder                                                             |
| 31  | 29 December 2019 | Notice to Shareholders   | Almarai Company Announces the financial impact of the resolution to remove subsidies on feed inputs, with the exception of green folder                                                             |

# Almarai and its Subsidiaries

Almarai operates its business through a variety of subsidiaries, joint ventures, associates and agency relationships. The Company maintains long term investments and exerts effective control through the full capacity to lead and direct economic performance,

financial policies and operational processes. Almarai consolidates its financial operations and results as one business unit, issuing Consolidated Financial Statements after elimination of all significant inter-group balances and transactions. Minority interests

| Name of Subsidiary                                                       | Country of Incorporation | Business Activity                 |
|--------------------------------------------------------------------------|--------------------------|-----------------------------------|
| Almarai Investment Company Limited                                       | Saudi Arabia             | Holding Company                   |
| Almarai Baby Food Company Limited                                        | Saudi Arabia             | Manufacturing Company             |
| Almarai Agricultural And Livestock Production Company Limited            | Saudi Arabia             | Dormant                           |
| Almarai Construction Company Limited                                     | Saudi Arabia             | Dormant                           |
| Almarai for Maintenance and Operation Company Limited                    | Saudi Arabia             | Dormant                           |
| Agricultural Input Company Limited (Mudkhalat)                           | Saudi Arabia             | Dormant                           |
| Hail Agricultural Development Company                                    | Saudi Arabia             | Poultry / Agricultural Company    |
| Hail Agricultural And Livestock Production Company Limited               | Saudi Arabia             | Dormant                           |
| International Baking Services Company Limited                            | Saudi Arabia             | Dormant                           |
| International Pediatric Nutrition Company Limited                        | Saudi Arabia             | Dormant                           |
| Modern Food Industries Company Limited (MFI)                             | Saudi Arabia             | Bakery Company                    |
| Nourlac Company Limited                                                  | Saudi Arabia             | Dormant                           |
| Western Bakeries Company Limited                                         | Saudi Arabia             | Bakery Company                    |
| Pure Breed Poultry Company Limited (Refer note 12)                       | Saudi Arabia             | Poultry Company                   |
| Premier Food Industries Company L.L.C(Refer note 12)                     | Saudi Arabia             | Manufacturing and Trading Company |
| Agro Terra S.A.                                                          | Argentina                | Dormant                           |
| Fondomonte South America S.A.                                            | Argentina                | Agricultural Company              |
| Almarai Company Bahrain S.P.C.                                           | Bahrain                  | Trading Company                   |
| Almarai Investment Holding Company W.L.L.                                | Bahrain                  | Holding Company                   |
| IDJ Bahrain Holding Company W.L.L.                                       | Bahrain                  | Holding Company                   |
| International Dairy and Juice Limited                                    | Bermuda                  | Holding Company                   |
| International Dairy and Juice (Egypt) Limited                            | Egypt                    | Holding Company                   |
| International Company for Agricultural Industries Projects (Beyti) (SAE) | Egypt                    | Manufacturing and Trading Company |
| Markley Holdings Limited                                                 | Jersey                   | Dormant                           |
| Al Muthedoon for Dairy Production                                        | Jordan                   | Dormant                           |
| Al Atheer Agricultural Company                                           | Jordan                   | Livestock / Agricultural Company  |
| Al Namouthiya for Plastic Production                                     | Jordan                   | Dormant                           |
| Al Rawabi for juice and UHT milk Manufacturing                           | Jordan                   | Manufacturing Company             |
| Teeba Investment for Developed Food Processing                           | Jordan                   | Manufacturing Company             |
| Arabian Planets for Trading and Marketing L.L.C.                         | Oman                     | Trading Company                   |
| Alyoum for Food Products Company L.L.C.                                  | Oman                     | Dormant                           |
| Fondomonte Inversiones S.L.                                              | Spain                    | Holding Company                   |
| Hail Development Company Limited                                         | Sudan                    | Dormant                           |
| Almarai Emirates Company L.L.C.                                          | United Arab Emirates     | Trading Company                   |
| International Dairy and Juice (Dubai) Limited                            | United Arab Emirates     | Holding Company                   |
| BDC international L.L.C.                                                 | United Arab Emirates     | Operations Management             |
| International Dairy and Juice Farm Egypt (S.A.E.)                        | Egypt                    | Holding Company                   |
| Fondomonte Holding North America L.L.C.                                  | United States of America | Holding Company                   |
| Fondomonte Arizona L.L.C.                                                | United States of America | Agricultural Company              |
| Fondomonte California L.L.C.                                             | United States of America | Agricultural Company              |
| Hayday Farm Operation L.L.C.                                             | United States of America | Agricultural Company              |
| BDC Info Private Limited                                                 | India                    | Operations Management             |

represent the portion of profit or loss and net assets not dominated or controlled by the Group and are presented separately in the Consolidated Income Statement and Balance Sheet. The following table sets

out the subsidiary companies' names, business activity, functional currency, ownership interest, share capital and number of shares issued. There are no shares or debt instruments issued to any of these entities.

| Ownership Interest |           |            |           |                      |                         |
|--------------------|-----------|------------|-----------|----------------------|-------------------------|
| 2019               |           | 2018       |           | Share Capital        | Number of Shares Issued |
| Direct (a)         | Effective | Direct (a) | Effective |                      |                         |
| 100%               | 100%      | 100%       | 100%      | SAR 1,000,000        | 1,000                   |
| 100%               | 100%      | 100%       | 100%      | SAR 200,000,000      | 20,000,000              |
| 100%               | 100%      | 100%       | 100%      | SAR 1,000,000        | 1,000                   |
| 100%               | 100%      | 100%       | 100%      | SAR 1,000,000        | 1,000                   |
| 100%               | 100%      | 100%       | 100%      | SAR 1,000,000        | 1,000                   |
| 52%                | 52%       | 52%        | 52%       | SAR 25,000,000       | 250                     |
| 100%               | 100%      | 100%       | 100%      | SAR 300,000,000      | 30,000,000              |
| 100%               | 100%      | 100%       | 100%      | SAR 1,000,000        | 1,000                   |
| 100%               | 100%      | 100%       | 100%      | SAR 500,000          | 500                     |
| 100%               | 100%      | 100%       | 100%      | SAR 41,000,000       | 410,000                 |
| 60%                | 60%       | 60%        | 60%       | SAR 70,000,000       | 70,000                  |
| 100%               | 100%      | 100%       | 100%      | SAR 3,000,000        | 3,000                   |
| 100%               | 100%      | 100%       | 100%      | SAR 200,000,000      | 200,000                 |
| 94%                | 94%       | 62%        | 62%       | SAR 46,500,000       | 465,000                 |
| 100%               | 100%      | -          | -         | SAR 500,000          | 50,000                  |
| 100%               | 100%      | 100%       | 100%      | ARS 5,097,984        | 5,097,984               |
| 100%               | 100%      | 100%       | 100%      | ARS 2,211,988,598    | 2,211,988,598           |
| 100%               | 100%      | 100%       | 100%      | BHD 100,000          | 2,000                   |
| 99%                | 99%       | 99%        | 99%       | BHD 250,000          | 2,500                   |
| 100%               | 52%       | 100%       | 52%       | BHD 250,000          | 2,500                   |
| 52%                | 52%       | 52%        | 52%       | USD 7,583,334        | 7,583,334               |
| 100%               | 52%       | 100%       | 52%       | EGP 3,233,750,000    | 323,375,000             |
| 100%               | 52%       | 100%       | 52%       | EGP 3,802,366,670    | 380,236,667             |
| 100%               | 100%      | 100%       | 100%      | GBP 5,769,822        | 5,769,822               |
| 100%               | 52%       | 100%       | 100%      | JOD 500,000          | 500,000                 |
| 100%               | 52%       | 100%       | 52%       | JOD 750,000          | 750,000                 |
| 100%               | 52%       | 100%       | 52%       | JOD 250,000          | 250,000                 |
| 100%               | 52%       | 100%       | 52%       | JOD 500,000          | 500,000                 |
| 100%               | 52%       | 100%       | 52%       | JOD 21,935,363       | 21,935,363              |
| 90%                | 90%       | 90%        | 90%       | OMR 150,000          | 150,000                 |
| 100%               | 100%      | 100%       | 100%      | OMR 20,000           | 20,000                  |
| 100%               | 100%      | 100%       | 100%      | EUR 138,505,946      | 138,505,946             |
| 100%               | 100%      | 100%       | 100%      | SDG 100,000          | 100                     |
| 100%               | 100%      | 100%       | 100%      | AED 300,000          | 300                     |
| 100%               | 52%       | 100%       | 52%       | USD 22,042,183       | 22,042,183              |
| 100%               | 100%      | 100%       | 100%      | AED 200,000 (Unpaid) | 200                     |
| 100%               | 52%       | 100%       | 52%       | EGP 1,000,000        | 100,000                 |
| 100%               | 100%      | 100%       | 100%      | USD 500,000          | 50,000                  |
| 100%               | 100%      | 100%       | 100%      | USD 500,000          | 50,000                  |
| 100%               | 100%      | 100%       | 100%      | -                    | -                       |
| 100%               | 100%      | 100%       | 100%      | -                    | -                       |
| 100%               | 100%      | -          | -         | INR 2,750,680        | 275,068                 |

# Share Price and Shareholder Information

## Almarai Shareholdings

As of 31 December 2019, Almarai had 48,657 shareholders. Corporate investors represent 67.1% of the total share ownership, while individual investors represent 32.9%.

There are 36 shareholders owning one million or more shares in Almarai, representing 89.3% of the issued shares. The following tables provide an overview of Almarai's investors:

| Almarai Investors According to Nature of investor | 31 December 2019        |                     |                      |
|---------------------------------------------------|-------------------------|---------------------|----------------------|
|                                                   | Percentage of Ownership | Number of Investors | Number of Shares     |
| Corporate investor                                | 67.1%                   | 490                 | 670,462,712          |
| Individual investor                               | 32.9%                   | 48,167              | 329,537,288          |
| <b>Total</b>                                      | <b>100.0%</b>           | <b>48,657</b>       | <b>1,000,000,000</b> |

| Almarai Investor According to Nationality | 31 December 2019        |                     |                      |
|-------------------------------------------|-------------------------|---------------------|----------------------|
|                                           | Percentage of Ownership | Number of Investors | Number of Shares     |
| Saudi                                     | 94.5%                   | 47,871              | 945,003,398          |
| Other nationalities                       | 5.5%                    | 786                 | 54,996,602           |
| <b>Total</b>                              | <b>100.0%</b>           | <b>48,657</b>       | <b>1,000,000,000</b> |

| Investor According to Investor Type              | 31 December 2019        |                     |
|--------------------------------------------------|-------------------------|---------------------|
|                                                  | Percentage of Ownership | Number of Investors |
| Savola Group                                     | 34.5%                   | 1                   |
| HH Prince Sultan bin Mohammed bin Saud Al Kabeer | 23.7%                   | 1                   |
| Governmental and quasi-governmental institutions | 22.8%                   | 7                   |
| Other individuals                                | 9.3%                    | 48,166              |
| Mutual funds                                     | 3.2%                    | 165                 |
| Companies                                        | 2.7%                    | 85                  |
| Swap agreements                                  | 0.3%                    | 21                  |
| Other corporates                                 | 3.5%                    | 211                 |
| <b>Total</b>                                     | <b>100.0%</b>           | <b>48,657</b>       |

| Almarai Investors According to Size of Ownership | 31-Dec-19               |                     |
|--------------------------------------------------|-------------------------|---------------------|
|                                                  | Percentage of Ownership | Number of Investors |
| Million shares and more                          | 89.3%                   | 36                  |
| From 500 thousand to less than a million         | 2.1%                    | 30                  |
| From 100 thousand to less than 500 thousand      | 3.0%                    | 150                 |
| From 50 thousand to less than 100 thousand       | 0.8%                    | 112                 |
| From 10 thousand to less than 50 thousand        | 1.7%                    | 828                 |
| From 5 thousand to less than 10 thousand         | 0.5%                    | 787                 |
| From 1 thousand to less than 5 thousand          | 1.5%                    | 8,509               |
| Less than one thousand shares                    | 1.2%                    | 38,205              |
| <b>Total</b>                                     | <b>100.0%</b>           | <b>48,657</b>       |

### Ownership Notification

According to Article 68 of the Rules on the Offer of Securities and Continuing Obligations issued by the Capital Market Authority (CMA), during 2019, Almarai

received no new notifications of new ownership percentage of more than 5% of the shares issued to the Company. The following table outlines ownership of 5% or more of the issued shares:

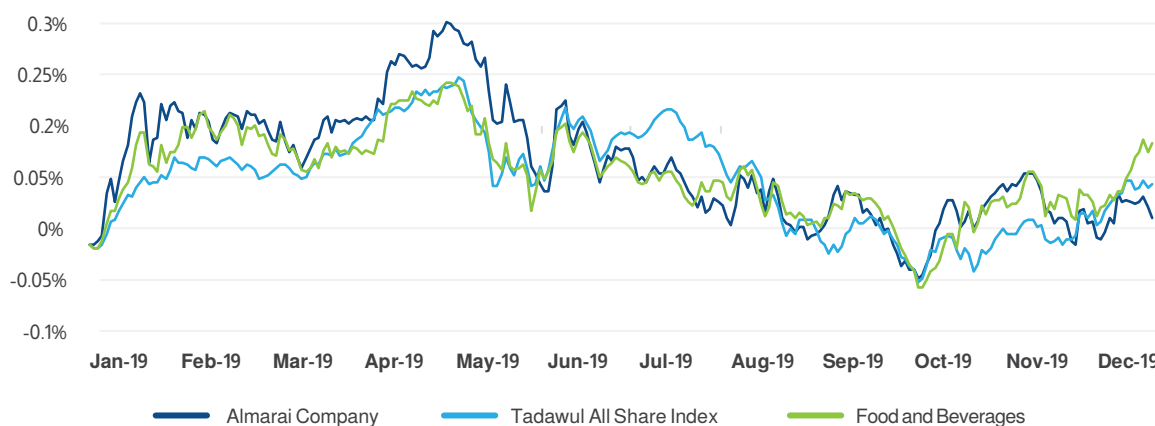
| Ownership of 5% and more of the issued shares    | Beginning of the Year |                         | End of the Year    |                         |
|--------------------------------------------------|-----------------------|-------------------------|--------------------|-------------------------|
|                                                  | Number of Shares      | Percentage of Ownership | Number of Shares   | Percentage of Ownership |
| Savola Group                                     | 345,218,236           | 34.5%                   | 345,218,236        | 34.5%                   |
| HH Prince Sultan bin Mohammed bin Saud Al Kabeer | 236,956,536           | 23.7%                   | 236,956,536        | 23.7%                   |
| Public Investment Fund                           | 163,233,480           | 16.3%                   | 163,233,480        | 16.3%                   |
| <b>Total</b>                                     | <b>745,408,252</b>    | <b>75.0%</b>            | <b>745,408,252</b> | <b>75.0%</b>            |

| Number of Company's Requests of Shareholders Records | Date of Request  | Reason for the Request |
|------------------------------------------------------|------------------|------------------------|
| 1                                                    | 10 February 2019 | Periodic Reports       |
| 2                                                    | 11 March 2019    | Periodic Reports       |
| 3                                                    | 9 April 2019     | Dividends Distribution |
| 4                                                    | 14 April 2019    | Periodic Reports       |
| 5                                                    | 5 May 2019       | Periodic Reports       |
| 6                                                    | 25 June 2019     | Periodic Reports       |
| 7                                                    | 1 July 2019      | Periodic Reports       |
| 8                                                    | 9 October 2019   | Periodic Reports       |

### Share Data Performance (SAR)

| Share price<br>31 December 2019 | Share price<br>1 year ago | Share price<br>3 years ago | 52-week high | 52-week low | Change from<br>2018-2019 |
|---------------------------------|---------------------------|----------------------------|--------------|-------------|--------------------------|
| 49.50                           | 48.00                     | 54.79                      | 60.50        | 46.10       | 3.1%                     |

### Share Price Performance During the Year of 2019



# Main Transactions, Investments and Other Events

## Approval of the Five Year Strategic Plan for 2020-2024

In 2019 the Company completed its second milestone review of Almarai 2025, initiated last year. This review confirmed that the company is on track with this long term vision to reinforce its position as the consumers' preferred choice for superior, nutritious food and beverage products in the Arab world.

The Board of Directors has approved the five year business plan for the period 2020-2024, which confirms that the ongoing investment in Almarai's infrastructure, in terms of processes, people and systems, is in place to enable the Company to face future challenges and meet its long term ambition. Each of its business units will drive the Company forward through growth and innovation across the traditional trade, modern trade and food service channels, with its operating model transformed by implementation of automation, cyber physical systems, cognitive computing and the growing digitalization of the food and beverage industry.

Given the persistent challenging economic conditions across the region, the focus on efficiency and cost optimization measures will continue throughout the plan period to ensure continuous competitive advantage.

The capital investment level during the period 2020-2024 is planned to reach SAR 7.1 billion, in line with the long term investment cycle of the company calling for less expansionary investments and a focus towards more efficiency and sustainability. The components of the investments will be the replacement of existing assets; adoption of green and cleaner energy footprint; improvement of production capacities and capabilities in farms and manufacturing facilities; distribution and transportation facilities; extension of geographical footprint and the enhancement of innovation and product development capabilities. This investment programme is planned to be financed mainly via company operating cash flow.

## Acquisitions

On 18 July 2019, the Group has acquired further shares in Pure Breed Poultry Company resulting in an increase in its shareholding from 62.4% to 93.5%. Pure Breed's main operation is focused on poultry grandparent farming and its acquisition add to the Group's ongoing efforts to further streamline, integrate and strengthen its poultry

supply chain. On 27 May 2019, the Group acquired 100% shareholding in Premier Foods LLC. Premier Foods is primarily engaged in providing value added products (meat and poultry) to the food services industry in the Middle East. This acquisition will further enhance Almarai's footprint for expansion in the food service channel. On 22 October 2019 the Group, through its subsidiary Almarai Investment Holding Company W.L.L., obtained 49.0% equity interest in Maria Fondomonte S.A. for a cash consideration of SAR 87.8 million (EUR 21.0 million). Maria Fondomonte S.A.'s main operations are to source, process and the sale of forage supplies to the Group, and its acquisition will add to the Group's ongoing efforts to further streamline, integrate and strengthen its feed supply.

## International Sukuk Issuance

On the 5 March 2019, Almarai completed the issuance of USD 500 million as part of its international Sukuk Programme. The US Dollar fixed rate Reg S Senior Unsecured Sukuk issuance comprise of 2,500 Sukuk at USD 200,000 par value each with 5 years maturity at rate of 4.311%. The Sukuk is listed on the Irish Stock Exchange (Euronext Dublin).

## Al Kharj Solar Project (Photovoltaic PV)

On 21 August 2019, Almarai completed its Al Kharj Solar Project (Photovoltaic PV) making it the largest ground mount Solar PV installation operating in the Kingdom of Saudi Arabia today. The cost of this project is SAR 44.4 million.

Greenhouse gas emissions associated with fuel and electricity consumption and rising energy costs, have an impact not only on the environment but also on our financial bottom line. This project incorporates 15 Mega Watts of installed capacity, comprising of more than 44,000 solar panels capable of producing 28 Giga Watt hours of clean renewable energy per year. During operation the Almarai Al Kharj Solar Project will offset 8.1 thousand tons of CO<sub>2</sub> each year, equivalent to planting more than 8,000 trees.

Almarai has developed an Energy Roadmap, outlining how Almarai will improve its energy performance through efficient energy consumption and movement towards generation from sustainable sources. Key to delivering this strategy is a portfolio of solar power generation projects.

By the end of 2020 Almarai aims to increase its Solar PV installations constructed across the Middle East North Africa region, supplying more solar power generation capacity, that would represent approximately 10.0% of our total electricity consumption being derived from renewables.

Almarai will continue to develop its energy and sustainability programme, aligning with the Saudi Vision 2030 strategy for the safe and efficient use of clean energy, delivering 'Quality you can trust', in a more sustainable way, that enriches consumers lives every day.

### Capital Expenditure (CAPEX)

CAPEX incurred in 2019 was SAR 1.6 billion, in line with our five year strategic plan CAPEX. Investment was distributed as follows:

- Manufacturing and Farming spent CAPEX of approximately SAR 0.9 billion for various capacity expansion projects including poultry plant expansion
- Sales Depot, Poultry and Logistics expansion accounted for approximately SAR 0.2 billion
- Replacement and other CAPEX including IDJ accounted for approximately another SAR 0.5 billion
- The reduction in the CAPEX marks the last few years of a 10 year investment cycle for the Company and capacity building efforts. Financial year 2019 was another record year of positive cash flow generation for Almarai where free cash flow more than doubled to SAR 2.6 billion

### Share Based Payment Transactions

Employees of the Group receive remuneration in the form of equity settled share based payments under the Employee Stock Option Programme (ESOP), whereby they attain an option to purchase shares of the Company

("Option"). In order to exercise their Option, the employees pay a predetermined exercise price, render services as consideration and comply with the vesting conditions.

The cost of the ESOP, representing the Fair Value of Options at grant date, is recognized as an expense in the Consolidated Statement of Income, together with a corresponding increase in Other Reserves, in Equity, over the period during which the service conditions are fulfilled.

Management has set up an economic hedge by purchasing Treasury Shares at inception of the ESOP. Accordingly, the Other Reserve (representing the cumulative expense arising from the ESOP) is transferred into Retained Earnings upon expiry of the ESOP, whether or not the Options are vested by employees. The cumulative expense thus recognized at each reporting date, until the ESOP expiry date, reflects the extent to which the ESOP's term has expired and the Group's best estimate of the number of options that will ultimately be vested.

When the terms of the ESOP are modified, the minimum expense recognized is equal to the Fair Value of Options at grant date. However, an additional expense is recognized for any modification that increases the total Fair Value of the Option, or is otherwise beneficial to the employee as measured at the date of the modification.

When the ESOP is terminated, it is treated as if Options vested on the date of termination, and all remaining expense, is recognized immediately. However, if a new ESOP is substituted for the terminated ESOP, and designated as a replacement ESOP on the date the new ESOP is granted, the terminated and new ESOPs are treated as if they were a modification of the original ESOP, as described in the previous paragraph.

# Important Events in 2020

## Subject of Announcement\*

|                     |                                                                                  |
|---------------------|----------------------------------------------------------------------------------|
| 5 April 2020        | The Extraordinary General Assembly meeting                                       |
| 5 - 20 April 2020   | Maturity and distribution of profits to shareholders for the financial year 2019 |
| 5 - 12 April 2020   | Announcement of the Interim Consolidated Financial Results for Q1 2020           |
| 5 - 12 July 2020    | Announcement of the Interim Consolidated Financial Results for Q2 2020           |
| 4 - 11 October 2020 | Announcement of the Interim Consolidated Financial Results for Q3 2020           |

\* Announcement dates for Financial Results are preliminary and subject to change.

# Preparation of the Financial Statements

The Condensed Consolidated Interim Financial Statements are issued with a review report and the Annual Consolidated Financial Statements are issued with an audit report by Independent Auditors. These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA).

As part of this requirement, the Group has prepared Condensed Consolidated Interim Financial Statements for each quarter of 2019 and Annual Consolidated Financial Statements for the year ended 31 December 2019 in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA. PricewaterhouseCoopers (PwC) was appointed

as Almarai's independent auditors after the Audit Committee recommended PwC to the Board of Directors to audit the Company's accounts for the fiscal year 2019 and Q1 2020. The Board of Directors requested the approval of the nomination of PwC and its fees during the General Assembly Meeting in April 2019, at which time the appointment was approved. After auditing the Consolidated Financial Statements for the year ended 31 December 2019, PwC issued its unqualified Independent Auditors' Report expressing their opinion that the Consolidated Financial Statements as a whole present fairly, in all material respects, the consolidated financial position of Almarai Company and its subsidiaries as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS, that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by the SOCPA.

# Dividend Policy

As per Article 48 of Almarai's Bylaws, after deducting all general expenses and other costs, the Company's annual net profits shall be allocated as follows:

- 10.0% of the annual net profits shall be allocated to form the Company's statutory reserve. Such allocation may be discontinued by the Ordinary General Assembly when this reserve totals 30.0% of the Company's paid up capital
- The Ordinary General Assembly may, upon the recommendation of the Board of Directors, allocate a specific percentage of the net profits to create a voluntary reserve to be allocated to the determined objective or objectives allocated for specific purposes
- The Ordinary General Assembly, upon determining the dividend, may resolve to form other reserves, to the extent that the same is in the interests of the Company or will ensure the distribution of fixed profits so far as possible among the shareholders. The said Assembly may likewise deduct from the net profit amounts to establish social organizations for the Company's workers or to assist any such organizations already in existence
- Out of the balance of the net profits a payment of not less than 5.0% of the paid up capital shall be distributed to shareholders
- Subject to the provisions laid down in Article 21 of these Bylaws, and Article 76 of the Companies Law, a percentage not more than 5.0% of the remaining balance, if any, shall be allocated as remuneration to Members of the Board of Directors, provided that the entitlement to such remuneration shall be proportionate to the number of sessions attended by a Member

The Company, after complying with the regulations laid down by the competent authorities, may distribute semiannual and quarterly dividends. As per Article 48 of Almarai's Bylaws, profits distributed to shareholders are paid at the location and time determined by the Board of Directors in compliance with CMA regulations.

Almarai has achieved a 38.6% payout ratio for the five year period from 2015-2019. Despite the fact that Almarai expects, as per its current distribution practice, to distribute annual cash dividends, there are no guarantees for the distribution of dividends on an ongoing basis. There are no guarantees for the value and percentage of dividends each year. Cash dividends are approved or recommended according to factors including profits achieved, cash flows, new capital investments and future prospects of outgoing funds, taking into account the importance of maintaining a strong financial policy to meet any emergency events. The Board of Directors strives to maintain consistency of cash flow each year by reducing the impact of any change in free cash flow that may be attributed to the achievement of profits or losses in specific financial years, while maintaining a medium term target distribution rate of dividend ratio.

Almarai has distributed to its shareholders approximately SAR 17,009 million since it was listed on Tadawul, in the form of cash dividends and bonus shares. Cash dividends amounted to approximately SAR 7,909 million, representing 46.5% of total dividends and bonus shares, while bonus shares from a capital increase reached SAR 9,100 million. This excludes the capital increase resulting from the acquisition of Western Bakeries and International Bakeries Services at a nominal value of SAR 90 million and the 100.0% acquisition of Hail Agricultural Development Company (HADCO) at a nominal value of SAR 60 million.

## Dividends Paid Compared to Net Income

| Year         | Net Income<br>(SAR million) | Dividend<br>(SAR million) | Percentage   | Capital<br>(million shares) | Amount per<br>Share (SAR) |
|--------------|-----------------------------|---------------------------|--------------|-----------------------------|---------------------------|
| 2005         | 386                         | -                         | -            | 75                          | -                         |
| 2006         | 465                         | 200                       | 43.0%        | 100                         | 2.00                      |
| 2007         | 667                         | 272                       | 40.8%        | 109                         | 2.50                      |
| 2008         | 910                         | 381                       | 41.9%        | 109                         | 3.50                      |
| 2009         | 1,097                       | 460                       | 41.9%        | 115                         | 4.00                      |
| 2010         | 1,285                       | 518                       | 40.3%        | 230                         | 2.25                      |
| 2011         | 1,140                       | 518                       | 45.4%        | 230                         | 2.25                      |
| 2012         | 1,441                       | 500                       | 34.7%        | 400                         | 1.25                      |
| 2013         | 1,502                       | 600                       | 39.9%        | 600                         | 1.00                      |
| 2014         | 1,674                       | 600                       | 35.8%        | 600                         | 1.00                      |
| 2015         | 1,916                       | 690                       | 36.0%        | 600                         | 1.15                      |
| 2016         | 2,081                       | 720                       | 34.6%        | 800                         | 0.90                      |
| 2017*        | 2,182                       | 750                       | 34.0%        | 1,000                       | 0.75                      |
| 2018         | 2,009                       | 850                       | 42.3%        | 1,000                       | 0.85                      |
| <b>2019</b>  | <b>1,811</b>                | <b>850</b>                | <b>46.9%</b> | <b>1,000</b>                | <b>0.85</b>               |
| <b>Total</b> | <b>20,566</b>               | <b>7,909</b>              | <b>38.5%</b> | <b>-</b>                    | <b>-</b>                  |

\*2017 onwards, IFRS is implemented. All previous years are SOCPA compliant.

## Dividend Dates

| Year        | Announcement<br>Date | Due Date                       | Distribution<br>Date           | Amount per<br>Share (SAR) | Distribution<br>Method  |
|-------------|----------------------|--------------------------------|--------------------------------|---------------------------|-------------------------|
| 2006        | 21-Jan-07            | 27-Mar-07                      | 10-Apr-07                      | 2.00                      | Account transfer        |
| 2007        | 21-Jan-08            | 24-Mar-08                      | 7-Apr-08                       | 2.50                      | Account transfer        |
| 2008        | 19-Jan-09            | 23-Mar-09                      | 7-Apr-09                       | 3.50                      | Account transfer        |
| 2009        | 20-Jan-10            | 11-Apr-10                      | 26-Apr-10                      | 4.00                      | Account transfer        |
| 2010        | 6-Dec-10             | 3-Apr-11                       | 11-Apr-11                      | 2.25                      | Account transfer        |
| 2011        | 7-Dec-11             | 2-Apr-12                       | 11-Apr-12                      | 2.25                      | Account transfer        |
| 2012        | 19-Jan-13            | 2-Apr-13                       | 10-Apr-13                      | 1.25                      | Account transfer        |
| 2013        | 29-Dec-13            | 2-Apr-14                       | 9-Apr-14                       | 1.00                      | Account transfer        |
| 2014        | 28-Dec-14            | 5-Apr-15                       | 12-Apr-15                      | 1.00                      | Account transfer        |
| 2015        | 14-Dec-15            | 3-Apr-16                       | 12-Apr-16                      | 1.15                      | Account transfer        |
| 2016        | 6-Dec-16             | 26-Mar-17                      | 4-Apr-17                       | 0.90                      | Account transfer        |
| 2017        | 11-Dec-17            | 9-Apr-18                       | 17-Apr-18                      | 0.75                      | Account transfer        |
| 2018        | 10-Dec-18            | 7-Apr-19                       | 18-Apr-19                      | 0.85                      | Account transfer        |
| <b>2019</b> | <b>9-Dec-19</b>      | <b>As per AGM<br/>Approval</b> | <b>As per AGM<br/>Approval</b> | <b>0.85</b>               | <b>Account transfer</b> |

## Distribution in the Form of Granting Bonus Shares

| Year        | Share Capital<br>(SAR million) | Nominal Value<br>of Bonus<br>(SAR million) | Share Capital<br>After Bonus<br>(SAR million) | Percentage | Notes                                              |
|-------------|--------------------------------|--------------------------------------------|-----------------------------------------------|------------|----------------------------------------------------|
| 2005        | 750                            | 250                                        | 1,000                                         | 33.3%      | One bonus share for every 3 outstanding shares     |
| 2010        | 1,150                          | 1,150                                      | 2,300                                         | 100.0%     | One bonus share for every 1 outstanding share      |
| 2012        | 2,300                          | 1,700                                      | 4,000                                         | 73.9%      | One bonus share for every 1.353 outstanding shares |
| 2013        | 4,000                          | 2,000                                      | 6,000                                         | 50.0%      | One bonus share for every 2 outstanding shares     |
| 2016        | 6,000                          | 2,000                                      | 8,000                                         | 33.3%      | One bonus share for every 3 outstanding shares     |
| 2017        | 8,000                          | 2,000                                      | 10,000                                        | 25.0%      | One bonus share for every 4 outstanding shares     |
| 2018        | 1,000,000                      | -                                          | -                                             | -          | -                                                  |
| <b>2019</b> | <b>1,000,000</b>               | <b>-</b>                                   | <b>-</b>                                      | <b>-</b>   | <b>-</b>                                           |
| Total       |                                | 9,100                                      |                                               |            |                                                    |

## Dates of Bonus Shares and Other Capital Changes

| Year        | Announcement<br>Date | Issue Type               | Due Date  | Previous<br>Capital (SAR<br>million) | New Capital<br>(SAR million) |
|-------------|----------------------|--------------------------|-----------|--------------------------------------|------------------------------|
| 2005        | 18-Oct-05            | Bonus shares             | 25-Dec-05 | 750                                  | 1,000                        |
| 2007        | 19-Feb-07            | Acquisition (WB and IBS) | 27-Mar-07 | 1,000                                | 1,090                        |
| 2009        | 9-May-09             | Acquisition (HADCO)      | 7-Oct-09  | 1,090                                | 1,150                        |
| 2010        | 5-Oct-10             | Bonus shares             | 5-Dec-10  | 1,150                                | 2,300                        |
| 2012        | 7-Dec-11             | Bonus shares             | 2-Apr-12  | 2,300                                | 4,000                        |
| 2013        | 29-May-13            | Bonus shares             | 9-Sep-13  | 4,000                                | 6,000                        |
| 2016        | 14-Dec-15            | Bonus shares             | 3-Apr-16  | 6,000                                | 8,000                        |
| 2017        | 8-Jun-17             | Bonus shares             | 8-Oct-17  | 8,000                                | 10,000                       |
| 2018        | -                    | -                        | -         | -                                    | -                            |
| <b>2019</b> | <b>-</b>             | <b>-</b>                 | <b>-</b>  | <b>-</b>                             | <b>-</b>                     |

With regard to cash dividends for 2019, the Board of Directors proposes to the General Assembly a dividend of SAR 850 million, representing 46.9% of the consolidated net profits achieved during the year, at SAR 0.85 per share. To be eligible for the cash dividend payment, shareholders' records must be registered at the depository center at the end of trading on the day of the General Assembly. The following regulation

regarding the payment of the dividend should be noted: for foreign non-resident investors the dividend paid by the Company is subject to a withholding tax of 5.0% upon transfer to the non-resident investor or credited to the account according to the provisions of Article 68 of the Income Tax Law and Article 63 of the Implementing Regulations.

# Statutory Payments, Penalties and Sanctions

## Statutory Amounts Recorded During 2019

Almarai is committed to paying certain fees and expenses to Saudi government departments as per applicable terms and regulations. These inherent

expenses are recorded in the Financial Statements of the Company's operations. The following table details statutory charges in 2019, with a brief description and related reason.

| Statutory Organization                    | Description                                                                                             | Reason                        | 2019   | 2018  |
|-------------------------------------------|---------------------------------------------------------------------------------------------------------|-------------------------------|--------|-------|
| Saudi Customs                             | Amounts paid or charged as customs fees on imports and exports                                          | Government requirement        | 80.39  | 97.2  |
| General Authority of Zakat and Income Tax | Amounts paid as Zakat, Withholding Tax (WHT), Income Tax and VAT expenses according to the various laws | Government requirement        | 118.02 | 172.8 |
| General Organization for Social Insurance | Amounts paid or charged as social insurance expenses, in accordance with Saudi Labor Law                | Government requirement        | 87.2   | 83.5  |
| Other Statutory Organizations             | Amounts paid or charged according to various other laws                                                 | Other government requirements | 225.5  | 157.3 |
| Total                                     |                                                                                                         |                               | 511.11 | 510.8 |

## Penalties and Sanctions

Almarai was not charged any penalties or sanctions during 2019 by any supervisory, regulatory or judicial unit.

# Corporate Governance Code

The purpose of these Rules is to set out Almarai's approach to corporate governance. Almarai is committed to maintaining high standards of corporate governance and considers good corporate governance an essential tool for maximizing long term shareholder value, and is consistent with its commitment to quality in all of its processes and products. The Company's Corporate Governance Rules are mandatory for all Directors and staff of Almarai, and can only be amended by a resolution of the Board of Directors.

Corporate governance is defined as 'the system by which business corporations are directed and controlled'. The corporate governance structure specifies the distribution of authority and responsibilities among different participants in the Company, such as the Board of Directors, managers, shareholders and others, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the Company's objectives are set and the means of attaining those objectives and monitoring performance. The Board of Directors is responsible for Almarai's Corporate Governance Rules.

The shareholders' role in governance is to appoint the Directors, Audit Committee and independent auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the Board include setting the Company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. The Board's actions are subject to laws, regulations and accountability to the shareholders in the General Assembly Meeting. Almarai's Corporate Governance

Rules have been prepared according to international principles of corporate governance and local regulatory requirements, particularly the Capital Market Authority (CMA). It should be viewed as setting the framework of requirements for corporate governance within the Company.

It should not be seen as a substitute for sound judgment and honorable arms' length dealings by Directors and Officers of the Company and should be viewed within the context of the broader legislative framework of Saudi Arabia. In particular, the stipulations of the following, the requirements of which have not all been incorporated in these Rules, need to be borne in mind when considering corporate governance issues:

- The requirements of the CMA and of Tadawul
- The Companies Law of Saudi Arabia and associated ministerial directives of the Ministry of Commerce and Investment
- Almarai's Bylaws

The Board establishes governance rules for the Company in accordance with the provisions of these regulations, and monitors their implementation, verifies their effectiveness, and amends them as necessary.

# Rights of Shareholders and the General Assembly

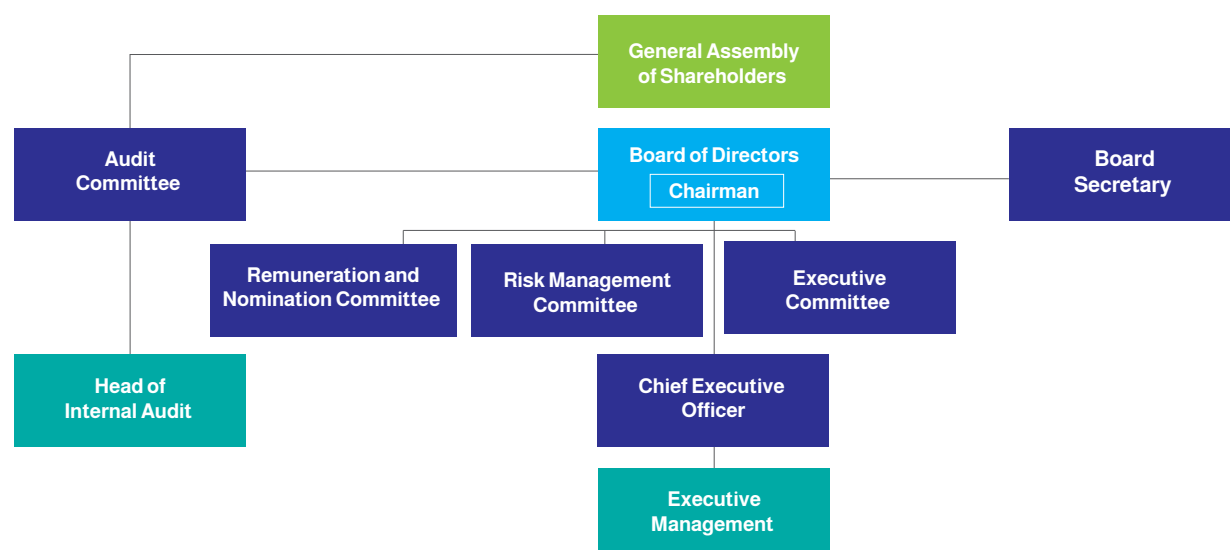
Almarai's Bylaws and Corporate Governance Rules ensure that shareholders enjoy all rights related to shares, in particular, the right to receive a share of approved dividend payments, the right to receive a share of the Company's assets upon liquidation, the right to attend General Assembly Meetings and, participate in their deliberations and voting, the right to dispose of shares, the right to oversee the work of the Board of Directors and file responsibility litigation against Board Members, and the right to inquire and request information that does not compromise the interests of the Company and does not conflict with the terms and executive regulations of the CMA. Almarai allows maximum participation by shareholders at General Assembly Meetings and is keen to ensure that the choice of time and venue enables full participation. The Company has adopted an electronic voting system to make it easier for shareholders to exercise their right of voting if they are unable to attend in person. Almarai's Bylaws and Corporate Governance Rules also contain provisions related to the General Assembly, including procedures and precautions necessary to ensure that all shareholders are exercising their regular rights.

The General Assembly is the highest power in the Company, with sole authorities including: the appointment and termination of Board Members, approval of the Consolidated Financial Statements, appointment of the Audit Committee and the external

auditor and determination of his fees, approval of the regulation for the Audit Committee including its procedures, duties and rules for selecting its members, the means of their nomination, the term of their membership, their remunerations, and the mechanism of appointing temporary members in case a seat in the Committee becomes vacant, approval of the regulation for the Remuneration and Nomination Committee including its procedure, duties and rules for selecting its members, the term of their membership and their remunerations, approval of dividend distribution as recommended by the Board of Directors, increase or decrease of the capital of the Company and, amendment of the Bylaws.

Almarai provides sufficient access for its shareholders to read the minutes of the General Assembly Meeting and provides the CMA with a copy of the minutes within 10 days of the meeting. Shareholder concerns that have a significant gravity are elevated through the appropriate channels to the Board of Directors for consideration and action. If necessary, these concerns would be raised to the Board Secretary. Any material concerns that could potentially impact the Company or its financial position and which are available in all means of media, newspaper, Almarai website or announcement via Tadawul will be communicated to the Board of Directors.

## Corporate Governance Structure



# Board of Directors Formation and Functions

Almarai's Bylaws provide for a Board of Directors (comprising nine Members). The rules regarding the appointment, resignation, term of office, powers, remuneration and the principal requirements are summarized below.

The Board of Directors is the supreme management body within the Company and is appointed by the shareholders at the General Assembly in order to represent and protect the Company's interests. The Board is responsible for leading and controlling the Company and discharges this responsibility by approving the implementation of Company strategies and objectives. The Board empowers the management of the Company to run the business within defined parameters and monitors the performance of the Company. While the Board delegates authority to the Company's management, under the direction of the CEO, to attend to the routine running of the business, the Board retains ultimate fiduciary responsibility to shareholders to ensure the proper operation of the Company. The Board is appointed by the shareholders with the primary responsibility for operating the Company in their long term best interests. The Board also has a responsibility to provide clear directions and boundaries for the Company's Executive Management to operate within. This involves setting out a clear vision and strategy for the Company and defining the delegations that will be allowed to management and the policies and boundaries within which they are permitted to operate.

This process is achieved by:

- Approving the strategic plans and main objectives of the Company and supervising their implementation. This includes:
  - Laying down a comprehensive strategy for the Company, the main work plans and policy related to risk management, and reviewing and updating such policy
  - Determining the most appropriate capital structure of the Company, its strategies and financial objectives and approving its annual budgets
  - Supervising the main capital expenses of the Company and acquisition / disposal of assets
  - Deciding the performance objectives to be achieved, supervising the implementation thereof
- and overseeing the overall performance of the Company
- Reviewing and approving the organizational and functional structures of the Company on a periodic basis
- Laying down rules for internal control systems and supervising those systems. This includes:
  - Developing a written policy to regulate conflicts of interest and remedy any possible cases of conflict by Members of the Board of Directors, Executive Management and shareholders. This includes misuse of the Company's assets and facilities and arbitrary disposition resulting from dealings with related parties
  - Ensuring the integrity of financial and accounting procedures including procedures related to the preparation of the financial reports
  - Ensuring the implementation of control procedures appropriate for risk management by forecasting the risks that the Company could encounter and disclosing them transparently
  - Annually reviewing the effectiveness of internal control systems
- Drafting Corporate Governance Rules for the Company that do not contradict the provisions of existing laws and regulations, supervising and monitoring, in general, the effectiveness of the Rules and amending them whenever necessary
- Laying down specific and explicit policies, standards and procedures for the Members of the Board of Directors and implementing them after they have been approved by the General Assembly
- Outlining a written policy that regulates the relationship with stakeholders with a view to protecting their respective rights. Such a policy must cover the following:
  - Mechanisms for indemnifying the stakeholders in the event that their rights are contravened under the law and their respective contracts
  - Mechanisms for the settlement of complaints or disputes that might arise between the Company and stakeholders
  - Suitable mechanisms for maintaining good relationships with customers and suppliers and protecting the confidentiality of information related to them
- A Code of Conduct for the Company's executives and employees compatible with proper

professional and ethical standards and regulating their relationship with stakeholders

- The Board of Directors lays down procedures for supervising
- Deciding on policies and procedures to ensure the Company's compliance with laws and regulations and the Company's obligation to disclose material information to shareholders, creditors and other stakeholders
- Preparing the Financial Statements and the Annual Report on the activities and financial status of the Company for the last financial year including the proposed method for dividends payment
- Recommending to the General Assembly of Shareholders the appointment, dismissal and the remuneration of external auditors

Almarai's Corporate Governance Rules stipulate that the Board should include a minimum of one in three independent Directors. Executives may be Directors upon satisfaction of the relevant legal requirements. Almarai has implemented internal check-and-balance measures for assessing the performance of the Board of Directors and its committees. These measures include but are not limited to a formal review process involving an evaluation by each Board Member on the performance and effectiveness of the Board as a body, and its Members individually.

### Members of the Board of Directors

The following tables include Directors' names, positions, membership status in other joint stock companies, and attendance at the Board meetings held during

2019, noting that these meetings were planned and the Chairman did not receive any request by two or more of the Board Members to hold emergency meetings during 2019.

| Member name                                                                              | Position              | Membership status | (Listed/ Unlisted) | Membership of Joint Stock Companies inside and outside of KSA                                                                                                                                                                                                                                |
|------------------------------------------------------------------------------------------|-----------------------|-------------------|--------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| HH Prince Sultan bin Mohammed bin Saud Al Kabeer                                         | Chairman of the Board | Non-Executive     | Listed<br>Unlisted | Yamamah Cement Co., Arabian Shield Cooperative Insurance Company                                                                                                                                                                                                                             |
| HH Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer                                | Board Member          | Non-Executive     | Listed<br>Unlisted | Yamamah Cement Co., Mobile Telecommunication Company Saudi Arabia (Zain KSA)<br>Gulf Farabi Petrochemical Co., Kuwaiti Chinese Holding Co., Tarabot for Investment and Development Co., Tejoori Company Ltd.                                                                                 |
| Mr. Suliman bin Abdulkader Al Muhaideb<br>(a representative of Savola Group)             | Vice Chairman         | Non-Executive     | Listed<br>Unlisted | Saudi Arabian British Bank (SABB), Savola Group<br>ACWA Power International, Vision Invest Co. (Roaia), Abdulkadir Al Muhaidib and Sons, RAFAL Real Estate Development Company                                                                                                               |
| Mr. Bader bin Abdullah Al Issa<br>(a representative of Savola Group)                     | Board Member          | Non-Executive     | Listed<br>Unlisted | Savola Group, Banque Saudi Fransi, Dur Hospitality Co.<br>Savola Foods Company, Panda Retail Company, United Sugar Company, Afia International Company                                                                                                                                       |
| Engr. Anees bin Ahmed bin Mohammed Moumina**<br>(a representative of Savola Group)       | Board Member          | Non-Executive     | Listed<br>Unlisted | The National Commercial Bank (NCB), Knowledge Economic City Company (KEC), Herfy Foods Co.<br>Savola Food Company, Panda Retail Co., Fakeeh Hospital Co., Kinan International Real Estate Development Co.                                                                                    |
| Mr. Ammar bin Abdulwahid Alkhodairi **                                                   | Board Member          | Independent       | Listed<br>Listed   | Saudi Pharmaceutical Industries and Medical Appliances Corporation (SPIMACO), Samba Financial Group<br>Clubs Sports Company, International Company for Manufacturing Industries                                                                                                              |
| Mr. Saad bin Abdulmohsen Al Fadly**                                                      | Board Member          | Independent       | Listed<br>Unlisted | Saudi British Bank, National Medical Care Company<br>GEMS Education                                                                                                                                                                                                                          |
| Mr. Sultan bin Abdulmalek Al Alsheikh **<br>(a representative of Public Investment Fund) | Board Member          | Non-Executive     | Listed<br>Unlisted | Saudi Fisheries Company<br>Gulf International Bank (Saudi Arabia), Gulf International Bank (Bahrain), Saudi Company for Exchanging Digital Information ("Tabadul"), The Helicopters Company, Tahakom Investment Company, Member of the Executive Committee of Saudi Telecom Company ("STC"). |
| Mr. Peter Amon **                                                                        | Board Member          | Independent       | Listed<br>Unlisted | -<br>-                                                                                                                                                                                                                                                                                       |
| Mr. Abdulrahman bin Abdulaziz Al Muhanna                                                 | Board Member          | Non-Executive     | Listed<br>Unlisted | -<br>Al Jazirah Corporation for Press, Printing and Publishing, Saudi Kuwaiti Finance House, Arab Company for Agricultural Services (Arasco)                                                                                                                                                 |
| Dr. Ibrahim bin Hassan Al Madhoun                                                        | Board Member          | Independent       | Listed<br>Unlisted | Red Sea Housing Services Company, Fitaihi Holding Group<br>Al Obeikan Investment Group                                                                                                                                                                                                       |
| Engr. Mosa bin Omran Al Omran                                                            | Board Member          | Independent       | Listed<br>Unlisted | Banque Saudi Fransi<br>-                                                                                                                                                                                                                                                                     |
| Dr. Abdulrahman bin Suliman Al Turaigi                                                   | Board Member          | Independent       | Listed<br>Unlisted | -<br>-                                                                                                                                                                                                                                                                                       |

\* Membership ended on 6 August 2019

\*\* Membership started on 7 August 2019

# Regular Meetings of the Board of Directors during 2019

| Member Name                                               | Position         | Meetings |          |          |          |          | Attendance Rate |
|-----------------------------------------------------------|------------------|----------|----------|----------|----------|----------|-----------------|
|                                                           |                  | Previous |          |          | New Term |          |                 |
|                                                           |                  | First    | Second   | Third    | Fourth   | Fifth    |                 |
|                                                           |                  | 10-Feb   | 7-Apr    | 15-May   | 8-Sept   | 8-Dec    |                 |
| HH Prince Sultan bin Mohammed bin Saud Al Kabeer ***      | Chairman         | X        | X        | X        | X        | X        | 0%              |
| HH Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer | Member           | Attended | Attended | Attended | Attended | Attended | 100%            |
| Mr. Suliman bin Abdulkader Al Muhaideb                    | Vice Chairman    | Attended | Attended | Attended | Attended | Attended | 100%            |
| Mr. Bader bin Abdullah Al Issa                            | Member           | Attended | Attended | Attended | Attended | Attended | 100%            |
| Engr. Anees bin Ahmed bin Mohammed Moumina                | Member           | Attended | Attended | Attended | Attended | Attended | 100%            |
| Mr. Ammar bin Abdulwahid Alkhodairi                       | Member           | **       | **       | **       | Attended | X        | 50%             |
| Mr. Saad bin Abdulmohsen Al Fadly                         | Member           | **       | **       | **       | Attended | Attended | 100%            |
| Mr. Sultan bin Abdulmalek Al Alsheikh                     | Member           | **       | **       | **       | Attended | Attended | 100%            |
| Mr. Peter Amon                                            | Member           | **       | **       | **       | Attended | Attended | 100%            |
| Mr. Abdulrahman bin Abdulaziz Al Muhanna                  | Member           | Attended | X        | Attended | *        | *        | 67%             |
| Engr. Mosa bin Omran Al Omran                             | Member           | Attended | Attended | X        | *        | *        | 67%             |
| Dr. Ibrahim bin Hassan Al Madhoun                         | Member           | Attended | Attended | Attended | *        | *        | 100%            |
| Dr. Abdulrahman bin Suliman Al Turaigi                    | Former Secretary | Attended | Attended | Attended | *        | *        | 100%            |
| Mr. Saif Al Kamil                                         | Secretary        | **       | **       | **       | Attended | Attended | 100%            |

\* Membership ended on 6 August 2019

\*\* Membership started on 7 August 2019

\*\*\* He was outside the Kingdom for medical treatment

## Shareholders General Assembly Meetings During 2019

|                                                           | First    | Second   | Attendance Rate |
|-----------------------------------------------------------|----------|----------|-----------------|
|                                                           | 7-Apr    | 19-May   |                 |
| HH Prince Sultan bin Mohammed bin Saud Al Kabeer ***      | X        | X        | 0%              |
| HH Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer | Attended | Attended | 100%            |
| Mr. Suliman bin Abdulkader Al Muhaideb                    | Attended | Attended | 100%            |
| Mr. Bader bin Abdullah Al Issa                            | Attended | Attended | 100%            |
| Engr. Anees bin Ahmed bin Mohammed Moumina                | Attended | Attended | 100%            |
| Mr. Ammar bin Abdulwahid Alkhodairi                       | **       | **       |                 |
| Mr. Saad bin Abdulmohsen Al Fadly                         | **       | **       |                 |
| Mr. Sultan bin Abdulmalek Al Alsheikh                     | **       | **       |                 |
| Mr. Peter Amon                                            | **       | **       |                 |
| Mr. Abdulrahman bin Abdulaziz Al Muhanna *                | X        | X        | 0%              |
| Engr. Mosa bin Omran Al Omran *                           | Attended | X        | 50%             |
| Dr. Ibrahim bin Hassan Al Madhoun *                       | Attended | X        | 50%             |
| Dr. Abdulrahman bin Suliman Al Turaigi *                  | Attended | Attended | 100%            |

\* Membership ended on 6 August 2019

\*\* Membership started on 7 August 2019

\*\*\* He was outside the Kingdom for medical treatment

# Ownership of Board Members, Spouses and Minors

The following tables illustrate shares held by Members of the Board of Directors, their spouses and minors, and any changes that occurred during 2019 and there were no

arrangements or agreements by which any of the Board Members waived any salary or compensation.

## Ownership by Members of Board of Directors

| Member Name                                                                                    | Note                             | Shares Ownership                  |                                    |                      |
|------------------------------------------------------------------------------------------------|----------------------------------|-----------------------------------|------------------------------------|----------------------|
|                                                                                                |                                  | Opening Balance<br>(January 2019) | Closing Balance<br>(December 2019) | Percentage<br>Change |
| 1 HH Prince Sultan bin Mohammed bin Saud Al Kabeer                                             | Personal ownership               | 236,956,536                       | 236,956,536                        | 0.0%                 |
| 2 HH Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer                                    | Personal ownership               | 8,695,651                         | 8,695,651                          | 0.0%                 |
| 3 Mr. Suliman Abdulkader Al Muhaideb<br>(a representative of the Savola Group)                 | Personal ownership               | 8,695                             | 8,695                              | 0.0%                 |
|                                                                                                | Savola Group ownership           | 345,218,236                       | 345,218,236                        | 0.0%                 |
| 4 Mr. Bader bin Abdullah Al Issa<br>(a representative of the Savola Group)                     | Personal ownership               | 1,666                             | 1,666                              | 0.0%                 |
|                                                                                                | Savola Group ownership           | 345,218,236                       | 345,218,236                        | 0.0%                 |
| 5 Eng. Anees bin Ahmed bin Mohammed Moumina<br>(a representative of the Savola Group)          | Personal ownership               | -                                 | -                                  | -                    |
|                                                                                                | Savola Group ownership           | 345,218,236                       | 345,218,236                        | 0.0%                 |
| 6 Mr. Ammar bin Abdulwahid Alkhodairi **                                                       | Personal ownership               | -                                 | 1,000                              | -                    |
| 7 Mr. Saad bin Abdulmohsen Al Fadly **                                                         | Personal ownership               | -                                 | -                                  | -                    |
| 8 Mr. Sultan bin Abdulmalek Al Alsheikh **<br>(a representative of the Public Investment Fund) | Personal ownership               | -                                 | -                                  | -                    |
|                                                                                                | Public Investment Fund ownership | 163,233,480                       | 163,233,480                        | 0.0%                 |
| 9 Mr. Peter Amon **                                                                            | Personal ownership               | -                                 | -                                  | -                    |
| 10 Mr. Abdulrahman bin Abdulaziz Al Muhanna *                                                  | Personal ownership               | 1,000                             | 1,000                              | 0.0%                 |
| 11 Engr. Mosa bin Omran Al Omran *                                                             | Personal ownership               | 1,490,320                         | 1,490,320                          | 0.0%                 |
| 12 Dr. Ibrahim bin Hassan Al Madhoun *                                                         | Personal ownership               | 10,000                            | 10,000                             | 0.0%                 |
| 13 Dr. Abdulrahman bin Suliman Al Turaigi *                                                    | Personal ownership               | 1,291                             | 1,291                              | 0.0%                 |

\* Membership ended on 6 August 2019

\*\* Membership started on 7 August 2019

## Ownership of Spouses and Minors

| Name                                                         | Shares Ownership                  |                                    |                      |
|--------------------------------------------------------------|-----------------------------------|------------------------------------|----------------------|
|                                                              | Opening Balance<br>(January 2019) | Closing Balance<br>(December 2019) | Percentage<br>Change |
| Wife of HH Prince Sultan bin Mohammed bin Saud Al Kabeer     | 6,086,955                         | 6,086,955                          | 0.0%                 |
| Daughter of HH Prince Sultan bin Mohammed bin Saud Al Kabeer | 500                               | -                                  | -100.0%              |

# Ownership of Senior Managers

The following table illustrates Senior Managers', their spouses' and minors' interests in Almarai shares, as well as any changes that occurred in 2019. None of them have any interest in debt instruments issued by Almarai

and there were no arrangements or agreements by which any of the Senior Managers waived any salary or compensation.

## Ownership of Senior Managers

| Name                               | Shares Ownership                  |                                    |                      |
|------------------------------------|-----------------------------------|------------------------------------|----------------------|
|                                    | Opening Balance<br>(January 2019) | Closing Balance<br>(December 2019) | Percentage<br>Change |
| Mr. Majed Nofal                    | -                                 | 20,000                             | -                    |
| Mr. Georges P. Schorderet          | 158,334                           | 149,998                            | -5.3%                |
| Mr. Paul Louis Gay                 | -                                 | -                                  | -                    |
| Mr. Andrew Mackie                  | 24,000                            | 77,500                             | 223.0%               |
| Mr. Omar Mohammed Salem            | -                                 | 38,000                             | -                    |
| Mr. Sjur Fitje                     | -                                 | -                                  | -                    |
| Mr. Hussam Abdul Qader             | -                                 | 27,800                             | -                    |
| Mr. Faisal Marzouk Al Fahadi       | -                                 | -                                  | -                    |
| Mr. Abdullah Nasser Bader Al Bader | 260                               | 260                                | -                    |
| Mr. Fawaz Aljasser                 | -                                 | 10,390                             | -                    |
| Mr. Niall Mackay                   | -                                 | 12,460                             | -                    |

# Details of Paid Compensation and Remuneration

Remuneration of the Board of Directors is determined according to the recommendation of the Remuneration and Nomination Committee, taking into consideration

both statutory provisions and the need to attract the best Directors for Membership of the Board to ensure the effective performance of the Company. Remuneration

|                                                                                       | Fixed remuneration (SAR) |                                        |                                                  |                  |                                                              |                                                                           |         |
|---------------------------------------------------------------------------------------|--------------------------|----------------------------------------|--------------------------------------------------|------------------|--------------------------------------------------------------|---------------------------------------------------------------------------|---------|
|                                                                                       | Specific amount          | Allowance for attending Board meetings | Allowance for attending other committee meetings | In-kind benefits | Remuneration for technical, managerial and consultative work | Remuneration of the Chairman, Managing Director or Secretary, if a member | Total   |
| Non-Executive and Independent Directors                                               |                          |                                        |                                                  |                  |                                                              |                                                                           |         |
| HH Prince Sultan bin Mohammed bin Saud Al Kabeer                                      | -                        | -                                      | -                                                | -                | -                                                            | 500,000                                                                   | 500,000 |
| HH Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer                             | -                        | 15,000                                 | 3,000                                            | -                | -                                                            | -                                                                         | 18,000  |
| Mr. Suliman bin Abdulkader Al Muhaideb (a representative of Savola Group)             | -                        | 15,000                                 | -                                                | -                | -                                                            | -                                                                         | 15,000  |
| Mr. Bader bin Abdullah Al Issa (a representative of Savola Group)                     | -                        | 15,000                                 | 6,000                                            | -                | -                                                            | -                                                                         | 21,000  |
| Engr. Anees bin Ahmed bin Mohammed Moumina (a representative of Savola Group)         | -                        | 35,000                                 | 3,000                                            | -                | -                                                            | -                                                                         | 38,000  |
| Mr. Ammar bin Abdulwahid Alkhodairi **                                                | -                        | 3,000                                  | -                                                | -                | -                                                            | -                                                                         | 3,000   |
| Mr. Saad bin Abdulmohsen Al Fadly **                                                  | -                        | 6,000                                  | 6,000                                            | -                | -                                                            | -                                                                         | 12,000  |
| Mr. Sultan bin Abdulmalek Al Alsheikh ** (a representative of Public Investment Fund) | -                        | 6,000                                  | -                                                | -                | -                                                            | -                                                                         | 6,000   |
| Mr. Peter Amon **                                                                     | -                        | 6,000                                  | -                                                | -                | -                                                            | -                                                                         | 6,000   |
| Mr. Abdulrahman bin Abdulaziz Al Muhanna *                                            | -                        | 6,000                                  | 3,000                                            | -                | -                                                            | -                                                                         | 9,000   |
| Engr. Mosa bin Omran Al Omran *                                                       | -                        | 14,000                                 | 3,000                                            | -                | -                                                            | -                                                                         | 17,000  |
| Dr. Ibrahim bin Hassan Al Madhoun *                                                   | -                        | 21,000                                 | 17,000                                           | -                | -                                                            | -                                                                         | 38,000  |
| Dr. Abdulrahman bin Suliman Al Turaigi *                                              | -                        | 21,000                                 | 28,000                                           | -                | -                                                            | 60,000                                                                    | 109,000 |
| Executive Directors                                                                   |                          |                                        |                                                  |                  |                                                              |                                                                           |         |
| None                                                                                  | -                        | -                                      | -                                                | -                | -                                                            | -                                                                         | -       |
| Non-Board Members                                                                     |                          |                                        |                                                  |                  |                                                              |                                                                           |         |
| Mr. Saif Al Kamil **                                                                  |                          | 2,000                                  | -                                                | -                | -                                                            | 40,000                                                                    | 42,000  |
| Total                                                                                 | -                        | 165,000                                | 69,000                                           | -                | -                                                            | 600,000                                                                   | 834,000 |

\* Membership ended on 6 August 2019

\*\* Membership started on 7 August 2019

## Paid to Five Top Senior Executives 2019 (including CEO and CFO)

The five top Senior Executives, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), receive a remuneration according to employment contracts signed with them. The following table illustrates details of remuneration and compensation paid to Senior Executives.

| Remunerations of five Top Senior Executives (CEO and CFO Included) | Fixed remuneration (SAR) |            |                  |            |
|--------------------------------------------------------------------|--------------------------|------------|------------------|------------|
|                                                                    | Salaries                 | Allowances | In-Kind benefits | Total      |
| For 2019 (SAR)                                                     | 8,831,882                | 950,000    | 1,403,808        | 11,185,690 |
| For 2018 (SAR)                                                     | 7,003,009                | 1,208,000  | 942,722          | 9,153,731  |

is in line with official rules and regulations, and within the limits of the Companies Law and other supplementary regulations. Board Members receive attendance and

travel allowances, in accordance with the regulations outlined by the relevant authorities in the Kingdom.

#### Variable remuneration (SAR)

| Percentage of the profits | Periodic remuneration | Short-term incentive plans | Long term incentive plans | Granted shares | Total     | End-of-service award | Aggregate amount |
|---------------------------|-----------------------|----------------------------|---------------------------|----------------|-----------|----------------------|------------------|
| -                         | 200,000               | -                          | -                         | -              | 200,000   | -                    | 700,000          |
| -                         | 200,000               | -                          | -                         | -              | 200,000   | -                    | 218,000          |
| -                         | 200,000               | -                          | -                         | -              | 200,000   | -                    | 215,000          |
| -                         | 200,000               | -                          | -                         | -              | 200,000   | -                    | 221,000          |
| -                         | 200,000               | -                          | -                         | -              | 200,000   | -                    | 238,000          |
| -                         | 80,000                | -                          | -                         | -              | 80,000    | -                    | 83,000           |
| -                         | 80,000                | -                          | -                         | -              | 80,000    | -                    | 92,000           |
| -                         | 80,000                | -                          | -                         | -              | 80,000    | -                    | 86,000           |
| -                         | 80,000                | -                          | -                         | -              | 80,000    | -                    | 86,000           |
| -                         | 120,000               | -                          | -                         | -              | 120,000   | -                    | 129,000          |
| -                         | 120,000               | -                          | -                         | -              | 120,000   | -                    | 137,000          |
| -                         | 120,000               | -                          | -                         | -              | 120,000   | -                    | 158,000          |
| -                         | 120,000               | -                          | -                         | -              | 120,000   | -                    | 229,000          |
| -                         | -                     | -                          | -                         | -              | -         | -                    | -                |
| -                         | -                     | -                          | -                         | -              | -         | -                    | 42,000           |
| -                         | 1,800,000             | -                          | -                         | -              | 1,800,000 | -                    | 2,634,000        |

#### Variable remuneration (SAR)

| Periodic Remuneration | Periodic Profits | Short-term Incentive Plans | Long-term Incentive Plans | Granted shares (insert the value) | Total      | End of Service Award | Total Remunerations for Board Executives, if any | Aggregate Amount |
|-----------------------|------------------|----------------------------|---------------------------|-----------------------------------|------------|----------------------|--------------------------------------------------|------------------|
| -                     | -                | 31,214,194                 |                           | 1,215,491                         | 32,429,685 | 8,043,352            | 285,667                                          | 51,944,394       |
| -                     | -                | 11,784,345                 |                           | 659,200                           | 12,443,545 | 8,690,455            | 272,000                                          | 30,559,731       |

## Committees

### Executive Committee

| Member Name                                                          | Fixed remuneration<br>(except for the allowance for<br>attending Board meetings)<br>(SAR) | Allowance for<br>attending the<br>meetings<br>(SAR) | Total<br>(SAR)   |
|----------------------------------------------------------------------|-------------------------------------------------------------------------------------------|-----------------------------------------------------|------------------|
| HH Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer (Chairman) | 200,000                                                                                   | 3,000                                               | 203,000          |
| H.H. Prince Saud Bin Sultan Bin Mohammed Al Kabeer                   | 200,000                                                                                   | 3,000                                               | 203,000          |
| Mr. Bader bin Abdullah Al Issa **                                    | 80,000                                                                                    | -                                                   | 80,000           |
| Engr. Anees bin Ahmed Moumina                                        | 200,000                                                                                   | 3,000                                               | 203,000          |
| Mr. Ammar bin Abdulwahid Alkhodairi **                               | 80,000                                                                                    | -                                                   | 80,000           |
| Mr. Saad bin Abdulmohsen Al Fadly **                                 | 80,000                                                                                    | -                                                   | 80,000           |
| Mr. Peter Amon **                                                    | 80,000                                                                                    | -                                                   | 80,000           |
| Mr. Abdulrahman bin Abdulaziz Al Muhanna (Former Chairman) *         | 120,000                                                                                   | 3,000                                               | 123,000          |
| Dr. Ibrahim bin Hassan Al Madhoun *                                  | 120,000                                                                                   | 3,000                                               | 123,000          |
| Engr. Mosa bin Omran Al Omran *                                      | 120,000                                                                                   | 3,000                                               | 123,000          |
| Mr. Christopher Ledwidge (Former Secretary) *                        | 180,000                                                                                   | 3,000                                               | 183,000          |
| Mr. Georges P. Schorderet                                            | 200,000                                                                                   | 9,000                                               | 209,000          |
| Mr. Saif Al Kamil (Secretary) **                                     | 40,000                                                                                    | -                                                   | 40,000           |
| <b>Total</b>                                                         | <b>1,700,000</b>                                                                          | <b>30,000</b>                                       | <b>1,730,000</b> |

\* Membership ended on 6 August 2019

\*\* Membership started on 7 August 2019

### Remuneration and Nomination Committee

| Member Name                                                  | Fixed remuneration<br>(except for the allowance for<br>attending Board meetings)<br>(SAR) | Allowance for<br>attending the<br>meetings<br>(SAR) | Total<br>(SAR) |
|--------------------------------------------------------------|-------------------------------------------------------------------------------------------|-----------------------------------------------------|----------------|
| HH Prince Sultan bin Mohammed bin Saud Al Kabeer *           | 35,000                                                                                    | -                                                   | 35,000         |
| HH Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer ** | 41,667                                                                                    | -                                                   | 41,667         |
| Mr. Bader bin Abdullah Al Issa                               | 76,667                                                                                    | -                                                   | 76,667         |
| Mr. Ammar bin Abdulwahid Alkhodairi (Chairman) **            | 41,667                                                                                    | -                                                   | 41,667         |
| Mr. Saad bin Abdulmohsen Al Fadly **                         | 41,667                                                                                    | -                                                   | 41,667         |
| Mr. Sultan bin Abdulmalek Al Alsheikh **                     | 41,667                                                                                    | -                                                   | 41,667         |
| Engr. Mosa bin Omran Al Omran (Former Chairman) *            | 35,000                                                                                    | -                                                   | 35,000         |
| Mr. Abdulrahman bin Abdulaziz Al Muhanna *                   | 35,000                                                                                    | -                                                   | 35,000         |
| Mr. Georges P. Schorderet (Member / Secretary)               | 76,667                                                                                    | -                                                   | 76,667         |
| <b>Total</b>                                                 | <b>425,000</b>                                                                            | <b>-</b>                                            | <b>425,000</b> |

\* Membership ended on 6 August 2019

\*\* Membership started on 7 August 2019

## Risk Committee

| Member Name                               | Fixed remuneration<br>(except for the allowance for<br>attending Board meetings)<br>(SAR) | Allowance for<br>attending the<br>meetings<br>(SAR) | Total<br>(SAR) |
|-------------------------------------------|-------------------------------------------------------------------------------------------|-----------------------------------------------------|----------------|
| Mr. Bader bin Abdullah Al Issa (Chairman) | 150,000                                                                                   | 6,000                                               | 156,000        |
| Mr. Jason Day                             | 150,000                                                                                   | 6,000                                               | 156,000        |
| Mrs. Vanessa Fisk                         | 150,000                                                                                   | 6,000                                               | 156,000        |
| Mr. Paul Louis Gay (Secretary)            | 100,000                                                                                   | 2,000                                               | 102,000        |
| <b>Total</b>                              | <b>550,000</b>                                                                            | <b>20,000</b>                                       | <b>570,000</b> |

## Audit Committee

| Member Name                                              | Fixed remuneration<br>(except for the allowance for<br>attending Board meetings)<br>(SAR) | Allowance for<br>attending the<br>meetings<br>(SAR) | Total<br>(SAR)   |
|----------------------------------------------------------|-------------------------------------------------------------------------------------------|-----------------------------------------------------|------------------|
| Mr. Saad bin Abdulmohsen Al Fadly **                     | 80,000                                                                                    | 6,000                                               | 86,000           |
| Dr. Abdulrahman bin Suliman Al Turaigi (Former Chairman) | 170,000                                                                                   | 28,000                                              | 198,000          |
| Mr. Muhammad bin Hassan Ikhwan *                         | 90,000                                                                                    | 7,000                                               | 97,000           |
| Dr. Ibrahim bin Hassan Al Madhoun *                      | 90,000                                                                                    | 14,000                                              | 104,000          |
| Mr. Farraj bin Mansour Abo Thenian *                     | 90,000                                                                                    | 6,000                                               | 96,000           |
| Mr. Sulaiman bin Naser Alhatlan                          | 170,000                                                                                   | 15,000                                              | 185,000          |
| Mr. Eid bin Faleh Al Shamri **                           | 80,000                                                                                    | 6,000                                               | 86,000           |
| Mr. Raied bin Ali Alsif (Chairman) **                    | 80,000                                                                                    | 6,000                                               | 86,000           |
| Mr. Talha Sidahmed (Secretary)                           | 100,000                                                                                   | 5,000                                               | 105,000          |
| <b>Total</b>                                             | <b>950,000</b>                                                                            | <b>93,000</b>                                       | <b>1,043,000</b> |

\* Membership ended on 6 August 2019

\*\* Membership started on 7 August 2019

# Company Committees

With the exception of the Audit Committee, which shall be formed by the resolution of the Company's Ordinary General Assembly, the Board may at any time establish specialized committees as may be needed depending on the Company's circumstances in order to enable it to effectively perform its duties. The formation of committees shall be made in accordance with general procedures developed by the Board, which shall determine the duties, duration and powers of each committee, and the manner in which the

Board monitors the activities of each committee. The committee shall inform the Board of its findings or decisions with complete transparency. The Board shall regularly follow up the activities of such committees to ensure the performance of the duties dedicated to them. Each committee shall be responsible before the Board for its activities; this shall not relieve the Board of its responsibility for such activities, duties and powers that is has delegated to such committee.

The list of non-Board Company Committee Members:

## Executive Committee

### HH Prince Saud bin Sultan bin Mohammed bin Saud Al Kabeer, Executive Committee Member

HH is a member of Almarai's Executive Committee, a Board Member at Aldar Chemicals Company, and Chairman of Export 30. His Highness joined Almarai in a role within the marketing department following two years of working at Banque Saudi Fransi. His Highness graduated from the Business Administration College at King Fahad University of Petroleum and Minerals.

### Christopher Ledwidge, Executive Committee Member

Christopher Ledwidge is an Irish National and Fellow of the Institute of Chartered Accountants in Ireland (FCA) having qualified in 1974 and holds a Business degree from University College Dublin (B. Comm) graduating in 1971. Following a number of CFO roles in Ireland Mr Christopher has worked continuously in Saudi Arabia for the past 35 years. He held executive positions with Almarai Company as CFO from 1984-1986 and as CEO from 1987-2000 and since 2000 has served as a member of the Executive Committee of the Board of Directors.

## Risk Committee

### Jason Day, Risk Committee Member

Jason Day currently serves as the Managing Partner of a London, UK based International Professional Services firm providing Corporate Governance, Internal Audit, Risk Management, Compliance and training services to the Oil and Gas, Financial Services, FMCG, Retail and IT sectors. Prior to his current position, Jason was the Vice President of Internal Audit, Risk Management and Compliance

with Abu Dhabi National Oil Company (ADNOC). His responsibility was to provide independent assurance to the Board, Audit, Risk and Compliance committees ensuring that the risk management, governance and internal control processes are operating effectively. Jason graduated with a Bachelor's (Hons) degree in Computer Science from University of Hertfordshire, UK after which he qualified as a Chartered Certified Accountant with the ACCA UK. He is also a Certified Information Systems Auditor (CISA) and a Project Management Professional awarded by Project Management Institute, USA.

### Vanessa Eastham Fisk, Risk Committee Member

Vanessa Eastham Fisk currently holds directorships at Commercial Bank International PSC; Anglo Gulf Trade Bank and Ila, new digital-only retail bank which is 100% owned by Bank ABC Bahrain. Vanessa focuses on directorships in companies which have a strong innovation and/or transformation agenda. In particular, she has a keen interest in businesses deploying newer technologies to gain competitive advantage, and is an active Board Advisor and Mentor to a number of the Middle East's emerging fintech and regtech start-ups. Prior to pursuing a non-executive career, Vanessa spent over 20 years at Barclays Bank and latterly Standard Chartered, in a wide variety of senior executive director roles working across multiple geographies. Vanessa graduated with a Bachelor's degree in Accountancy and Finance from Huddersfield University, undertook a postgraduate degree in Leadership Studies at Exeter University and most recently, completed the International Executive Programme in Global Corporate Governance at INSEAD, Paris.

## Audit Committee

### Dr. Muhammad bin Hassan Ikhwan\*, Audit Committee Member

Dr. Muhammad Ikhwan currently sits on the Board of Directors for Red Sea International and is also an Audit Committee member for the Saudi Fransi Bank. His most recent role before his retirement was as a Senior Vice President in Mergers and Acquisitions at Savola Group. He also worked as a Professor of industrial engineering at King Abdulaziz University. He holds a Ph.D. in Engineering of Economic Systems and an MSc in Operations Research, both from Stanford University, USA.

### Farraj Mansour Abothenain \*, Audit Committee Member

Farraj Abothenain currently serves as a member of the Audit Committee for Almarai Company and Al Rajhi Bank. He also serves as a Board Member for National Petrochemical Company, Astra Industrial Group and Almoammar Information Systems Company. Prior to this, his previous Board membership experience was with the Riyadh Governance Board, National Shipping Company and Bawan CO. Farraj attended Milwaukee School of Engineering, USA, where he achieved a Bachelor's degree in Industrial Management after which he attended a Financial and Credit Development Programme at Chase Manhattan Bank in New York. He also completed the Young Manager Programme at INSEAD in Fontainebleau, France.

### Sulaiman N. Alhatlan, Audit Committee Member

Sulaiman Alhatlan currently serves as a Board member of Maalem Financing and Maharah Human Resources Company. He is also a Board Member at Alhilal Saudi Club. Since 2007, Sulaiman is the MD/CEO of HNC Company, a CMA-licensed investment banking firm. Throughout his career, Sulaiman has carried out many senior roles of financial advisory for both the public and private sectors. He attended King Saud University, graduating in 1994 with a Bachelor's degree in Accounting after which he attended California State University where he studied Accountancy and earned his Master's degree.

### Raied A. Al Seif\*\*, Audit Committee Member

Raied Al Seif holds the position of Director of Investment and Business Development for Prince Sultan Bin Mohamed Bin Saud Al Kabeer Private Office. He currently holds the following board positions: Chairman and member of the Board of Directors at ANB Invest, Member of the Board of Directors at Zain KSA, Arabian Shield Insurance and IBC Environmental Lebanon. Prior to that Al Seif held the position of Division Head at ANB, leading a team of relationship managers. Al Seif holds a Bachelor's degree in Accounting from College of Administrative Science from King Saud University in Riyadh-KSA.

### Eid F. Alshamri \*\*, Audit Committee Secretary

Alshamri is the CEO of Ithraa Capital. He holds a Bachelor of Science in Industrial Management with Honors from King Fahd University of Petroleum and Minerals in 1989. He is a Fellow of the American Board of Certified Public Accountants from State of Colorado and a member of the American Association of Certified Public Accountants since 1995. Mr. Eid is a professional with a 28 year proven track record and has held various executive positions. He is also a member of several boards and committees in several companies.

### Dr. Talha Sidahmed, Audit Committee Secretary

Dr. Talha Sidahmed currently serves as Senior Legal Counsel of Almarai Company providing legal advice to the Board of Directors and Executive Management on a variety of business matters. Throughout his career, Talha has carried out many roles of legal advisory for law firms and private companies across a diverse range of industries. He holds Bachelor of Law degree, Master of Law degree, Ph.D. of Law degree from Al Neelain University.

\*Membership ended on 6 August 2019

\*\*Membership started on 7 August 2019

# Executive Committee

Almarai's Bylaws (Article 27) allow the Board the option to establish an Executive Committee, if it so chooses. Article 27 states:

'The Board of Directors may appoint from among its Members 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 authorized 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.'

The Executive Committee is subject to Part Four, Chapter 3, of the Corporate Governance Rules. The Executive Committee's tasks and responsibilities include the following:

- Participate in the development of new strategic plans and evaluate proposals from Executive Management for such plans, including possible mergers or acquisitions and make recommendations to the Board
- Review Company performance at each Executive Committee meeting and assess performance against targets, analyze and make inquiries about underlying factors, trends and major developments and advise management accordingly
- Review Company performance on a monthly basis against agreed objectives and budgets, based on an agreed set of reports to be supplied monthly by Company management and alert management and other Executive Committee members of any significant developments observed. If necessary, request the Company's management to convene an additional Committee meeting
- Review, evaluate and make recommendations to the Board on the approval of annual budgets
- Review post-implementation analyses supplied by management for all major CAPEX and advise the Board on the outcome and any learning points to emerge
- Provide advice to the Board on the setting of dividends, taking into account any recommendations made by the Audit Committee in this regard
- Review policies and procedures developed by Executive Management but do not approve anything requiring Board approval
- Make recommendations to the Board on any changes to sponsors or agency structures
- Review and approve requests for corporate guarantees up to the Committee's limit of authority.
- Periodically review the Company's corporate governance policies and Code of Conduct, and make recommendations to the Board for any modifications considered desirable
- Carry out specific requests from the Board of Directors
- Review the implementation of decisions taken by the Board as well as by the Executive Committee itself.
- Review matters or intended actions that might have a significant impact on the Company's public image

### Executive Committee Meetings During 2019

During 2019, the Executive Committee held five meetings. The below table illustrates the names, positions and attendance of the Committee members.

| Member Name                                               | Position                  | Meetings      |          |          |          |          | Attendance Rate |
|-----------------------------------------------------------|---------------------------|---------------|----------|----------|----------|----------|-----------------|
|                                                           |                           | Previous Term |          |          | New Term |          |                 |
|                                                           |                           | First         | Second   | Third    | Fourth   | Fifth    |                 |
|                                                           |                           | 10-Feb        | 7-Apr    | 15-May   | 8-Sept   | 8-Dec    |                 |
| HH Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer | Chairman                  | Attended      | Attended | Attended | Attended | Attended | 100.0%          |
| HH Prince Saud bin Sultan bin Mohammed bin Saud Al Kabeer | Member                    | Attended      | Attended | X        | X        | Attended | 60.0%           |
| Mr. Bader bin Abdullah Al Issa                            | Member                    | **            | **       | **       | Attended | Attended | 100.0%          |
| Eng. Anees Ahmed Mohamed Moumina                          | Member                    | Attended      | Attended | Attended | Attended | Attended | 100.0%          |
| Mr. Ammar bin Abdulwahid Alkhodairi                       | Member                    | **            | **       | **       | Attended | X        | 50.0%           |
| Mr. Saad bin Abdulmohsen Al Fadly                         | Member                    | **            | **       | **       | Attended | Attended | 100.0%          |
| Mr. Peter Amon                                            | Member                    | **            | **       | **       | Attended | Attended | 100.0%          |
| Mr. Abdulrahman bin Abdulaziz Al Muhanna                  | Former Chairman           | Attended      | X        | Attended | *        | *        | 67.0%           |
| Dr. Ibrahim bin Hassan Al Madhoun                         | Member                    | Attended      | Attended | Attended | *        | *        | 100.0%          |
| Engr. Mosa bin Omran Al Omran                             | Member                    | Attended      | Attended | Attended | *        | *        | 100.0%          |
| Mr. Christopher Ledwidge                                  | Member / Former Secretary | Attended      | Attended | Attended | *        | *        | 100.0%          |
| Mr. Georges P. Schorderet                                 | Member                    | Attended      | Attended | Attended | Attended | Attended | 100.0%          |
| Mr. Saif Al Kamil                                         | Secretary                 | **            | **       | **       | Attended | Attended | 100.0%          |

\* Membership ended on 6 August 2019

\*\* Membership started on 7 August 2019

# Remuneration and Nomination Committee

The Board formed this committee for a period of three years starting from 7 August 2019. The regulation of the Remuneration and Nomination Committee including the remuneration of its members was approved by the Company's General Assembly on 8 October 2017 in accordance with Articles 60 and 64 of the Corporate Governance Regulations issued by the CMA.

The Committee has the role of making recommendations to the Board of Directors on nominations to the Board, developing clear policies for the remuneration of the Board of Directors and Senior Executives of the Company and its subsidiaries, reviewing the structure of the Board of Directors, identifying weaknesses and strengths of Members of the Board, ensuring the independence of independent members (annually) and ensuring the absence of conflicts of interest if members also belong to the board of directors of another company.

Regarding remuneration, the Committee shall be responsible for the following:

- Preparing a clear policy for the remuneration of the Board Members and its committees, and the Executive Management, and presenting such policy to the Board in preparation for approval by the General Assembly, provided that such policy follows standards that are linked to performance, and disclosing and ensuring the implementation of such policy
- Clarifying the relation between the paid remuneration and the adopted remuneration policy and highlighting any material deviation from that policy
- Periodically reviewing the remuneration policy and assessing its effectiveness in achieving its objectives
- Providing recommendations to the Board in respect of the remuneration of its Members, its committees and Senior Executives, in accordance with the approved policy
- Reviewing the financial remuneration of the CEO, including long term and short term incentives, in addition to setting the performance level to be achieved by the Chief Executive Officer, and providing recommendations to the Board in respect thereof
- Reviewing and authorizing the Chief Executive Officer's recommendations as to financial remuneration of Senior Executives
- Ensuring and observing the compliance of the Company with respect to the policy for the

remuneration of the Board Members and its committees, and the Executive Management approved by the General Assembly of Shareholders

Regarding nominations, the Committee shall be responsible for the following:

- Suggesting clear policies and standards for Membership of the Board and the Executive Management
- Providing recommendations to the Board for the nomination or renomination of its Members, in accordance with approved policies and standards, taking into account that nomination shall not include any person convicted of a crime involving moral turpitude or dishonesty
- Preparing a description of the capabilities and qualifications required for Membership of the Board and Executive Management positions
- Determining the amount of time that the Member shall allocate to the activities of the Board
- Annually reviewing the skills and expertise required of the Board Members and the Executive Management, while determining the strengths and weaknesses of the Board and Executive Management, and recommending remedial solutions that serve the Company's interests
- Reviewing the structure of the Board and Executive Management, as well as providing recommendations regarding changes that may be made to such structure
- Annually ensuring the independence of Independent Directors and the absence of any conflicts of interest if a Board Member also acts as a member of the board of directors of another company
- Providing job descriptions for the Executive, Non-Executive and Independent Directors and Senior Executives
- Setting procedures to be followed if the position of a Member of the Board or a Senior Executive becomes vacant
- Determining the strengths and weaknesses of the Board and recommending remedial solutions that serve the Company's interests
- Providing an appropriate level of training and induction to new Board Members regarding the Company's tasks and achievements so that they can perform their duties effectively

- Examining and reviewing the Executive Management's performance
- Examining and reviewing succession plans for the Company in general, and for the Board of Directors, Chief Executive Officer and Senior Executives
- Examining and reviewing the recommendations of the Chief Executive Officer regarding the appointment and

termination of Senior Executives, except for the Head of Internal Audit department who shall be appointed and dismissed upon the recommendation of the Company's Audit Committee

### Remuneration and Nomination Committee Meetings During 2019

During 2019, the Remuneration and Nomination Committee held five meetings. The following table illustrates the names, positions and attendance of Committee members.

| Member Name                                               | Position           | Meetings      |          |          |          |          | Attendance Rate |
|-----------------------------------------------------------|--------------------|---------------|----------|----------|----------|----------|-----------------|
|                                                           |                    | Previous Term |          |          | New Term |          |                 |
|                                                           |                    | First         | Second   | Third    | Fourth   | Fifth    |                 |
|                                                           |                    | 11-Feb        | 7-Apr    | 15-May   | 5-Jul    | 8-Dec    |                 |
| HH Prince Sultan bin Mohammed bin Saud Al Kabeer ***      | Member             | X             | X        | X        | X        | *        | 0.0%            |
| HH Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer | Member             | **            | **       | **       | **       | Attended | 100.0%          |
| Mr. Bader bin Abdullah Al Issa                            | Member             | Attended      | Attended | Attended | Attended | Attended | 100.0%          |
| Mr. Ammar bin Abdulwahid Alkhodairi                       | Chairman           | **            | **       | **       | **       | Attended | 100.0%          |
| Mr. Saad bin Abdulmohsen Al Fadly                         | Member             | **            | **       | **       | **       | Attended | 100.0%          |
| Mr. Sultan bin Abdulmalek Al Alsheikh                     | Member             | **            | **       | **       | **       | Attended | 100.0%          |
| Engr. Mosa bin Omran Al Omran                             | Former Chairman    | Attended      | Attended | X        | Attended | *        | 75.0%           |
| Mr. Abdulrahman bin Abdulaziz Al Muhanna                  | Member             | Attended      | X        | Attended | Attended | *        | 75.0%           |
| Mr. Georges P. Schorderet                                 | Member / Secretary | Attended      | Attended | Attended | Attended | Attended | 100.0%          |

\* Membership ended on 6 August 2019

\*\* Membership started on 7 August 2019

\*\*\* He was outside the Kingdom for medical treatment

# Audit Committee

The Company's Ordinary General Assembly formed this committee for a period of three years starting from 7 August 2016. As an amendment, regulation of the Audit Committee, including the remuneration of its members, was approved by the Company's General Assembly on 8 October 2017, in accordance with Article 101 of the Companies Law. The Audit Committee shall be competent in monitoring the Company's activities and ensuring the integrity and effectiveness of the reports, Financial Statements and internal control systems. The duties of the Audit Committee shall particularly include the following:

## Financial Reports

- Analyzing the Company's interim and annual Financial Statements before presenting them to the Board and providing its opinion and recommendations thereon to ensure their integrity, fairness and transparency
- Providing its technical opinion, at the request of the Board, regarding whether the Board's report and the Company's Financial Statements are fair, balanced, understandable and contain information that allows shareholders and investors to assess the Company's financial position, performance, business model and strategy
- Analyzing any important or non-familiar issues contained in the financial reports
- Accurately investigating any issues raised by the Company's CFO or any person assuming his or her duties, or the Company's Compliance Officer or external auditor
- Examining accounting estimates in respect of significant matters that are contained in the financial reports
- Examining the Company's accounting policies and providing the Board with its opinion and recommendations thereon

## Internal Audit

- Examining and reviewing the Company's internal and financial control systems
- Analyzing internal audit reports and following up on the implementation of corrective measures in respect of the remarks contained therein
- Monitoring and overseeing the performance and activities of the Company's internal auditor and Internal Audit department to ensure the availability of

the necessary resources and their effectiveness in performing the assigned activities and duties

- Submitting a recommendation to the Board on appointing a Director for the Internal Audit department, and suggesting the remuneration thereof
- Studying and reviewing the Company's internal control system and preparing a written report on its opinion regarding the adequacy thereof and other activities that it conducted within its competence. The Board shall make available sufficient copies of said report at the Company's head office at least 10 days prior to the date set for the General Assembly Meeting, in order to provide each shareholder with a copy of said report, which shall be read during the Assembly

## The Auditor

- Providing recommendations to the Board to nominate auditors, dismiss them, determine their remuneration and assess their performance after verifying their independence and reviewing the scope of their work and the terms of their contracts
- Verifying the independence of the auditor, its objectivity, fairness and the effectiveness of audit activities, taking into account relevant rules and standards
- Reviewing the plan of the Company's auditor and its activities, and ensuring that it does not provide any technical or administrative work that is beyond its scope of work, and provides its opinion thereon
- Responding to queries of the Company's auditor
- Reviewing the auditors' reports and its comments on the Financial Statements, as well as following up on the procedures taken in connection therewith

## Ensuring Compliance

- Reviewing the findings of the reports of supervisory authorities and ensuring that the Company has taken the necessary actions in connection therewith
- Ensuring the Company's compliance with relevant laws, regulations, policies and instructions
- Reviewing the contracts and proposed related party transactions, and providing its recommendations to the Board in connection therewith
- Reporting to the Board any issues in connection with what it deems necessary to take action on and providing recommendations as to the steps that should be taken

The Committee is formed according to the following rules:

- An Audit Committee shall be formed by a resolution of the Ordinary General Assembly of the Company upon the recommendation of the Board of Directors
- Nomination of Audit Committee members shall be pursuant to the recommendation of the Remuneration and Nomination Committee
- Audit Committee members may be shareholders or others, provided that at least one of them is an independent member, and that one of its members is specialized in finance and accounting
- The Audit Committee shall not include any Executive Directors
- Any person who works or has worked in the executive or financial management of the Company or with the auditor of the Company during the last two years may not be a member of the Audit Committee
- The number of members of a committee shall not be less than three or more than five
- The Chairman of the Board of Directors may not be a member of the Audit Committee
- Members of the Audit Committee shall be selected in such a way as to ensure that they possess a variety of skills and expertise, taking into account their possession of appropriate expertise in the Company's business sector, including those who are competent in financial and accounting matters
- Members of the Audit Committee shall be appointed for a period not exceeding three years and may be reappointed as needed for the Committee's formation.
- The chairman of the Audit Committee shall be an

independent member and shall be appointed by the members thereof at the first Committee meeting

- At its first meeting, the Audit Committee shall appoint a secretary from among its members or the Company's employees
- If an Audit Committee seat becomes vacant, the Company's Board of Directors may appoint a temporary member to the vacant position, provided that the latter has the required expertise and competence. The CMA shall be informed thereof within five business days from the date of appointment, which shall be submitted before the Ordinary General Assembly at its first subsequent meeting. The new Audit Committee member shall complete the term of his or her predecessor
- The Company undertakes to notify the CMA of the names of its Audit Committee members and the status of their memberships within five business days from the date of their appointment, as well as any changes that may affect their membership, within five business days from the occurrence of such changes

As per Article 103 of the Companies Law, the Audit Committee may ask the Board of Directors to call the General Assembly to convene if the Board of Directors hinders its work or when the Company suffers serious damages or losses.

During 2019, the Audit Committee held five meetings. The following table illustrates the names, positions and attendance of the Committee members.

### Audit Committee Meetings During 2019

| Member Name                            | Position        | Meetings      |          |          |          |          | Attendance Rate |
|----------------------------------------|-----------------|---------------|----------|----------|----------|----------|-----------------|
|                                        |                 | Previous Term |          |          | New Term |          |                 |
|                                        |                 | First         | Second   | Third    | Fourth   | Fifth    |                 |
|                                        |                 | 17-Jan        | 4-Apr    | 4-Jul    | 3-Oct    | 8-Dec    |                 |
| Mr. Saad bin Abdulmohsen Al Fadly      | Member          | **            | **       | **       | Attended | Attended | 100.0%          |
| Dr. Abdulrahman bin Suliman Al Turaigi | Former Chairman | Attended      | Attended | Attended | Attended | Attended | 100.0%          |
| Dr. Muhammad bin Hassan Ikhwani        | Member          | Attended      | Attended | Attended | *        | *        | 100.0%          |
| Dr. Ibraqhim bin Hassan Al Madhoun     | Member          | Attended      | Attended | X        | *        | *        | 67.0%           |
| Mr. Farraj bin Mansour Abo Thenian     | Member          | Attended      | Attended | Attended | *        | *        | 100.0%          |
| Mr. Sulaiman bin Nasser Alhatlan       | Member          | Attended      | Attended | Attended | Attended | Attended | 100.0%          |
| Mr. Eid bin Faleh Al Shamri            | Member          | **            | **       | **       | Attended | Attended | 100.0%          |
| Mr. Raied bin Ali Alsif                | Chairman        | **            | **       | **       | Attended | Attended | 100.0%          |
| Mr. Talha Sidahmed                     | Secretary       | Attended      | Attended | Attended | Attended | Attended | 100.0%          |

\* Membership ended on 6 August 2019

\*\* Membership started on 7 August 2019

# Results of Annual Internal Audit Procedures

## Internal Control System

The Board shall approve an internal control system for the Company in order to assess the policies and procedures relating to risk management, implementation of the provisions of the Company's governance rules approved by the Company and compliance with the relevant laws and regulations. Such a system shall ensure compliance with clear accountability standards at all executive levels in the Company, and that related party transactions are implemented in accordance with the relevant provisions and controls.

## Establishing Independent Departments Within the Company

For purposes of implementing the approved internal control system, the Company has established departments for the assessment and management of risks and for internal auditing. The Company may utilize external entities to perform the duties and competencies of the units or departments of risk assessment and management and internal control without prejudice to the Company's responsibility for those duties and competencies.

## Duties of the Internal Audit Department

The Internal Audit Department shall assess and monitor the implementation of the internal control system, and verify that the Company and its employees comply with the applicable laws, regulations and instructions and the Company's policies and procedures.

## Composition of the Internal Audit Department

The Internal Audit Department shall be composed of an internal auditor manager whose appointment is recommended by the Audit Committee. Such internal auditor shall be responsible before the Audit Committee and a number of competent employees. The formation and operation of the Internal Audit Department shall take into consideration the following:

- Employees of such department shall be competent, independent and adequately trained, and shall not be entrusted with any functions other than internal audit duties and internal control system
- The Internal Audit Department shall report to the Audit Committee, and shall be subordinate and accountable to it

- The remuneration of the manager of the Internal Audit Department shall be determined by a recommendation of the Audit Committee, as per Company policies
- The Department shall be given access to information and documents, and shall be able to obtain the same without any restrictions

## Internal Audit Plan

The Internal Audit Department shall operate pursuant to a comprehensive audit plan approved by the Audit Committee. The plan shall be updated annually. Key activities and operations, including the activities of the risk management and compliance departments, shall be reviewed at least annually.

## Maintaining Internal Audit Reports

The Company shall keep records of the audit reports and business documents, which shall clarify its accomplishments, findings and recommendations, and all actions taken in this regard.

## Internal Audit Report

- The Internal Audit department shall prepare and submit, at least quarterly, a written report on its activities to the Board and the Audit Committee. Such report shall include an assessment of the Company's internal control system and the final opinion and recommendations of the Department. Such report shall also specify the procedures taken by each department for addressing the findings and recommendations from the previous audit, and any remarks thereon, particularly failures to promptly address such findings and recommendations and the reasons for such failure
- The Internal Audit Department shall prepare a general written report to be submitted to the Board and the Audit Committee on the audit activities it carried out during the financial year, compared to the approved plan. Such report shall explain the reasons for any deviation from the plan, if any, during the quarter following the end of the relevant financial year.
- The Board shall specify the scope of the report of the Internal Audit Department, based on recommendations from the Audit Committee and the Internal Audit Department. The report shall include the following in particular:

- Procedures for monitoring and overseeing the financial affairs, investments and risk management
- Assessing the development of risk factors threatening the Company and the existing systems, in order to confront radical or unexpected changes on Tadawul
- An assessment of the performance of the Board and the Senior Management with respect to the implementation of internal control systems, including specifying the number of times the Board has been informed of control issues (including risk management) and a description of the method followed to address such issues
- Failures or weaknesses in the implementation of internal control, or emergency situations that have affected or may affect the Company's financial performance, and the measures taken by the Company to address such failures (particularly the issues disclosed in the Company's Annual Reports and its Financial Statements)
- The extent to which the Company has complied with the internal controls when determining and managing risks
- Information describing the Company's risk management operations

The Audit Committee directly supervises Internal Audit, while Internal Audit continuously examines the efficiency and effectiveness of Almarai's internal control systems. Accordingly, the Board of Directors, based on the reports and recommendations of the Audit Committee, and in line with its business plan, confirms the following in respect of 2019:

- That no matters were brought to the Board's attention that would lead the Board to believe that there was a fundamental lack of integrity in financial and accounting systems such that it would require disclosure
- That the control systems are effectively functioning and facilitating the mitigation of potential risks that Almarai and its subsidiaries may face and that no matters relating to the functioning of internal controls were brought to the Board's attention that were material and would require disclosure
- That all necessary arrangements and corrective actions have been taken on all concerns and recommendations raised by Internal Audit to the Audit Committee

# Risk Committee

The Committee has the role of developing a strategy and comprehensive policies for risk management, monitoring their implementation, and reviewing and updating them. The Committee also determines and maintains an acceptable level of risk that may be faced by the Company ensuring that the Company does not go beyond such level, ensuring the feasibility of the successful continuation of the Company.

The Committee shall be responsible for the following:

- Examining and reviewing the Company's risk management policies
- Developing a strategy and comprehensive policies for risk management that are consistent with the nature and volume of the Company's activities, monitoring their implementation, and reviewing and updating them based on the Company's internal and external changing factors
- Determining and maintain an acceptable level of risk that may be faced by the Company and ensuring that the Company does not go beyond such level.
- Ensuring the feasibility of the Company's continuation, the successful continuity of its activities and determining the risks that threaten its existence during the following 12 months
- Overseeing the Company's risk management system and assessing the effectiveness of the systems and mechanisms for determining and monitoring the risks that threaten the Company in order to determine areas of inadequacy therein
- Regularly reassessing the Company's ability to manage risks and to be exposed to such risks
- Preparing detailed reports on the exposure to risks and the recommended measures to manage such risks, and presenting them to the Board
- Providing recommendations to the Board on matters related to risk management
- Ensuring the availability of adequate resources and systems for risk management
- Reviewing the organizational structure pertaining to risk management and providing recommendations regarding the same before approval by the Board
- Verifying the independence of risk management employees from activities that may expose the Company to risk
- Ensuring that risk management employees understand the risks threatening the Company and seeking to raise awareness of the culture of risk
- Reviewing any issues raised by the Audit Committee that may affect the Company's risk management

## Risk Management Committee Meeting During 2019

During 2019, the Risk Management Committee held two meetings. The following table illustrates the names, positions and attendance of Committee members.

| Member Name                    | Position  | Meetings |          | Attendance Rate |
|--------------------------------|-----------|----------|----------|-----------------|
|                                |           | First    | Second   |                 |
|                                |           | 08-Sep   | 08-Dec   |                 |
| Mr. Bader bin Abdullah Al Issa | Chairman  | Attended | Attended | 100.0%          |
| Mrs. Vanessa Fisk              | Member    | Attended | Attended | 100.0%          |
| Mr. Jason Day                  | Member    | Attended | Attended | 100.0%          |
| Mr. Paul Louis Gay             | Secretary | Attended | Attended | 100.0%          |

# Related Party Transactions

Almarai's written policy on conflict of interest addresses potential conflict situations for Directors, Executives and shareholders. The General Assembly is notified of any potential conflict of interest requiring approval.

During the normal course of its operations in 2019, Almarai carried out the following significant transactions with related parties on an arms' length basis.

|                                                           | Transaction Amount |                  | Balance at       |                  |
|-----------------------------------------------------------|--------------------|------------------|------------------|------------------|
|                                                           | 2019<br>SAR '000   | 2018<br>SAR '000 | 2019<br>SAR '000 | 2018<br>SAR '000 |
| <b>Nature of Transaction</b>                              |                    |                  |                  |                  |
| <b>Sales To</b>                                           |                    |                  |                  |                  |
| Panda Retail Company                                      | 705,028            | 701,888          | 153,423          | 141,855          |
| Herfy Food Services                                       | 5,991              | 6,095            | 877              | 558              |
|                                                           | 711,019            | 707,983          | 154,300          | 142,413          |
| <b>Purchases From</b>                                     |                    |                  |                  |                  |
| United Sugar Company                                      | 63,489             | 79,315           | (4,112)          | (5,773)          |
| Al Nafoura Catering                                       | 504                | 325              | (66)             | (78)             |
| Arab Company for Agricultural Services (ARASCO)           | 11,118             | 2,328            | (2,507)          | (512)            |
|                                                           | 75,111             | 145,706          | (6,686)          | (43,191)         |
| <b>Services From</b>                                      |                    |                  |                  |                  |
| Arabian Shield Cooperative Insurance Company              | 136,517            | 120,498          | (70,152)         | (62,003)         |
| Abdulrahman bin Abdulaziz Al Muhanna (Land Rent)          | 173                | 173              | -                | -                |
| Mobile Telecommunication Company Saudi Arabia             | 3,965              | 1,418            | -                | -                |
| Al Jazirah Corporation for Press, Printing and Publishing | 184                | 59               | (75)             | -                |
|                                                           | 140,839            | 122,961          | (70,227)         | (62,003)         |
| <b>Payment of Sukuk Finance Charges</b>                   |                    |                  |                  |                  |
| Saudi British Bank                                        | 18,213             | 14,688           | (4,204)          | (4,683)          |
| Banque Saudi Fransi                                       | 5,908              | 5,280            | (1,456)          | (1,656)          |
| Arabian Shield Cooperative Insurance Company              | 21                 | 101              | -                | (36)             |
| National Commercial Bank                                  | 16,150             | 11,267           | (3,677)          | (3,821)          |
|                                                           | 40,291             | 31,700           | (9,338)          | (10,195)         |
| <b>Bank Financing</b>                                     |                    |                  |                  |                  |
| Saudi British Bank                                        | 52,214             | 48,581           | 1,321,146        | 1,346,621        |
| Banque Saudi Fransi                                       | 3,660              | 8,940            | -                | 393,000          |
| National Commercial Bank                                  | 9,962              | 15,993           | 235,714          | 446,429          |
|                                                           | 68,313             | 75,998           | 1,556,861        | 2,186,049        |

## Dealings During the Year 2019

The following significant related party transactions during 2019 required approval from the General Assembly.

| Member                                                                  | Nature of Dealing                | Amount<br>SAR '000 | Period    | Conditions                                    |
|-------------------------------------------------------------------------|----------------------------------|--------------------|-----------|-----------------------------------------------|
| <b>Chairman / HH Prince Sultan bin Mohammed Bin Saud Al Kabeer</b>      |                                  |                    |           |                                               |
| Al Nafoura Catering                                                     | Catering Services                | 504                | One Year  | Commercial condition prevailing in the market |
| Arabian Shield Cooperative Insurance Company                            | Insurance                        | 136,517            | 2019      | Commercial condition prevailing in the market |
| Arabian Shield Cooperative Insurance Company                            | Payment of Sukuk Finance Charges | 21                 | 2019      | Commercial condition prevailing in the market |
| <b>HH Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer</b>        |                                  |                    |           |                                               |
| Mobile Telecommunication Company Saudi                                  | Telecommunication Services       | 3,965              | 2019      | Commercial condition prevailing in the market |
| <b>Engr. Mosa bin Omran Al Omran and Mr. Bader bin Abdullah Al Issa</b> |                                  |                    |           |                                               |
| Banque Saudi Fransi                                                     | Bank Financing                   | 3,660              | 2017-2027 | Commercial condition prevailing in the market |
| Banque Saudi Fransi                                                     | Payment of Sukuk Finance Charges | 5,908              | 2015-2022 | Commercial condition prevailing in the market |
| Banque Saudi Fransi                                                     | Invest in Instruments            | 100,000            | 2015-2022 | Commercial condition prevailing in the market |
| Banque Saudi Fransi                                                     | Invest in instruments            | 50,000             | 2013-2020 | Commercial condition prevailing in the market |
| <b>Eng. Anees bin Ahmed Moumina</b>                                     |                                  |                    |           |                                               |
| Herfy Food Services Co.                                                 | Product Sales                    | 5,991              | One Year  | Commercial condition prevailing in the market |
| National Commercial Bank                                                | Bank Financing                   | 9,962              | 2018-2024 | Commercial condition prevailing in the market |
| National Commercial Bank                                                | Payment of Sukuk Finance Charges | 16,150             | 2019      | Commercial condition prevailing in the market |
| National Commercial Bank                                                | Invest in Instruments            | 200,000            | 2015-2022 | Commercial condition prevailing in the market |
| National Commercial Bank                                                | Invest in instruments            | 190,000            | 2013-2020 | Commercial condition prevailing in the market |
| <b>Mr. Suliman bin Abdulqader Al Muhaideb and Saad Al Fadly</b>         |                                  |                    |           |                                               |
| Saudi British Bank                                                      | Bank Financing                   | 52,214             | 2019-2029 | Commercial condition prevailing in the market |
| Saudi British Bank                                                      | Payment of Sukuk Finance Charges | 18,213             | 2013-2020 | Commercial condition prevailing in the market |
| Saudi British Bank                                                      | Invest in Instruments            | 167,000            | 2013-2020 | Commercial condition prevailing in the market |
| Saudi British Bank                                                      | Invest in Instruments            | 270,000            | 2015-2022 | Commercial condition prevailing in the market |
| <b>Mr. Abdulrahman bin Abdulaziz Al Muhanna</b>                         |                                  |                    |           |                                               |
| Rent of Land For Distribution Center in Sharjah                         | Lease Contract                   | 173                | 2001-2021 | Commercial condition prevailing in the market |
| Al Jazirah Corporation for Press, Printing and Publishing               | Services of Publication          | 184                | One Year  | Commercial condition prevailing in the market |
| Arab Company for Agricultural Services (ARASCO)                         | Procurement Feed                 | 11,118             | One Year  | Commercial condition prevailing in the market |
| <b>Savola Group</b>                                                     |                                  |                    |           |                                               |
| Panda Retail Company                                                    | Product Sales                    | 705,028            | One year  | Commercial condition prevailing in the market |
| United Sugar Company                                                    | Sugar Purchasing                 | 63,489             | One year  | Commercial condition prevailing in the market |

# Disclosure and Transparency Policy

Almarai seeks to provide accurate, regularly updated information to all its stakeholders and other interested parties. This policy reflects current activities and will be updated as and when those activities change. The Company publishes and regularly updates information about corporate structure and operations, partners, investments, other commercial activity and performance-related information. As a publicly listed Company, Almarai recognizes its obligation to respond appropriately to legitimate questions from consumers, customers, government, the media and other stakeholders.

Information disclosed by Almarai under this policy is available on various websites including the Company's website ([www.almarai.com](http://www.almarai.com)) and the Saudi Stock Exchange (Tadawul) website ([www.tadawul.com.sa](http://www.tadawul.com.sa)).

The following information is updated and published annually, or as required by the law and relevant rules and regulations.

This is not an exhaustive list – other useful information is also disclosed as required:

- Board Members
- Board Committee Membership
- Board Reports
- Quarterly Reports and Financial Statements
- Annual Reports and Financial Statements
- Accounting Policies
- Related Party Transactions
- Review of Principal Activities
- Auditors' Report

In the following circumstances, Almarai will not routinely publish information:

- Where disclosure would, or would be likely to, prejudice the commercial interests of Almarai, its business partners or other third parties, and where the public interest in disclosure does not outweigh the public interest in maintaining the exemption
- When information has been given to Almarai in confidence, and where disclosure could give rise to an action for breach of confidence
- Personal information about Almarai employees, Board Members or other individuals, where to do so may be in breach of data protection principles

- Where disclosure would, or would be likely to, prejudice the investigation, prevention or detection of crime, or the administration of justice
- When information is subject to legal privilege

## Hotline Compliance; COC (Code of Conduct) / COI (Conflict of Interest) / Whistle Blowing Policy

Almarai is an organization with strong values of responsibility and integrity. Our Code of Conduct contains general guidelines for conducting business with the highest standards of ethics.

Almarai is committed to an environment where open, honest communications are the expectation, not the exception.

We strive to create an environment where any stakeholder, whether internal or external, feels comfortable in reporting an instance that he or she believes violates Almarai Code of Conduct policies or standards.

In this spirit, Almarai has partnered with a leader in ethics and compliance reporting, to provide a transparent and anonymous reporting mechanism, hosted by a third party hotline provider. All stakeholders are encouraged to submit reports relating to violations stated in Almarai's Code of Conduct, as well as ask for guidance related to policies and procedures and provide positive suggestions and stories with a guarantee that their comments will be heard.

Web link: <https://www.almarai.com/en/corporate/compliance/>

## Historic Information

The information that Almarai publishes on its website is mainly current information, although some historic information is available, for example previous Annual Reports.

## Contact Almarai

Related or interested parties are invited to communicate with the Investor Relations department by email: [investor.relations@almarai.com](mailto:investor.relations@almarai.com)

Interested parties may also contact the Company through the following telephone numbers: 800 124 6688 in Saudi Arabia; or +966 (11) 453 6688 from abroad. Interested parties may also contact Almarai by email: [info@almarai.com](mailto:info@almarai.com)

For more information, visit the Company's website: [www.almarai.com](http://www.almarai.com)

# Board of Directors Certification

The Board of Directors has taken care to ensure the professional performance of the Company during 2019 and certifies the following:

- There are no equity shares or debt instruments belonging to subsidiaries
- There were no convertible debt instruments or any securities or contractual rights of initial public offering or similar rights issued or granted by Almarai, and there was no compensation obtained by Almarai in return.
- There were no rights of conversion or initial public offering under convertible debt instruments or any securities or contractual rights of initial public offering or similar rights issued or granted by Almarai
- There were no substantial operational conflicts of interest during 2019, other than those that have been disclosed
- We did not receive a request from the external auditors to call a meeting of the General Assembly during 2019
- We did not receive a request from shareholders owning 5.0% or more of the Company's share capital to call a meeting of the General Assembly during 2019
- There was no procedure that might lead to the obstruction of shareholders' rights of voting
- There were no significant events affecting the integrity of the financial position of the Company after the financial year 2019 requiring disclosure, other than information that is available and declared
- The Company did not provide loans or credit facilities to any Member of the Board of Directors
- Proper books of account have been maintained
- The system of internal control is sound and has been effectively implemented
- There are no significant doubts concerning Almarai's ability to continue as a going concern

## Recommendations to the General Assembly

After reviewing the most important operational and financial activities for the financial year 2019, we are pleased to attach the Consolidated Financial Statements with the Auditor's Report. We recommend that the General Assembly approve the Directors' Report, the Consolidated Financial Statements and the Auditor's Report. The place and time of the General Assembly Meeting and any other items on the agenda will be announced at a later date.

# Stable Financial Performance for 2019

## Financial Performance

Consolidated Profit Attributable to shareholders amounted to SAR 1,812 million, decreasing by 10.0% compared to 2018. Whilst the top line growth was positive throughout the year, cost challenges resulted in a near flat operating performance. As a result, EBITDA for 2019 stood at SAR 4,013 million, at a margin of 28.0%, compared with SAR 4,012 million at a margin of 29.7% in the previous year.

The top line growth of 5.9% was driven by poultry, dairy and bakery however juice performance continues to decline in a contracting market. Channel expansion via Food services assisted growth in nearly all channels relative to retail channels which were mostly stable.

Gross Profit of SAR 5,367 million increased by 0.7%, attributable mainly to revenue growth off-set by higher costs driven by higher alfalfa costs and labor reform costs. Selling and Distribution Expenses increased by SAR 196 million or 9.0%, due to expansion in food services channel and higher general marketing expenses and trade support. General and Administration Expenses increased by a nominal SAR 25 million due to ongoing efficiency programmes.

Despite stable net debt levels, financing Costs increased by SAR 100 million, reflecting repayment of Perpetual Sukuk in Q4 2018 from general financing pool & unfavourable market conditions earlier in the year.

Driven by the end of the investment cycle and solid top line growth, Free Cash Flow generation more than doubled to reach SAR 2,602 million for the year, as compared with SAR 1,217 million in 2018.

## Segmental Results

The Fresh Dairy segment growth was nominal in the first half however it improved considerably in the 2nd half of 2019. In this challenging situation, Long Life Dairy contributed more positively to the company margin as the level of promotional activity in the category stabilized relative to last year. On the other hand, Juice category was the only product category which contracted during the year due to adverse market conditions.

The Bakery category growth on the top line helped leverage existing capacity to record a higher growth in the bottom line, despite significant marketing efforts to support new products launches.

Strong profitable growth driven by 18.0% top line growth assisted mainly via food service channel resulted in another record year for Poultry category.

## Geographic Sales

Saudi Arabia, at 68.0% value share of Almarai sales at country level, remains the major contributor for sales of the Company. The UAE came in as the second-largest market for Almarai representing 10.0% of its total sales. Growth in non-GCC countries was up by 13.0%, driven mainly by Jordan, Egypt & export. The sole country not showing positive growth for the year 2019 was Bahrain where VAT was launched earlier in the year.

## Cash Flow and Balance Sheet

The Company delivered a Net Cash Generated from Operating Activities of SAR 4,736 million, an increase of 29.0% compared to 2018, mainly because of the working capital management measures post build up of alfalfa inventory last year.

The Net Cash used in Investing Activities reached SAR 2,134 million for 2019, a decrease of SAR 123 million from 2018 as the current expansionary investment cycle is giving way to a more stable replacement capex cycle.

The positive Free Cash Flow for 2019 amounted to SAR 2,602 million, which was SAR 1,385 million higher than 2018 level as the stable working capital performance coupled with reduced capex spend resulted in an increase of 113.8% in free cash flow.

In addition, the company repaid the SAR 1.0B Sukuk Series 1 in March 2019. The repayment of the sukuk and reduction in outstanding bank liability was funded by company operating cash flows and issuance of the first tranche of USD 0.5B of the USD 2.0B programme in March 2019.

## Managing Risk

In the course of the year, the maturity profile of the existing debt facilities reduced from 4.2 years to 4.1 years, and no availing of new term debt. The Company will continue to review and consolidate its debt profile to ensure a diversified and aligned maturity profile with its free cash flow generation expectations.

The Company interest rate hedging programme ensured optimum percentage of debt in fixed interest rate regime to protect from unfavourable movement earlier in the year. During 2019, volatile currency risk was managed via maintaining minimal foreign currency exposure in both Egyptian and Argentinean operations. Whilst stable EGP provided further cushion, deteriorating ARS was protected via close and constructive collaboration between local and corporate finance teams.

The Company further consolidated its commodities hedging programme for corn, soybeans and sugar, with an established risk framework in place to guard against challenges created by volatile prices. The commodity hedging programme was expanded in 2019 to include proxy cover for plastic materials. In addition, the corporate finance team also engaged in a comprehensive overhaul of existing insurance policies to ensure optimized coverage aligned with Almarai's changing risk profile.

In 2019, the overall leverage of the Company reached 3.1 Net Debt to EBITDA, within the strategic limit set by the Board of Directors. The Net Debt to Equity Ratio reached 82.0% at the end of 2019, below the 100.0% target. The strategic direction remains to delever the Company.

Financing at the End of the Year 2019 (SAR million) towards a Net Debt to EBITDA ratio of 2.5. The current

strategic direction of lower capital investment requirements, stable working capital and growing Operating Cash Flow are likely to help us achieve this target within the next 12 to 24 months.

### Existing Financing

Almarai continued to enjoy a strong credit standing with various government and non government financial and lending institutions, as well as from fixed income investors from both domestic and international markets.

This favorable position results from Almarai's predictable positive operating cash flows and its clear strategy for sustainable growth.

Existing financing amounted to SAR 12,883.7 million at the end of 2019, in the form of Murabaha banking facilities compliant with Sharia (excluding the banking facilities of foreign and GCC subsidiaries), government funding and Sukuk from fixed income investors. All contractual terms and guarantees used for these financing agreements are executed with normal commercial conditions, including the mortgage of assets and production lines amounting to SAR 2,824.7 million, to the benefit of government financial institutions. Financing facilities granted by banks and other financial institutions are guaranteed by secured promissory notes issued by the Company.

| Source of Financing                                            | Amount of Core Funding | Financing Period | Payment Method                    | Start of year 2019 | Additions during the year | Paid during the year | 31-Dec-19       | Maturity Date |
|----------------------------------------------------------------|------------------------|------------------|-----------------------------------|--------------------|---------------------------|----------------------|-----------------|---------------|
| Banks and Financial Institutions (Islamic Banking Facilities). | 12,564.6               | 2-10 years       | Quarterly, semi-annual and annual | 7,232.0            | 3,781.2                   | 5,893.6              | 5,119.5         | 2020-2027     |
| Banking Facilities of Foreign Subsidiaries                     | 825.0                  | 1-7 years        | Quarterly, semi-annual and annual | 339.2              | 67.4                      | 43.3                 | 363.3           | 2020-2023     |
| Banking facility of GCC Subsidiaries                           | 149.9                  | 1 year           | Annual                            | 150.3              | 449.7                     | 600.0                | (0.0)           | 2020          |
| Saudi Industrial Development Fund                              | 2,732.3                | 1-11 years       | Semi-annual                       | 2,147.0            | 725.4                     | 206.9                | 2,665.5         | 2020-2028     |
| Supranational                                                  | 932.8                  | 1-9 years        | Semi-annual                       | 278.6              | -                         | 2.5                  | 276.1           | 2020-2026     |
| Agricultural Development Fund                                  | 159.2                  | 11 years         | Annual                            | 176.9              | -                         | 17.7                 | 159.2           | 2020 to 2027  |
| Sukuk - First Tranche                                          |                        | 7 years          | Lump sum                          | 1,000.0            | -                         | 1,000.0              | -               | March-19      |
| Sukuk - Second Tranche - 1                                     | 787.4                  | 7 years          | Lump sum                          | 787.0              | -                         | -                    | 787.0           | March 2020    |
| Sukuk - Fourth Tranche                                         | 1,620.8                | 7 years          | Lump sum                          | 1,635.3            | 1.0                       | 15.1                 | 1,621.2         | September-22  |
| International Sukuk                                            | 1,892.0                | 5 years          | Lump sum                          |                    | 1,876.3                   | (15.7)               | 1,892.0         | March-24      |
| <b>Total</b>                                                   | <b>21,663.9</b>        |                  |                                   | <b>13,746.2</b>    | <b>6,900.9</b>            | <b>7,763.3</b>       | <b>12,883.7</b> |               |

### Classification of Funding (SAR million)

| Classification                     | 2019<br>(SAR million) | 2018<br>(SAR million) |
|------------------------------------|-----------------------|-----------------------|
| Short Term Loans                   | 51.4                  | 25.5                  |
| Current Portion of Long Term Loans | 1,935.0               | 2,068.8               |
| Loans - Non-Current Liabilities    | 10,897.3              | 11,652.0              |
| <b>Total</b>                       | <b>12,883.7</b>       | <b>13,746.3</b>       |

### Maturity of Funding (SAR million)

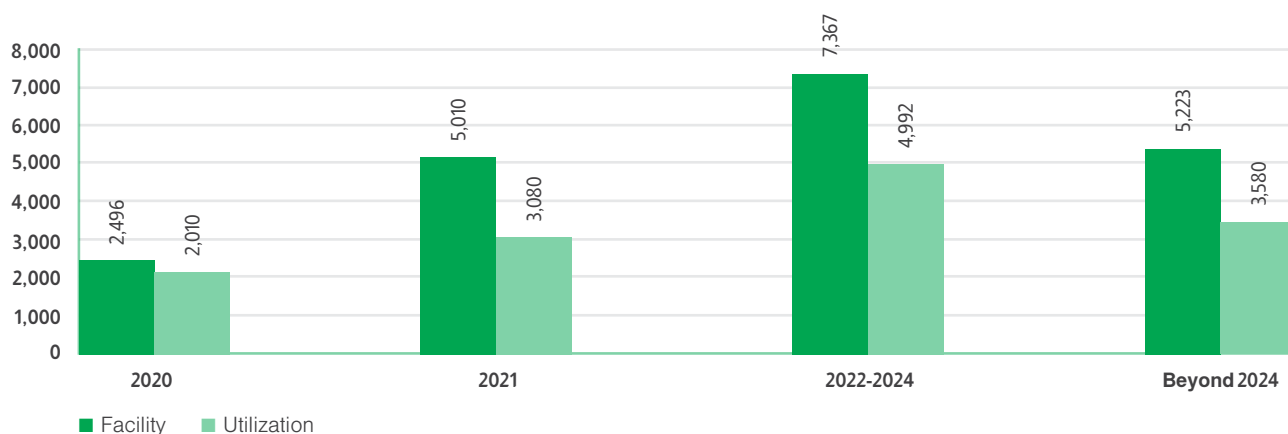
| Maturity                | 2019<br>(SAR million) | 2018<br>(SAR million) |
|-------------------------|-----------------------|-----------------------|
| Less than one year      | 1,986.0               | 2,094.3               |
| One to two years        | 1,749.7               | 3,079.9               |
| Two to five years       | 5,811.8               | 4,992.0               |
| Greater than five years | 3,336.2               | 3,580.1               |
| <b>Total</b>            | <b>12,883.7</b>       | <b>13,746.3</b>       |

### Potential Financing

Due to the continuing need to finance Almarai's current operations and potential future investments, Almarai manages any excess cash and constantly provides the necessary financing solutions for all operational needs,

as well as funding proposals for cost efficient financing facilities. The volume of un-utilized banking facilities and available government financing amounted to SAR 8,780.2 million at the end of 2019.

### Facilities and Utilization (SAR million)







# FINANCIAL STATEMENTS

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# Independent auditor's report to the shareholders of Almarai Company

## Report on the audit of the consolidated financial statements

### Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Almarai Company (the "Company") and its subsidiaries (together the "Group") as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA).

### What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of the Group in accordance with the code of professional conduct and ethics, endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Our audit approach

#### Overview

Key audit matters

- Carrying value of goodwill
- Valuation of biological assets
- Implementation of IFRS 16 "Leases"

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | How our audit addressed the key audit matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Carrying value of goodwill</b></p> <p>At 31 December 2019, the Group had goodwill, which arose on past business combinations amounting to Saudi Riyals 941 million.</p> <p>In accordance with IAS 36 “Impairment of assets”, an entity is required to test goodwill acquired in a business combination for impairment at least annually irrespective of whether there is any indication of impairment.</p> <p>Goodwill is monitored by management at the level of cash-generating units (“CGUs”). Management carried out an impairment exercise in respect of goodwill allocated to each CGU by determining a recoverable amount based on value-in-use derived from a discounted cash flow model, which utilized the most recent five-year business plan prepared by the Group’s management. This exercise did not identify any impairment loss to be recognized.</p> <p>We considered impairment testing of goodwill performed by the management to be a key audit matter since the assessment of the recoverable amount of goodwill under the value-in-use basis is complex and requires considerable judgment on the part of management. The critical judgmental elements of management’s assessment are:</p> <ol style="list-style-type: none"> <li>assumptions concerning the expected economic conditions, especially growth, in the markets in which the Group primarily operates;</li> <li>assumptions of the impact of the actions of the Group’s main competitors on expected revenue and gross margin assumptions; and</li> </ol> | <p>We audited management’s impairment assessment of goodwill by performing the following procedures:</p> <ul style="list-style-type: none"> <li>Assessed the methodology used by management to determine a recoverable value based on the value-in-use of the assets in each CGU and compared it to that required by IAS 36. We also tested the arithmetical accuracy of the model used;</li> <li>Tested the accuracy and relevance of the budget input data by reference to supporting evidence, such as approved budgets, and considered the reasonableness of these budgets by comparison to The Group’s historical results and performance against budgets;</li> <li>Reviewed the methodology applied that underpins the value-in-use calculations and use of key assumptions including sales growth rates and terminal growth rates (including terminal value multiples where used); and</li> <li>Performed sensitivity analyses over the key assumptions, principally sales growth rate and terminal growth rates (including terminal value multiples where used), in order to assess the potential impact of a range of possible outcomes.</li> </ul> <p>We also reviewed the adequacy of the Group’s disclosures included in the accompanying consolidated financial statements.</p> |

# Independent auditor's report to the shareholders of Almarai Company continued

## Report on the audit of the consolidated financial statements

| Key audit matter                                                                                                                           | How our audit addressed the key audit matter |
|--------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------|
| <b>Carrying value of goodwill (continued)</b>                                                                                              |                                              |
| c) sales growth rates and terminal growth rates (including terminal value multiples where used) used in the value-in-use model.            |                                              |
| Refer to Note 5.12 for the accounting policy and Note 9 for the related disclosures in the accompanying consolidated financial statements. |                                              |

| Key audit matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | How our audit addressed the key audit matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Valuation of biological assets</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <p>As indicated in Note 10 to the consolidated financial statements, the carrying value of biological assets as at 31 December 2019 amounted to Saudi Riyals 1,448 million. This includes Saudi Riyals 1,292 million relating to the dairy herd.</p> <p>IAS 41 "Agriculture" requires biological assets to be measured at fair value less costs to sell, unless the fair value cannot be reliably measured. Management have determined that fair value cannot be reliably measured for the Group's dairy herd and have therefore accounted for the dairy herd at cost less accumulated depreciation and impairment losses.</p> <p>We consider this to be a key audit matter as the determination that fair values cannot be reliably measured is largely based on management's judgement supported by detailed analysis and the carrying value of such assets is material to the consolidated financial statements. An alternative approach could have a material effect on the Group's reported profit for the year and its financial position at 31 December 2019.</p> <p>Refer to Note 5.11 for the accounting policy and Notes 6.1 and 29.1 for the related disclosures in the accompanying consolidated financial statements.</p> | <p>We performed the following procedures in relation to the carrying value of the dairy herd:</p> <ul style="list-style-type: none"> <li>• Obtained a detailed understanding of management's basis for rebutting the presumption of IAS 41 for measuring biological assets at fair value less costs to sell. We considered accounting practices used elsewhere for similar entities both within the Kingdom of Saudi Arabia and also overseas;</li> <li>• Assessed management's assertion that market value based (Level I and II) valuation approaches are not possible by investigation of relevant markets available to the Group and consideration of the differences between the Group's dairy herd operations compared to other similar entities;</li> <li>• Considered management's assertion that a discounted cash flow or replacement cost (Level III) approach would result in a fair value that is clearly unreliable by reviewing the management analysis and support for such an assertion and comparing it to our understanding of the business; and</li> <li>• Compared the basis on which management capitalises and depreciates the dairy herd to the approach followed by relevant accounting standards.</li> </ul> <p>We also reviewed the adequacy of the Group's disclosures included in the accompanying consolidated financial statements in relation to biological assets.</p> |

## Key audit matter

## How our audit addressed the key audit matter

### Implementation of IFRS 16 “Leases”

The Group has adopted IFRS 16 “Leases” with effect from 1 January 2019 and this new standard supersedes the requirements of IAS 17 ‘Leases’.

Management performed a detailed analysis of each lease contract to identify differences between the requirements of the two standards, identify the changes required to be made to existing accounting policies and determine the transition adjustments and consequential changes to processes and controls required particularly in connection with identification of whether an arrangement meets the definition of a lease.

IFRS 16 principally modifies the accounting treatment of operating leases at inception, with the recognition of a right-of-use on the leased asset and a corresponding liability for the discounted amount of lease payments over the term of lease contract.

The Group has chosen to apply IFRS 16 “Leases” under the full retrospective approach. Therefore, the comparative financial statements have been restated, and the cumulative impact of the first time adoption of the standard presented as at 1 January 2018. Accordingly, this resulted in recognition of right-of-use assets of Saudi Riyals 602.4 million as at 1 January 2018 and lease liabilities of Saudi Riyals 547.8 million as of that date.

Management also assessed the disclosure requirements of the new standard to be made in the consolidated financial statements.

We considered this as a key audit matter because the calculations of amounts underlying the right-of-use assets and the corresponding lease liabilities involve new processes for collecting data, complex rules and the application of significant management judgement relating to the terms in the contracts.

Refer to Note 5.1.1 which explains the impact of the adoption of the new standard, Note 5.10 for the accounting policy and Note 8 for the related disclosures in the accompanying consolidated financial statements.

We performed the following as part of our audit:

- Reviewed management’s assessment of the impact of IFRS 16 in terms of the classification and measurement of its right-of-use assets and lease liabilities, and understood the approach taken towards implementation;
- Assessed the accuracy of the lease data by testing, on a sample basis, the lease data captured by management through the inspection of lease documents;
- Tested lease schedules, on a sample basis, by recalculating the amounts underlying the right-of-use assets and lease liabilities, based on the terms of the lease contracts. We also tested the arithmetical accuracy of those individual lease schedules and how these accumulated into the overall adjustment totals applied in the consolidated financial statements as at 1 January 2018; and
- Consulted our accounting subject matter specialists to assess the appropriateness of the discount rates used in computation of lease liability obligations.

We also reviewed the adequacy of the Group’s disclosures included in the accompanying consolidated financial statements in relation to the implementation of the new standard.

# Independent auditor's report to the shareholders of Almarai Company continued

## Report on the audit of the consolidated financial statements

### Other information

Management is responsible for the other information. The other information comprises the information included in the Annual Report of the Group (but does not include the consolidated financial statements and our auditor's report thereon), which is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual Report of the Group, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

### Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, and the applicable requirements of the Regulations for Companies and the Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Group's audit committee is responsible for overseeing the Group's financial reporting process.

### Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is

sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication

## PricewaterhouseCoopers



Omar M. Al Sagga  
License Number 369  
19 January 2020



# Consolidated Statement of Financial Position

## as at 31 December 2019

|                                                             |       | For the year ended 31 December |                                   |                                   |
|-------------------------------------------------------------|-------|--------------------------------|-----------------------------------|-----------------------------------|
|                                                             |       | 2019                           | 2018                              | 1 Jan 2018                        |
|                                                             | Notes | SAR '000                       | Restated (Note 5.1.1)<br>SAR '000 | Restated (Note 5.1.1)<br>SAR '000 |
| <b>ASSETS</b>                                               |       |                                |                                   |                                   |
| <b>Non-Current Assets</b>                                   |       |                                |                                   |                                   |
| Property, Plant and Equipment                               | 7     | 22,576,888                     | 22,606,542                        | 22,401,692                        |
| Right-of-Use Assets                                         | 8     | 461,375                        | 547,933                           | 602,433                           |
| Intangible Assets and Goodwill                              | 9     | 1,128,533                      | 1,038,371                         | 1,046,607                         |
| Biological Assets                                           | 10    | 1,381,268                      | 1,366,566                         | 1,283,342                         |
| Investments in Associate and Joint Venture                  | 11    | 88,029                         | 204                               | 129,429                           |
| Equity Investment                                           | 11    | 145,684                        | 102,624                           | 90,711                            |
| Derivative Financial Instruments                            | 36    | 725                            | 19,747                            | 16,808                            |
| Deferred Tax Assets                                         | 23    | 40,836                         | 11,488                            | 39,926                            |
|                                                             |       | 25,823,338                     | 25,693,475                        | 25,610,948                        |
| <b>Current Assets</b>                                       |       |                                |                                   |                                   |
| Inventories                                                 | 13    | 4,198,005                      | 3,874,193                         | 3,121,903                         |
| Biological Assets                                           | 10    | 96,462                         | 98,439                            | 87,321                            |
| Trade Receivables, Prepayments and Other Receivables        | 14    | 1,868,895                      | 1,913,202                         | 1,667,507                         |
| Derivative Financial Instruments                            | 36    | 13,751                         | 20,336                            | 9,480                             |
| Time Deposit                                                | 15    | 590,038                        | -                                 | -                                 |
| Cash and Bank Balances                                      | 16    | 557,553                        | 1,182,902                         | 1,891,697                         |
|                                                             |       | 7,324,704                      | 7,089,072                         | 6,777,908                         |
| <b>TOTAL ASSETS</b>                                         |       | <b>33,148,042</b>              | <b>32,782,547</b>                 | <b>32,388,856</b>                 |
| <b>EQUITY</b>                                               |       |                                |                                   |                                   |
| Share Capital                                               | 17    | 10,000,000                     | 10,000,000                        | 10,000,000                        |
| Statutory Reserve                                           |       | 2,230,479                      | 2,049,304                         | 1,848,418                         |
| Treasury Shares                                             | 18    | (770,740)                      | (593,567)                         | (453,156)                         |
| Other Reserves                                              | 19    | (450,587)                      | (520,500)                         | (609,135)                         |
| Retained Earnings                                           |       | 3,644,197                      | 2,941,346                         | 1,944,927                         |
| <b>Equity Attributable to Shareholders</b>                  |       | <b>14,653,349</b>              | <b>13,876,583</b>                 | <b>12,731,054</b>                 |
| Perpetual Sukuk                                             |       | -                              | -                                 | 1,700,000                         |
| <b>Equity Attributable to Equity Holders of the Company</b> |       | <b>14,653,349</b>              | <b>13,876,583</b>                 | <b>14,431,054</b>                 |
| Non-Controlling Interests                                   | 20    | 605,771                        | 586,061                           | 395,504                           |
| <b>TOTAL EQUITY</b>                                         |       | <b>15,259,120</b>              | <b>14,462,644</b>                 | <b>14,826,558</b>                 |
| <b>Non-Current Liabilities</b>                              |       |                                |                                   |                                   |
| Loans and Borrowings                                        | 21    | 10,897,327                     | 11,651,970                        | 10,543,125                        |
| Lease Liabilities                                           | 8     | 335,659                        | 409,703                           | 500,183                           |
| Employee Retirement Benefits                                | 22    | 826,399                        | 699,325                           | 621,536                           |
| Derivative Financial Instruments                            | 36    | 1,556                          | 7,101                             | 30,779                            |
| Deferred Tax Liabilities                                    | 23    | 103,328                        | 37,967                            | 48,060                            |
|                                                             |       | 12,164,269                     | 12,806,066                        | 11,743,683                        |
| <b>Current Liabilities</b>                                  |       |                                |                                   |                                   |
| Bank Overdrafts                                             | 33    | 219,118                        | 179,321                           | 255,585                           |
| Loans and Borrowings                                        | 21    | 1,986,393                      | 2,094,292                         | 2,003,403                         |
| Lease Liabilities                                           | 8     | 95,750                         | 89,796                            | 47,653                            |
| Zakat                                                       | 24    | 363,488                        | 302,911                           | 256,235                           |
| Income Tax Payable                                          | 24    | 31,578                         | 13,153                            | 16,671                            |
| Trade and Other Payables                                    | 25    | 3,019,160                      | 2,808,042                         | 3,227,343                         |
| Derivative Financial Instruments                            | 36    | 9,166                          | 26,322                            | 11,725                            |
|                                                             |       | 5,724,653                      | 5,513,837                         | 5,818,615                         |
| <b>TOTAL LIABILITIES</b>                                    |       | <b>17,888,922</b>              | <b>18,319,903</b>                 | <b>17,562,298</b>                 |
| <b>TOTAL EQUITY AND LIABILITIES</b>                         |       | <b>33,148,042</b>              | <b>32,782,547</b>                 | <b>32,388,856</b>                 |

The accompanying notes 1 to 41 form an integral part of these Consolidated Financial Statements, which have been authorised for issue by the Board of Directors on behalf of the Shareholders and signed on its behalf by:

**Paul-Louis Gay**  
Chief Financial Officer

**Majed Mazen Rasheed Nofal**  
Chief Executive Officer

**HH Prince Sultan bin Mohammed  
bin Saud Al Kabeer**  
Chairman

# Consolidated Statement of Profit or Loss

## for the year ended 31 December 2019

|                                                                                                           |       | For the year ended 31 December |                                           |
|-----------------------------------------------------------------------------------------------------------|-------|--------------------------------|-------------------------------------------|
|                                                                                                           |       | 2019<br>SAR '000               | 2018<br>Restated (Note 5.1.1)<br>SAR '000 |
|                                                                                                           | Notes |                                |                                           |
| Revenue                                                                                                   | 32    | 14,351,277                     | 13,557,837                                |
| Cost of Sales                                                                                             | 26    | (8,984,603)                    | (8,230,763)                               |
| <b>Gross Profit</b>                                                                                       |       | <b>5,366,674</b>               | <b>5,327,074</b>                          |
| Selling and Distribution Expenses                                                                         | 27    | (2,376,328)                    | (2,180,244)                               |
| General and Administration Expenses                                                                       | 28    | (400,273)                      | (375,204)                                 |
| Other Expenses, net                                                                                       | 29    | (88,672)                       | (275,075)                                 |
| Impairment (Loss) / Reversal on Financial Assets                                                          |       | (28,193)                       | 24,684                                    |
| <b>Operating Profit</b>                                                                                   |       | <b>2,473,208</b>               | <b>2,521,235</b>                          |
| Finance Cost, net                                                                                         | 30    | (550,739)                      | (436,766)                                 |
| Share of Results of Associates                                                                            |       | -                              | (5,413)                                   |
| <b>Profit before Zakat and Income Tax</b>                                                                 |       | <b>1,922,469</b>               | <b>2,079,056</b>                          |
| Zakat                                                                                                     | 24    | (71,426)                       | (49,352)                                  |
| Income Tax                                                                                                | 23,24 | (49,471)                       | (21,146)                                  |
| <b>Profit for the year</b>                                                                                |       | <b>1,801,572</b>               | <b>2,008,558</b>                          |
| <b>Profit / (Loss) for the year attributable to:</b>                                                      |       |                                |                                           |
| Shareholders of the Company                                                                               |       | 1,811,753                      | 2,011,975                                 |
| Non-Controlling Interests                                                                                 |       | (10,181)                       | (3,417)                                   |
|                                                                                                           |       | <b>1,801,572</b>               | <b>2,008,558</b>                          |
| <b>Earnings per Share (SAR), based on Profit for the year attributable to Shareholders of the Company</b> |       |                                |                                           |
| - Basic                                                                                                   | 31    | 1.83                           | 1.98                                      |
| - Diluted                                                                                                 | 31    | 1.81                           | 1.96                                      |

The accompanying notes 1 to 41 form an integral part of these Consolidated Financial Statements, which have been authorised for issue by the Board of Directors on behalf of the Shareholders and signed on its behalf by:

**Paul-Louis Gay**  
Chief Financial Officer

**Majed Mazen Rasheed Nofal**  
Chief Executive Officer

**HH Prince Sultan bin Mohammed  
bin Saud Al Kabeer**  
Chairman

# Consolidated Statement of Comprehensive Income

## for the year ended 31 December 2019

|                                                                                                           | Notes | For the year ended 31 December |                                           |
|-----------------------------------------------------------------------------------------------------------|-------|--------------------------------|-------------------------------------------|
|                                                                                                           |       | 2019<br>SAR '000               | 2018<br>Restated (Note 5.1.1)<br>SAR '000 |
| <b>Profit for the year</b>                                                                                |       | <b>1,801,572</b>               | <b>2,008,558</b>                          |
| <b>Items that will not be reclassified to profit or loss:</b>                                             |       |                                |                                           |
| Actuarial Loss on End of Service Benefits                                                                 | 22    | (65,770)                       | (18,686)                                  |
| Change in the Fair Value of Equity Investment through FVOCI                                               | 11    | 43,060                         | 11,913                                    |
| Settlement of Cash Flow Hedges transferred to Inventory / PPE                                             |       | (36,049)                       | (20,529)                                  |
| <b>Items that are or may be reclassified subsequently to profit or loss:</b>                              |       |                                |                                           |
| Foreign Currency Translation Differences                                                                  |       | 85,007                         | (1,885)                                   |
| Foreign Currency Translation Difference Due to<br>Reclassification on Disposal of Investment in Associate |       | -                              | 64,474                                    |
| Movement in Fair Value on Cash Flow Hedges                                                                |       | 45,968                         | 39,652                                    |
| Settlement of Cash Flow Hedges transferred to Profit or Loss                                              |       | (9,784)                        | 3,753                                     |
| Share of Other Comprehensive Income of Associates                                                         |       | -                              | 567                                       |
| Other Comprehensive Income for the year, net of Income Tax                                                |       | 62,432                         | 79,259                                    |
| <b>Total Comprehensive Income for the year</b>                                                            |       | <b>1,864,004</b>               | <b>2,087,817</b>                          |
| <b>Total Comprehensive Income / (Loss) for the year attributable to:</b>                                  |       |                                |                                           |
| Shareholders of the Company                                                                               |       | 1,836,774                      | 2,093,084                                 |
| Non-Controlling Interests                                                                                 |       | 27,230                         | (5,267)                                   |
|                                                                                                           |       | <b>1,864,004</b>               | <b>2,087,817</b>                          |

The accompanying notes 1 to 41 form an integral part of these Consolidated Financial Statements, which have been authorised for issue by the Board of Directors on behalf of the Shareholders and signed on its behalf by:

**Paul-Louis Gay**  
Chief Financial Officer

**Majed Mazen Rasheed Nofal**  
Chief Executive Officer

**HH Prince Sultan bin Mohammed  
bin Saud Al Kabeer**  
Chairman

# Consolidated Statement of Changes in Equity

## for the year ended 31 December 2019

|                                                                | Share Capital     | Statutory Reserve | Treasury Shares  | Other Reserves   | Retained Earnings | Equity Attributable to Shareholders | Perpetual Sukuk  | Equity Attributable to Equity Holders | Non-Controlling Interests | Total Equity      |
|----------------------------------------------------------------|-------------------|-------------------|------------------|------------------|-------------------|-------------------------------------|------------------|---------------------------------------|---------------------------|-------------------|
| <b>Balance at 1 January 2018</b>                               | <b>10,000,000</b> | <b>1,848,418</b>  | <b>(453,156)</b> | <b>(609,135)</b> | <b>1,998,246</b>  | <b>12,784,373</b>                   | <b>1,700,000</b> | <b>14,484,373</b>                     | <b>396,867</b>            | <b>14,881,240</b> |
| Restatement (Refer Note 5.1.1)                                 | -                 | -                 | -                | -                | (53,319)          | (53,319)                            | -                | (53,319)                              | (1,363)                   | (54,682)          |
| <b>Balance as at 1 January 2018 (restated)</b>                 | <b>10,000,000</b> | <b>1,848,418</b>  | <b>(453,156)</b> | <b>(609,135)</b> | <b>1,944,927</b>  | <b>12,731,054</b>                   | <b>1,700,000</b> | <b>14,431,054</b>                     | <b>395,504</b>            | <b>14,826,558</b> |
| Profit / (Loss) for the year                                   | -                 | -                 | -                | -                | 2,011,975         | 2,011,975                           | -                | 2,011,975                             | (3,417)                   | 2,008,558         |
| Other Comprehensive Income / (Loss) for the year               | -                 | -                 | -                | 99,795           | (18,686)          | 81,109                              | -                | 81,109                                | (1,850)                   | 79,259            |
| Total Comprehensive Income / (Loss)                            | -                 | -                 | -                | 99,795           | 1,993,289         | 2,093,084                           | -                | 2,093,084                             | (5,267)                   | 2,087,817         |
| Transfer during the year                                       | -                 | 200,886           | -                | -                | (200,886)         | -                                   | -                | -                                     | -                         | -                 |
| Directors' Remuneration                                        | -                 | -                 | -                | -                | (5,640)           | (5,640)                             | -                | (5,640)                               | -                         | (5,640)           |
| <b>Transactions with Owners in their Capacity as Owners</b>    |                   |                   |                  |                  |                   |                                     |                  |                                       |                           |                   |
| Dividend Declared SAR 0.75 per Share                           | -                 | -                 | -                | -                | (750,000)         | (750,000)                           | -                | (750,000)                             | -                         | (750,000)         |
| Share Based Payment Transactions                               | -                 | -                 | -                | 29,211           | -                 | 29,211                              | -                | 29,211                                | -                         | 29,211            |
| Settlement of Treasury Shares                                  | -                 | -                 | 82,296           | (22,431)         | 15,247            | 75,112                              | -                | 75,112                                | -                         | 75,112            |
| Purchase of Treasury shares                                    | -                 | -                 | (222,707)        | -                | -                 | (222,707)                           | -                | (222,707)                             | -                         | (222,707)         |
| Repayment of Perpetual Sukuk                                   | -                 | -                 | -                | -                | -                 | -                                   | (1,700,000)      | (1,700,000)                           | -                         | (1,700,000)       |
| Profit on Perpetual Sukuk SAR 32,701 per Sukuk                 | -                 | -                 | -                | 55,591           | (55,591)          | -                                   | -                | -                                     | -                         | -                 |
| Payment of Profit on Perpetual Sukuk                           | -                 | -                 | -                | (73,531)         | -                 | (73,531)                            | -                | (73,531)                              | -                         | (73,531)          |
| Transactions with Non Controlling Interests                    | -                 | -                 | -                | -                | -                 | -                                   | -                | -                                     | 195,824                   | 195,824           |
| <b>Balance at 31 December 2018 (restated)</b>                  | <b>10,000,000</b> | <b>2,049,304</b>  | <b>(593,567)</b> | <b>(520,500)</b> | <b>2,941,346</b>  | <b>13,876,583</b>                   | <b>-</b>         | <b>13,876,583</b>                     | <b>586,061</b>            | <b>14,462,644</b> |
| <b>Balance at 1 January 2019</b>                               | <b>10,000,000</b> | <b>2,049,304</b>  | <b>(593,567)</b> | <b>(520,500)</b> | <b>2,941,346</b>  | <b>13,876,583</b>                   | <b>-</b>         | <b>13,876,583</b>                     | <b>586,061</b>            | <b>14,462,644</b> |
| Profit / (Loss) for the year                                   | -                 | -                 | -                | -                | 1,811,753         | 1,811,753                           | -                | 1,811,753                             | (10,181)                  | 1,801,572         |
| Other Comprehensive Income / (Loss) for the year               | -                 | -                 | -                | 89,122           | (64,101)          | 25,021                              | -                | 25,021                                | 37,411                    | 62,432            |
| Total Comprehensive Income                                     | -                 | -                 | -                | 89,122           | 1,747,652         | 1,836,774                           | -                | 1,836,774                             | 27,230                    | 1,864,004         |
| Transfer during the year                                       | -                 | 181,175           | -                | -                | (181,175)         | -                                   | -                | -                                     | -                         | -                 |
| Directors' Remuneration                                        | -                 | -                 | -                | -                | (5,050)           | (5,050)                             | -                | (5,050)                               | -                         | (5,050)           |
| Impact of Change in Functional Currency of Overseas Operations | -                 | -                 | -                | -                | (13,602)          | (13,602)                            | -                | (13,602)                              | -                         | (13,602)          |
| <b>Transactions with Owners in their Capacity as Owners</b>    |                   |                   |                  |                  |                   |                                     |                  |                                       |                           |                   |
| Dividend Declared SAR 0.85 per Share                           | -                 | -                 | -                | -                | (850,000)         | (850,000)                           | -                | (850,000)                             | -                         | (850,000)         |
| Share Based Payment Transactions                               | -                 | -                 | -                | 17,722           | -                 | 17,722                              | -                | 17,722                                | -                         | 17,722            |
| Settlement of Treasury Shares                                  | -                 | -                 | 137,757          | (36,931)         | 5,026             | 105,852                             | -                | 105,852                               | -                         | 105,852           |
| Purchase of Treasury shares                                    | -                 | -                 | (314,930)        | -                | -                 | (314,930)                           | -                | (314,930)                             | -                         | (314,930)         |
| Transactions with Non Controlling Interests                    | -                 | -                 | -                | -                | -                 | -                                   | -                | -                                     | (7,520)                   | (7,520)           |
| <b>Balance at 31 December 2019</b>                             | <b>10,000,000</b> | <b>2,230,479</b>  | <b>(770,740)</b> | <b>(450,587)</b> | <b>3,644,197</b>  | <b>14,653,349</b>                   | <b>-</b>         | <b>14,653,349</b>                     | <b>605,771</b>            | <b>15,259,120</b> |

The accompanying notes 1 to 41 form an integral part of these Consolidated Financial Statements, which have been authorised for issue by the Board of Directors on behalf of the Shareholders and signed on its behalf by:

**Paul-Louis Gay**  
Chief Financial Officer

**Majed Mazen Rasheed Nofal**  
Chief Executive Officer

**HH Prince Sultan bin Mohammed bin Saud Al Kabeer**  
Chairman

# Consolidated Statement of Cash Flows

## for the year ended 31 December 2019

|                                                                             | Notes     | For the year ended 31 December |                                   |
|-----------------------------------------------------------------------------|-----------|--------------------------------|-----------------------------------|
|                                                                             |           | 2019                           | 2018                              |
|                                                                             |           | SAR '000                       | Restated (Note 5.1.1)<br>SAR '000 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                 |           |                                |                                   |
| Profit for the year                                                         |           | 1,801,572                      | 2,008,558                         |
| Adjustments for:                                                            |           |                                |                                   |
| Depreciation of Property, Plant and Equipment                               | 7         | 1,638,626                      | 1,684,106                         |
| Depreciation of Right-of-Use Assets                                         | 8         | 101,788                        | 94,732                            |
| Amortisation of Intangible Assets                                           | 9         | 49,938                         | 47,451                            |
| Depreciation of Biological Assets                                           | 10        | 384,123                        | 313,838                           |
| (Gain) / Loss arising from Changes in Fair Value less Cost to Sell of Crops | 10        | (4,030)                        | 1,214                             |
| Provision for Employee Retirement Benefits                                  | 22        | 117,899                        | 108,660                           |
| Share Based Payment Expense                                                 |           | 17,722                         | 29,211                            |
| Finance Cost, net                                                           | 30        | 550,739                        | 436,766                           |
| Other Expenses, net                                                         |           | 88,972                         | 275,300                           |
| Share of Results of Associates                                              |           | -                              | 5,413                             |
| Zakat                                                                       | 24        | 71,426                         | 49,352                            |
| Income Tax                                                                  | 23,24     | 49,471                         | 21,146                            |
|                                                                             |           | 4,868,246                      | 5,075,747                         |
| Changes in:                                                                 |           |                                |                                   |
| Inventories                                                                 |           | 1,068,299                      | 858,754                           |
| Biological Assets                                                           |           | (1,345,618)                    | (1,614,754)                       |
| Trade Receivables, Prepayments and Other Receivables                        |           | 142,850                        | (257,234)                         |
| Trade and Other Payables                                                    |           | 79,860                         | (314,422)                         |
| Cash Used in Operating Activities                                           |           | (54,609)                       | (1,327,656)                       |
| Employee Retirement Benefits Paid                                           | 22        | (62,279)                       | (56,355)                          |
| Zakat and Foreign Income Tax Paid                                           | 24        | (19,277)                       | (22,964)                          |
| <b>Net Cash Generated from Operating Activities</b>                         |           | <b>4,732,081</b>               | <b>3,668,772</b>                  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                 |           |                                |                                   |
| Investment in Time Deposit                                                  | 15        | (585,000)                      | -                                 |
| Investment in Associate                                                     | 11        | (87,825)                       | -                                 |
| Acquisition of Subsidiary, net of Cash Acquired                             | 12        | (97,593)                       | (3,872)                           |
| Acquisition of Additional Shares of a Subsidiary                            | 12        | (43,500)                       | (9,375)                           |
| Proceeds from Sale of Investment in Associate                               |           | -                              | 105,000                           |
| Dividend from Equity Investment                                             | 29        | 300                            | 225                               |
| Additions to Property, Plant and Equipment                                  |           | (1,516,698)                    | (1,918,833)                       |
| Proceeds from the Disposal of Property, Plant and Equipment                 |           | 45,937                         | 35,740                            |
| Additions to Intangible Assets                                              | 9         | (132,983)                      | (39,797)                          |
| Additions to Biological Assets                                              | 10        | (125,695)                      | (97,818)                          |
| Appreciation of Biological Assets                                           |           | (629,785)                      | (639,089)                         |
| Proceeds from the Disposal of Biological Assets                             |           | 228,789                        | 200,239                           |
| Repayment of Loan - Associate                                               | 11        | -                              | 17,861                            |
| <b>Net Cash Used in Investing Activities</b>                                |           | <b>(2,944,053)</b>             | <b>(2,349,719)</b>                |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                 |           |                                |                                   |
| Proceeds from Loans and Borrowings                                          |           | 6,900,918                      | 9,947,900                         |
| Repayment of Loans and Borrowings                                           |           | (7,704,400)                    | (8,833,451)                       |
| Finance Cost Paid                                                           |           | (524,609)                      | (420,625)                         |
| Dividend Paid                                                               |           | (849,969)                      | (747,846)                         |
| Purchase of Treasury Shares                                                 | 18        | (314,930)                      | (222,707)                         |
| Settlement of Treasury Shares                                               |           | 105,852                        | 75,112                            |
| Transactions with Non Controlling Interests                                 |           | 35,516                         | 130,253                           |
| Payment of Profit on Perpetual Sukuk                                        |           | -                              | (73,531)                          |
| Repayment of Perpetual Sukuk                                                |           | -                              | (1,700,000)                       |
| Lease Payments                                                              |           | (103,366)                      | (110,392)                         |
| Directors' Remuneration                                                     |           | (5,050)                        | (5,640)                           |
| <b>Net Cash Used in Financing Activities</b>                                |           | <b>(2,460,038)</b>             | <b>(1,960,927)</b>                |
| <b>Net Change in Cash and Cash Equivalents</b>                              |           | <b>(672,010)</b>               | <b>(641,874)</b>                  |
| Cash and Cash Equivalents at 1 January                                      |           | 1,003,581                      | 1,636,112                         |
| <b>Effect of Movements in Exchange Rates on Cash and Cash Equivalents</b>   |           | <b>6,864</b>                   | <b>9,343</b>                      |
| <b>Cash and Cash Equivalents at 31 December</b>                             | <b>33</b> | <b>338,435</b>                 | <b>1,003,581</b>                  |

The accompanying notes 1 to 41 form an integral part of these Consolidated Financial Statements, which have been authorised for issue by the Board of Directors on behalf of the Shareholders and signed on its behalf by:

**Paul-Louis Gay**  
Chief Financial Officer

**Majed Mazen Rasheed Nofal**  
Chief Executive Officer

**HH Prince Sultan bin Mohammed  
bin Saud Al Kabeer**  
Chairman

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2019

### 1. THE COMPANY, ITS SUBSIDIARIES AND ITS BUSINESS DESCRIPTION

Almarai Company (the “Company”) is a Saudi Joint Stock Company, which was converted from a limited liability company to a joint stock company on 2 Rajab 1426 A.H. (8 August 2005). The Company initially commenced trading on 19 Dul 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 was trading between 1977 and 1991 under the Almarai brand name.

The Company’s Head Office is located at Exit 7, North Ring Road, Al Izdihar District, P.O. Box 8524, Riyadh 11492, Kingdom of Saudi Arabia (“Saudi Arabia”).

The Company and its subsidiaries (together, the “Group”) are a major integrated consumer food and beverage Group in the Middle East with leading market share in Saudi Arabia. It also operates in Egypt, Jordan and other Gulf Cooperation Council (“GCC”) countries.

Dairy, Fruit Juices and related food business is operated under the “Almarai”, “Joosy Life”, “Beyti” and “Teeba” brand names. All raw milk production, Dairy and Fruit Juice product processing and related food product manufacturing activities are undertaken in Saudi Arabia, United Arab Emirates (“UAE”), Egypt and Jordan.

Dairy, Fruit Juices and related food business in Egypt and Jordan operates through International Dairy and Juice Limited (“IDJ”), a joint venture with PepsiCo, in which the Company holds a controlling interest. The Group manages IDJ operations through the following key subsidiaries:

#### Jordan

Teeba Investment for Developed Food Processing

#### Egypt

International Company for Agricultural Industries Projects (Beyti) (SAE)

Bakery products are manufactured and traded by Western Bakeries Company Limited and Modern Food Industries Company Limited, a venture with Chipita Group, in which the Company holds a controlling interest, under the brand names “L’usine” and “7 Days”, respectively.

Poultry products are manufactured and traded by Hail Agricultural Development Company under the “Alyoum” and “AlBashayer” brand names.

Infant Nutrition products are manufactured by Almarai Baby Food Company Limited and traded by International Pediatric Nutrition Company under “Nuralac” and “Evolac” brand names.

In territories where the Group has operations, final consumer packed products are distributed from manufacturing facilities to local distribution centres by the Group’s long haul distribution fleet. The distribution centres in GCC countries are managed through subsidiaries in UAE, Oman and Bahrain and an agency agreement in Kuwait as follows:

# Notes to the Consolidated Financial Statements continued for the year ended 31 December 2019

## 1. THE COMPANY, ITS SUBSIDIARIES AND ITS BUSINESS DESCRIPTION continued

### UAE

Almarai Emirates Company LLC

### Oman

Arabian Planets for Trading and Marketing LLC

### Bahrain

Almarai Company Bahrain S.P.C

### Kuwait

Al Kharafi Brothers Dairy Products Company Limited

In other territories, where permissible by law, Dairy and Juice products are exported through IDJ and other products are exported through other subsidiaries.



The Group owns and operates arable farms in Argentina, and in United States of America (USA), collectively referred to as “Fondomonte”, through the following key subsidiaries:

#### USA

Fondomonte Holdings North America LLC

#### Argentina

Fondomonte South America S.A

The Group’s non-GCC business operations under IDJ and Fondomonte are managed through Almarai Investment Holding Company W.L.L., a Company incorporated in the Kingdom of Bahrain.

On 15 Dhul-Qa’dah 1440 A.H. (18 July 2019), the Group acquired further shares in Pure Breed Poultry Company resulting in an increase in its shareholding from 62.4% to 93.5%. Pure Breed’s main operation are focused on poultry grandparent farming and its acquisition add to the Group’s ongoing efforts to further streamline, integrate and strengthen its poultry supply chain. (Refer note 12.1)

On 22 Ramadan 1440 A.H. (27 May 2019), the Group acquired 100% shareholding in Premier Foods LLC. Premier Foods is primarily engaged in providing value added products (meat and poultry) to the food services industry in the Middle East. This acquisition will further enhance Almarai’s footprint for expansion in the food service channel (Refer note 12.2).

# Notes to the Consolidated Financial Statements continued

## for the year ended 31 December 2019

### 1. THE COMPANY, ITS SUBSIDIARIES AND ITS BUSINESS DESCRIPTION continued

Details of subsidiary companies are as follows:

| Name of Subsidiary                                                       | Country of Incorporation | Business Activity                 |
|--------------------------------------------------------------------------|--------------------------|-----------------------------------|
| Almarai Investment Company Limited                                       | Saudi Arabia             | Holding Company                   |
| Almarai Baby Food Company Limited                                        | Saudi Arabia             | Manufacturing Company             |
| Almarai Agricultural And Livestock Production Company Limited            | Saudi Arabia             | Dormant                           |
| Almarai Construction Company Limited                                     | Saudi Arabia             | Dormant                           |
| Almarai for Maintenance and Operation Company Limited                    | Saudi Arabia             | Dormant                           |
| Agricultural Input Company Limited (Mudkhalat)                           | Saudi Arabia             | Dormant                           |
| Hail Agricultural Development Company                                    | Saudi Arabia             | Poultry / Agricultural Company    |
| Hail Agricultural And Livestock Production Company Limited               | Saudi Arabia             | Dormant                           |
| International Baking Services Company Limited                            | Saudi Arabia             | Dormant                           |
| International Pediatric Nutrition Company Limited                        | Saudi Arabia             | Dormant                           |
| Modern Food Industries Company Limited (MFI)                             | Saudi Arabia             | Bakery Company                    |
| Nourlac Company Limited                                                  | Saudi Arabia             | Dormant                           |
| Western Bakeries Company Limited                                         | Saudi Arabia             | Bakery Company                    |
| Pure Breed Poultry Company Limited (Refer note 12)                       | Saudi Arabia             | Poultry Company                   |
| Premier Food Industries Company L.L.C(Refer note 12)                     | Saudi Arabia             | Manufacturing and Trading Company |
| Agro Terra S.A.                                                          | Argentina                | Dormant                           |
| Fondomonte South America S.A.                                            | Argentina                | Agricultural Company              |
| Almarai Company Bahrain S.P.C.                                           | Bahrain                  | Trading Company                   |
| Almarai Investment Holding Company W.L.L.                                | Bahrain                  | Holding Company                   |
| IDJ Bahrain Holding Company W.L.L.                                       | Bahrain                  | Holding Company                   |
| International Dairy and Juice Limited                                    | Bermuda                  | Holding Company                   |
| International Dairy and Juice (Egypt) Limited                            | Egypt                    | Holding Company                   |
| International Company for Agricultural Industries Projects (Beyti) (SAE) | Egypt                    | Manufacturing and Trading Company |
| Markley Holdings Limited                                                 | Jersey                   | Dormant                           |
| Al Muthedoon for Dairy Production                                        | Jordan                   | Dormant                           |
| Al Atheer Agricultural Company                                           | Jordan                   | Livestock / Agricultural Company  |
| Al Namouthjya for Plastic Production                                     | Jordan                   | Dormant                           |
| Al Rawabi for juice and UHT milk Manufacturing                           | Jordan                   | Manufacturing Company             |
| Teeba Investment for Developed Food Processing                           | Jordan                   | Manufacturing Company             |
| Arabian Planets for Trading and Marketing L.L.C.                         | Oman                     | Trading Company                   |
| Alyoum for Food Products Company L.L.C.                                  | Oman                     | Dormant                           |
| Fondomonte Inversiones S.L.                                              | Spain                    | Holding Company                   |
| Hail Development Company Limited                                         | Sudan                    | Dormant                           |
| Almarai Emirates Company L.L.C.                                          | United Arab Emirates     | Trading Company                   |
| International Dairy and Juice (Dubai) Limited                            | United Arab Emirates     | Holding Company                   |
| BDC international L.L.C.                                                 | United Arab Emirates     | Operations Management             |
| International Dairy and Juice Farm Egypt (S.A.E.)                        | Egypt                    | Holding Company                   |
| Fondomonte Holding North America L.L.C.                                  | United States of America | Holding Company                   |
| Fondomonte Arizona L.L.C.                                                | United States of America | Agricultural Company              |
| Fondomonte California L.L.C.                                             | United States of America | Agricultural Company              |
| Hayday Farm Operation L.L.C.                                             | United States of America | Agricultural Company              |
| BDC Info Private Limited                                                 | India                    | Operations Management             |



| Ownership Interest |           |            |           |                      |                         |
|--------------------|-----------|------------|-----------|----------------------|-------------------------|
| 2019               |           | 2018       |           | Share Capital        | Number of Shares Issued |
| Direct (a)         | Effective | Direct (a) | Effective |                      |                         |
| 100%               | 100%      | 100%       | 100%      | SAR 1,000,000        | 1,000                   |
| 100%               | 100%      | 100%       | 100%      | SAR 200,000,000      | 20,000,000              |
| 100%               | 100%      | 100%       | 100%      | SAR 1,000,000        | 1,000                   |
| 100%               | 100%      | 100%       | 100%      | SAR 1,000,000        | 1,000                   |
| 100%               | 100%      | 100%       | 100%      | SAR 1,000,000        | 1,000                   |
| 52%                | 52%       | 52%        | 52%       | SAR 25,000,000       | 250                     |
| 100%               | 100%      | 100%       | 100%      | SAR 300,000,000      | 30,000,000              |
| 100%               | 100%      | 100%       | 100%      | SAR 1,000,000        | 1,000                   |
| 100%               | 100%      | 100%       | 100%      | SAR 500,000          | 500                     |
| 100%               | 100%      | 100%       | 100%      | SAR 41,000,000       | 410,000                 |
| 60%                | 60%       | 60%        | 60%       | SAR 70,000,000       | 70,000                  |
| 100%               | 100%      | 100%       | 100%      | SAR 3,000,000        | 3,000                   |
| 100%               | 100%      | 100%       | 100%      | SAR 200,000,000      | 200,000                 |
| 94%                | 94%       | 62%        | 62%       | SAR 46,500,000       | 465,000                 |
| 100%               | 100%      | -          | -         | SAR 500,000          | 50,000                  |
| 100%               | 100%      | 100%       | 100%      | ARS 5,097,984        | 5,097,984               |
| 100%               | 100%      | 100%       | 100%      | ARS 2,211,988,598    | 2,211,988,598           |
| 100%               | 100%      | 100%       | 100%      | BHD 100,000          | 2,000                   |
| 99%                | 99%       | 99%        | 99%       | BHD 250,000          | 2,500                   |
| 100%               | 52%       | 100%       | 52%       | BHD 250,000          | 2,500                   |
| 52%                | 52%       | 52%        | 52%       | USD 7,583,334        | 7,583,334               |
| 100%               | 52%       | 100%       | 52%       | EGP 3,233,750,000    | 323,375,000             |
| 100%               | 52%       | 100%       | 52%       | EGP 3,802,366,670    | 380,236,667             |
| 100%               | 100%      | 100%       | 100%      | GBP 5,769,822        | 5,769,822               |
| 100%               | 52%       | 100%       | 100%      | JOD 500,000          | 500,000                 |
| 100%               | 52%       | 100%       | 52%       | JOD 750,000          | 750,000                 |
| 100%               | 52%       | 100%       | 52%       | JOD 250,000          | 250,000                 |
| 100%               | 52%       | 100%       | 52%       | JOD 500,000          | 500,000                 |
| 100%               | 52%       | 100%       | 52%       | JOD 21,935,363       | 21,935,363              |
| 90%                | 90%       | 90%        | 90%       | OMR 150,000          | 150,000                 |
| 100%               | 100%      | 100%       | 100%      | OMR 20,000           | 20,000                  |
| 100%               | 100%      | 100%       | 100%      | EUR 138,505,946      | 138,505,946             |
| 100%               | 100%      | 100%       | 100%      | SDG 100,000          | 100                     |
| 100%               | 100%      | 100%       | 100%      | AED 300,000          | 300                     |
| 100%               | 52%       | 100%       | 52%       | USD 22,042,183       | 22,042,183              |
| 100%               | 100%      | 100%       | 100%      | AED 200,000 (Unpaid) | 200                     |
| 100%               | 52%       | 100%       | 52%       | EGP 1,000,000        | 100,000                 |
| 100%               | 100%      | 100%       | 100%      | USD 500,000          | 50,000                  |
| 100%               | 100%      | 100%       | 100%      | USD 500,000          | 50,000                  |
| 100%               | 100%      | 100%       | 100%      | -                    | -                       |
| 100%               | 100%      | 100%       | 100%      | -                    | -                       |
| 100%               | 100%      | -          | -         | INR 2,750,680        | 275,068                 |

# Notes to the Consolidated Financial Statements continued

## for the year ended 31 December 2019

## 2. BASIS OF PREPARATION

### 2.1 Statement of Compliance

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Certified Public Accountants ("SOCPA") (here and after refer to as "IFRS as endorsed in KSA").

### 2.2 Preparation of The Financial Statements

These Consolidated Financial Statements have been prepared on the historical cost basis except for the following material items in the Consolidated Statement of Financial Position:

- Derivative financial instruments are measured at fair value.
- Equity Investment at Fair Value through Other Comprehensive Income ("FVOCI") is measured at fair value.
- The defined benefit obligation is recognized at the present value of future obligations using the Projected Unit Credit Method.
- Biological Assets, where fair value is reliably measurable, have been valued at fair value. (Refer note 6.1)

Certain comparative amounts have been adjusted to conform to the current period presentation, which includes reallocation between revenue and selling and distribution expenses, and reallocating exchange gain / loss into cost of sales, other expenses and finance cost, presented as follow:

|                                           | For the year ended 31 December  |                        |                               |
|-------------------------------------------|---------------------------------|------------------------|-------------------------------|
|                                           | 2018<br>As Reported<br>SAR '000 | Adjustment<br>SAR '000 | 2018<br>Adjusted*<br>SAR '000 |
| Revenue                                   | 13,722,797                      | (164,960)              | 13,557,837                    |
| Cost of Sales                             | (8,277,435)                     | 10,496                 | (8,266,939)                   |
| <b>Gross Profit</b>                       | <b>5,445,362</b>                | <b>(154,464)</b>       | <b>5,290,898</b>              |
| Selling and Distribution Expenses         | (2,330,916)                     | 164,960                | (2,165,956)                   |
| Other Expenses, net                       | (301,299)                       | 26,224                 | (275,075)                     |
| <b>Operating Profit</b>                   | <b>2,461,356</b>                | <b>36,720</b>          | <b>2,498,076</b>              |
| Exchange Gain, net                        | 29,524                          | (29,524)               | -                             |
| Finance Cost, net                         | (407,747)                       | (7,196)                | (414,943)                     |
| <b>Profit before Zakat and Income Tax</b> | <b>2,077,720</b>                | <b>-</b>               | <b>2,077,720</b>              |
| <b>Profit for the period</b>              | <b>2,007,222</b>                | <b>-</b>               | <b>2,007,222</b>              |

\*Adjusted but before restatement (Refer note 5.1.1 for restatement)

### 3. BASIS OF CONSOLIDATION

These Consolidated Financial Statements comprising the Consolidated Statement of Financial Position, Consolidated Statement of Profit or Loss, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows and notes to the Consolidated Financial Statements of the Group include assets, liabilities and the results of the operations of the Company and its subsidiaries, as set out in note (1). The Company and its subsidiaries are collectively referred to as the “Group”. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control commences until the date on which control ceases. The Group accounts for the business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identified net assets acquired and fair value of pre-existing equity interest in the subsidiary. The excess of the cost of acquisition and amount of Non – Controlling Interest (“NCI”) over the fair value of the identifiable net assets acquired is recorded as goodwill in the Consolidated Statement of Financial Position. NCI is measured at their proportionate share of the acquiree’s identifiable net assets at the date of acquisition. If the business combination is achieved in stages, the acquisition date carrying value of the Group’s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognized in the Consolidated Statement of Profit or Loss. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Accounting policies of subsidiaries are aligned, where necessary, to ensure consistency with the policies adopted by the Group. The Company and its subsidiaries have the same reporting periods.

### 4. FUNCTIONAL AND PRESENTATION CURRENCY

These Consolidated Financial Statements are presented in Saudi Riyal (“SAR”), which is the Company’s functional and the Group’s presentation currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

### 5. SIGNIFICANT ACCOUNTING POLICIES

#### 5.1. New Standards, Amendment to Standards and Interpretations:

The Group has adopted the following new standard, effective from 1st January 2019.

##### 5.1.1. IFRS 16 - Leases

IFRS 16 replaces IAS 17 ‘Leases’, IFRIC 4 ‘Determining whether an Arrangement contains a Lease’, SIC 15 ‘Operating Leases-Incentives’ and SIC 27 ‘Evaluating the Substance of Transactions Involving the Legal Form of a Lease’.

IFRS 16 ‘Leases’ introduces a single, on-balance sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

#### (a) Adjustments recognized on adoption of IFRS 16

The Group has adopted IFRS 16 on 1 January 2018, using the full retrospective approach, therefore, the cumulative effect of adopting IFRS 16 has been recognized as an adjustment to the opening balance of retained earnings at 1 January 2018, with a restatement of comparative information. The Group has applied the practical expedient to

# Notes to the Consolidated Financial Statements continued

## for the year ended 31 December 2019

### 5. SIGNIFICANT ACCOUNTING POLICIES continued

grandfather the definition of a lease on transition i.e. all contracts entered into before 1 January 2018 are identified as leases in accordance with IAS 17 and IFRIC 4.

The impact of adopting IFRS 16 on the Consolidated Statement of Financial Position as at 1 January 2018 and 31 December 2018 and Consolidated Statement of Profit or Loss for the period ended 31 December 2018 are as follows;

#### Consolidated Statement of Financial Position (extract)

|                                                             | As at 31 December 2018          |                            |                   | As at 1 January 2018            |                            |                   |
|-------------------------------------------------------------|---------------------------------|----------------------------|-------------------|---------------------------------|----------------------------|-------------------|
|                                                             | As previously reported SAR '000 | Effect of IFRS 16 SAR '000 | Restated SAR '000 | As previously reported SAR '000 | Effect of IFRS 16 SAR '000 | Restated SAR '000 |
| Right-of-Use Assets                                         | -                               | 547,933                    | 547,933           | -                               | 602,433                    | 602,433           |
| Prepayments                                                 | 67,059                          | (67,059)                   | -                 | 74,558                          | (74,558)                   | -                 |
| <b>Total Non-Current Assets</b>                             | <b>25,212,601</b>               | <b>480,874</b>             | <b>25,693,475</b> | <b>25,083,073</b>               | <b>527,875</b>             | <b>25,610,948</b> |
| Trade Receivables, Prepayments and Other Receivables        | 1,948,070                       | (34,868)                   | 1,913,202         | 1,702,375                       | (34,868)                   | 1,667,507         |
| <b>Total Current Assets</b>                                 | <b>7,123,940</b>                | <b>(34,868)</b>            | <b>7,089,072</b>  | <b>6,812,776</b>                | <b>(34,868)</b>            | <b>6,777,908</b>  |
| <b>TOTAL ASSETS</b>                                         | <b>32,336,541</b>               | <b>446,006</b>             | <b>32,782,547</b> | <b>31,895,849</b>               | <b>493,007</b>             | <b>32,388,856</b> |
| Retained Earnings                                           | 2,991,559                       | (50,213)                   | 2,941,346         | 1,998,246                       | (53,319)                   | 1,944,927         |
| <b>Equity Attributable to Shareholders</b>                  | <b>13,926,796</b>               | <b>(50,213)</b>            | <b>13,876,583</b> | <b>12,784,373</b>               | <b>(53,319)</b>            | <b>12,731,054</b> |
| <b>Equity Attributable to Equity Holders of the Company</b> | <b>13,926,796</b>               | <b>(50,213)</b>            | <b>13,876,583</b> | <b>14,484,373</b>               | <b>(53,319)</b>            | <b>14,431,054</b> |
| Non-Controlling Interest                                    | 589,194                         | (3,133)                    | 586,061           | 396,867                         | (1,363)                    | 395,504           |
| <b>TOTAL EQUITY</b>                                         | <b>14,515,990</b>               | <b>(53,346)</b>            | <b>14,462,644</b> | <b>14,881,240</b>               | <b>(54,682)</b>            | <b>14,826,558</b> |
| Lease Liabilities                                           | -                               | 409,703                    | 409,703           | -                               | 500,183                    | 500,183           |
| <b>Total Non-Current Liabilities</b>                        | <b>12,396,363</b>               | <b>409,703</b>             | <b>12,806,066</b> | <b>11,243,500</b>               | <b>500,183</b>             | <b>11,743,683</b> |
| Lease Liabilities                                           | -                               | 89,796                     | 89,796            | -                               | 47,653                     | 47,653            |
| Trade and Other Payables                                    | 2,808,189                       | (147)                      | 2,808,042         | 3,227,490                       | (147)                      | 3,227,343         |
| <b>Total Current Liabilities</b>                            | <b>5,424,188</b>                | <b>89,649</b>              | <b>5,513,837</b>  | <b>5,771,109</b>                | <b>47,506</b>              | <b>5,818,615</b>  |
| <b>TOTAL LIABILITIES</b>                                    | <b>17,820,551</b>               | <b>499,352</b>             | <b>18,319,903</b> | <b>17,014,609</b>               | <b>547,689</b>             | <b>17,562,298</b> |
| <b>TOTAL EQUITY AND LIABILITIES</b>                         | <b>32,336,541</b>               | <b>446,006</b>             | <b>32,782,547</b> | <b>31,895,849</b>               | <b>493,007</b>             | <b>32,388,856</b> |

| For the year ended 31 December 2018                                                                    |                                     |                               |                      |
|--------------------------------------------------------------------------------------------------------|-------------------------------------|-------------------------------|----------------------|
|                                                                                                        | As previously reported*<br>SAR '000 | Effect of IFRS 16<br>SAR '000 | Restated<br>SAR '000 |
| <b>Consolidated Statement of Profit or Loss (extract)</b>                                              |                                     |                               |                      |
| Cost of Sales                                                                                          | (8,266,939)                         | 36,176                        | (8,230,763)          |
| <b>Gross Profit</b>                                                                                    | <b>5,290,898</b>                    | <b>36,176</b>                 | <b>5,327,074</b>     |
| Selling and Distribution Expenses                                                                      | (2,165,956)                         | (14,288)                      | (2,180,244)          |
| General and Administration Expenses                                                                    | (376,475)                           | 1,271                         | (375,204)            |
| <b>Operating Profit</b>                                                                                | <b>2,498,076</b>                    | <b>23,159</b>                 | <b>2,521,235</b>     |
| Finance Cost, net                                                                                      | (414,943)                           | (21,823)                      | (436,766)            |
| <b>Profit before Zakat and Income Tax</b>                                                              | <b>2,077,720</b>                    | <b>1,336</b>                  | <b>2,079,056</b>     |
| <b>Profit for the period</b>                                                                           | <b>2,007,222</b>                    | <b>1,336</b>                  | <b>2,008,558</b>     |
| <b>Profit / (Loss) for the period attributable to:</b>                                                 |                                     |                               |                      |
| Shareholders of the Company                                                                            | 2,008,869                           | 3,106                         | 2,011,975            |
| Non-Controlling Interest                                                                               | (1,647)                             | (1,770)                       | (3,417)              |
|                                                                                                        | <b>2,007,222</b>                    | <b>1,336</b>                  | <b>2,008,558</b>     |
| * Certain reclassifications have been made to conform to the current presentation. (Refer to note 2.2) |                                     |                               |                      |
| <b>Statement of Cash Flows (extract)</b>                                                               |                                     |                               |                      |
| Net Cash Generated from Operating Activities                                                           | 3,557,726                           | 111,046                       | 3,668,772            |
| Net Cash Used in Financing Activities                                                                  | (1,849,881)                         | (111,046)                     | (1,960,927)          |

There is no significant change in Earnings per Share as a result of this restatement

### 5.1.2. IFRIC 23, 'Uncertainty over income tax treatments'

This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The IFRS Interpretation Committee had clarified previously that IAS 12, not IAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

The adoption of this clarification does not have any material impact on the Consolidated Financial Statements during the year.

### 5.2. Standards issued but not yet effective

Following are the new standards and amendments to standards which are effective for annual periods beginning on or after 1 January 2020 and earlier application is permitted; however, the Group has not early adopted them in preparing these Consolidated Financial Statements.

# Notes to the Consolidated Financial Statements continued

## for the year ended 31 December 2019

### 5. SIGNIFICANT ACCOUNTING POLICIES continued

#### 5.2.1. Amendments to IFRS 3 – definition of a business

This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.

#### 5.2.2. Amendments to IAS 1 and IAS 8 on the definition of material

These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs:

- i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting
- ii) clarify the explanation of the definition of material; and
- iii) incorporate some of the guidance in IAS 1 about immaterial information.

#### 5.2.3. Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform

These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally, cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the Consolidated Statement of Profit or Loss.

#### 5.3. Annual Improvements to IFRSs 2015–2017 Cycle

These improvements are effective on or after 1 January 2019.

- IFRS 3, 'Business combinations', - a company remeasures its previously held interest in a joint operation when it obtains control of the business.
- IFRS 11, 'Joint arrangements', - a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
- IAS 12, 'Income taxes' - a company accounts for all income tax consequences of dividend payments in the same way.
- IAS 23, 'Borrowing costs' - a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

#### 5.4. Cash and Bank Balances

For the purpose of Consolidated Statement of Financial Position, cash and bank balances include bank balances and deposits with original maturities of three months or less, if any.

#### 5.5. Cash and Cash Equivalents

For the purpose of Consolidated Statement of Cash Flows, cash and cash equivalents includes bank balances and deposits with original maturities of three months or less, if any. It also includes bank overdrafts which form an integral part of the Group's cash management and are likely to fluctuate from overdrawn to positive balances.

#### 5.6. Time Deposits

Time Deposits include placements with banks and other short term highly liquid investments, with original maturities of more than three months but not more than one year from the date of placement. Time deposits are placed with financial institutions with investment grade rating, which are considered to have low credit risk.

Investment income in time deposits is accrued on a time basis, by reference to the principal outstanding and at the applicable effective interest rate.

## 5.7. Inventories

Inventories are measured at the lower of cost and net realisable value. Cost is determined using the weighted average method. Cost comprises all direct manufacturing expenditure based on the normal level of activity and transportation and handling costs. Cost includes the reclassifications from equity of any gains or losses on qualifying cash flow hedges relating to purchases of inventories. Net realisable value comprises estimated selling price less further production costs to completion and appropriate selling and distribution costs. Allowance is made, where necessary for slow moving inventories. Cost of inventories is recognized as an expense and included in cost of sales.

Agriculture produce harvested from biological assets are measured at fair value less cost to sell at the point of harvest.

Spares are valued at lower of cost or net realizable value. Cost is determined on the weighted average cost basis. An allowance for obsolete and slow-moving items, if any, is estimated at each reporting date.

## 5.8. Investments in Associates and Joint Venture

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these Consolidated Financial Statements using the equity method of accounting. Under the equity method, an investment in an associate or a joint venture is initially recognized in the Consolidated Statement of Financial Position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that of an associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. If the associate or joint venture subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognized.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of associate's or joint venture's identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in the Consolidated Statement of Profit or Loss in the period in which the investment is acquired.

When a Group entity transacts with an associate or a joint venture of the Group, profits or losses resulting from the transactions with the associate or joint venture are recognized in the Group's Consolidated Financial Statements only to the extent of interests in the associate or joint venture that are not related to the Group.

# Notes to the Consolidated Financial Statements continued

## for the year ended 31 December 2019

### 5. SIGNIFICANT ACCOUNTING POLICIES continued

#### 5.9. Property, Plant and Equipment

Property, Plant and Equipment, including bearer plants, are measured at cost, less accumulated depreciation and accumulated impairment loss, if any. Cost comprises of expenditure that is directly attributable to the acquisition of the asset. Cost includes the reclassifications from equity of any gains or losses on qualifying cash flow hedges relating to purchases of Property, Plant and Equipment. Cost includes expenditures that are directly attributable to the acquisition / growing of the plant till its maturity. Any gain or loss on disposal of an item of Property, Plant and Equipment is recognized in the Consolidated Statement of Profit or Loss.

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group and amount can be measured reliably.

The cost less estimated residual value is depreciated on a straight-line basis over the following estimated useful lives of the assets, except for certain Plant and Equipment which are depreciated using the units of production method, where depreciation is charged based on the expected use or output:

|                                |              |
|--------------------------------|--------------|
| Buildings                      | 5 – 35 years |
| Plant, Machinery and Equipment | 2 – 20 years |
| Motor Vehicles                 | 6 – 10 years |
| Bearer Plants                  | 2 – 40 years |

Land, Capital Work in Progress and Immature plants are not depreciated.

Capital work in progress at year end includes certain assets that have been acquired but are not ready for their intended use. These assets are transferred to relevant assets categories and are depreciated once they are available for their intended use.

The assets' residual values, useful lives and impairment indicators are reviewed at each financial year end and adjusted prospectively, if considered necessary.

If significant parts of an item of property, plant and equipment have different useful lives then they are accounted for as separate items of property, plant and equipment.

#### 5.10. Right-of-Use Assets and Lease Liabilities

The Group has recognized new assets and liabilities for its operating leases of various types of contracts including warehouse and depot facilities, accommodation/office rental premises, commercial vehicles etc. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the Consolidated Statement of Profit or Loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis.

- i. Right-of-use assets are measured at cost comprising the following:
  - the amount of the initial measurement of lease liability;
  - any lease payments made at or before the commencement date less any lease incentives received;
  - any initial direct costs; and
  - restoration costs.

Right-of-use assets are subsequently measured at cost less accumulated depreciation

- ii. Lease liabilities include the net present value of the following lease payments:
- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
  - variable lease payments that are based on an index or a rate;
  - amounts expected to be payable by the lessee under residual value guarantees;
  - the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
  - payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the Consolidated Statement of Profit or Loss. Short-term leases are leases with a lease term of twelve months or less. Low-value assets comprise small items relating to office equipment.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options are only included in the lease term if the lease is reasonably certain to be extended. In determining the lease term, the management generally considers certain factors including historical lease durations and the costs and business disruption required to replace the leased asset.

### 5.11. Biological Assets

Biological assets are measured at fair value less cost to sell except when fair value cannot be measured reliably.

Where fair value cannot be measured reliably biological assets are stated at cost of purchase or cost of rearing or growing to the point of commercial production (termed as biological assets appreciation), less accumulated depreciation and accumulated impairment loss, if any. The costs of immature biological assets are determined by the cost of rearing or growing to their respective age. Immature biological assets are not depreciated. Biological assets are depreciated on a straight-line basis to their estimated residual values over periods as summarised below:

|                                |                    |
|--------------------------------|--------------------|
| Dairy Herd                     | 4 Lactation cycles |
| Poultry Flock – After Maturity | 36 weeks           |

### 5.12. Intangible Assets and Goodwill

#### Intangible Assets

Intangible assets other than goodwill are measured at cost, less accumulated amortisation and accumulated impairment losses, if any. Intangible assets are amortised on a straight-line basis over the estimated useful lives of four years.

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group and amount can be measured reliably.

# Notes to the Consolidated Financial Statements continued

## for the year ended 31 December 2019

### 5. SIGNIFICANT ACCOUNTING POLICIES continued

Intangible assets' residual values, useful lives and impairment indicators are reviewed at each financial year end and adjusted prospectively, if considered necessary.

#### Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit (Also see note 5.17 (b)). Any impairment loss for goodwill is recognized directly in the Consolidated Statement of Profit or Loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

#### 5.13. Provisions

A provision is recognized if, as a result of past events, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefit will be required to settle the obligation.

#### 5.14. Zakat and Foreign Income Tax

Zakat is provided for in accordance with General Authority of Zakat and Tax ("GAZT") regulations. Income tax for foreign entities is provided for in accordance with the relevant income tax regulations of the countries of incorporation. Adjustments arising from final Zakat and Foreign income tax assessments are recorded in the period in which such assessments are made.

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

#### 5.15. Deferred Tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the Consolidated Financial Statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences and unused tax losses can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference and unused tax losses arises from

the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint venture. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

## 5.16. Financial Instruments

### 5.16.1. Non-Derivative Financial Instruments

#### a) Non-Derivative Financial Assets

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group initially recognises financial assets on the date that they are originated. All other financial assets are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in the transferred financial asset that is created or retained by the Group is recognized as a separate asset or liability.

# Notes to the Consolidated Financial Statements continued

## for the year ended 31 December 2019

### 5. SIGNIFICANT ACCOUNTING POLICIES continued

Financial assets and liabilities are offset and the net amount is presented in the Consolidated Statement of Financial Position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets;

#### Financial Assets at Amortised Cost

Financial assets held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI) are measured at amortised cost. A gain or loss on a debt investment subsequently measured at amortised cost and not part of a hedging relationship is recognized in the Consolidated Statement of Profit or Loss when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

#### Financial Assets at FVOCI

Financial assets held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognized in the Consolidated Statement of Profit or Loss. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI, is reclassified from equity to the Consolidated Statement of Profit or Loss and recognized in other gains/ (losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other income/expense.

#### **b) Non-Derivative Financial Liabilities**

Financial liabilities are recognized initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired. Financial assets and liabilities are offset and the net amount is presented in the Consolidated Statement of Financial Position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

Non-derivative financial liabilities of the Group comprise of bank borrowings and trade and other payables.

#### 5.16.2. Derivative Financial Instruments and Hedge Accounting

Derivative financial instruments including forward foreign exchange contracts, commission rate swaps and commodity derivatives are measured at fair value. All derivatives are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative. Any related transaction costs are recognized in the Consolidated Statement of Profit or Loss as incurred. Fair values are obtained by reference to quoted market prices, discounted cash flow models and pricing models, as appropriate.

Subsequent to initial recognition, any change in fair value is recognized on the basis of hedge accounting.

The Group designates its derivatives as hedging instruments in qualifying hedging relationships to manage exposures to interest rate, foreign currency, and commodity price risks, including exposures arising from highly probable forecast transactions and firm commitments. In order to manage particular risk, the Group applies hedge accounting for transactions that meet specific criteria.

In order to qualify for hedge accounting, the hedge should be expected to be highly effective i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item and should be reliably measurable. At inception of the hedge, the risk management objective and strategy is documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Group will assess the effectiveness of the hedging relationship. A formal assessment is undertaken by comparing the hedging instrument's effectiveness in offsetting the changes in fair value or cash flows attributable to the hedged risk in the hedged item, both at inception and at each quarter end on an ongoing basis. Prospective testing is performed mainly through matching the critical terms of both hedge item and instrument.

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in the Consolidated Statement of Other Comprehensive Income and accumulated in the hedging reserve shown within other reserves under equity. The ineffective portion, if material, is recognized in the Consolidated Statement of Profit or Loss, within other gains/(losses). In hedges of foreign currency contracts, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the Group or the derivative counterparty. In hedges of interest rate swaps, ineffectiveness may arise if the credit value/debit value adjustment on the interest rate swaps is not matched by the loan. In hedges of commodity purchases, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated; and changes in the credit risk of the Group or the derivative counterparty.

The amount accumulated in equity is reclassified to the Consolidated Statement of Profit or Loss in the period during which the hedged forecast cash flows affect profit or loss or the hedged item affects profit or loss.

If the forecast transaction is no longer expected to occur, the hedge no longer meets the criteria for hedge accounting, the hedging instrument expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is reclassified to the Consolidated Statement of Profit or Loss.

The fair values of derivative financial instruments designated in hedge relationships, in shareholders' equity are disclosed in note 36. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

## 5.17. Impairment

### (a) Non-Derivative Financial Assets

The Group assesses on a forward-looking basis the Expected Credit Losses ("ECL") associated with its debt instruments as part of its financial assets, carried at amortised cost and FVOCI.

For accounts receivables, the Group applies the simplified approach, which requires expected lifetime losses to be recognized from initial recognition of the receivables. To measure the expected credit losses, receivables have been grouped based on shared credit risk characteristics and the days past due. Expected loss rates were derived from

# Notes to the Consolidated Financial Statements continued

## for the year ended 31 December 2019

### 5. SIGNIFICANT ACCOUNTING POLICIES continued

historical information of the Group and are adjusted to reflect the expected future outcome which also incorporates forward looking information for macroeconomic factors such as inflation and gross domestic product growth rate.

Other financial assets such as employees' receivables, bank balances have low credit risk and the impact of applying ECL is immaterial.

#### (b) Impairment of Non-Financial Assets

Non-financial assets (other than biological assets measured at fair value, inventories and deferred tax assets) are reviewed at each reporting date to identify circumstances indicating occurrence of impairment loss or reversal of impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss or reversal of impairment loss (if any).

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired.

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the Consolidated Statement of Profit or Loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but 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 (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the Consolidated Statement of Profit or Loss.

#### 5.18. Employee Retirement Benefits

Employee Retirement benefits are payable to all employees employed under the terms and conditions of the Labor Laws applicable on the Company and its subsidiaries, on termination of their employment contracts.

The Group's obligation in respect of defined benefit plan is calculated by estimating the amount of future benefits that employees have earned in current and prior periods and discounting that amount to arrive at present value.

Group sets the assumptions used in determining the key elements of the costs of meeting such future obligations. These assumptions are set after consultation with the Group's actuaries and include those used to determine regular service costs and the financing elements related to the liabilities. The calculation of defined benefit obligation is

performed by a qualified actuary using the projected unit credit method.

Re-measurement of defined benefit liability, which comprise of actuarial gains and losses are recognized immediately in the Consolidated Statement of Other Comprehensive Income. The Group determines interest expense on the defined benefit obligation for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period, taking into account any change in the net defined benefit obligation during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit are recognized in the Consolidated Statement of Profit or Loss.

#### 5.19. Statutory Reserve

In accordance with Company's by-laws and the Regulations for Companies in Kingdom of Saudi Arabia, the Company is required to recognise a reserve comprising of 10% of its profit for the year. This reserve is currently not distributable to the Shareholders.

#### 5.20. Sukuk

The Group classifies Sukuk issued as a financial liability or equity, in accordance with the substance of the contractual terms of the Sukuk. Sukuk having fixed maturity dates and fixed dates for payment of profit distribution is classified as a liability.

#### 5.21. Treasury Shares

Own equity instruments that are reacquired (treasury shares), for discharging obligations under the Employee Stock Option Programme ("ESOP"), are recognized at cost and presented as a deduction from equity and are adjusted for any transaction costs, dividends and gains or losses on sale of such shares. No gain or loss is recognized in the Consolidated Statement of Profit or Loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in retained earnings.

#### 5.22. Share Based Payment Transactions

Employees of the Group receive remuneration in the form of equity settled share-based payments under the ESOP, whereby employees render services as consideration for the option to purchase fixed number of Company's shares ("Option") at a predetermined price.

The cost of ESOP is recognized as an expense in the Consolidated Statement of Profit or Loss, together with a corresponding increase in other reserves, in equity, over the period during which the vesting conditions are fulfilled.

The Group has set up an economic hedge by purchasing Treasury Shares at inception of the ESOP. Accordingly, the Other Reserves (representing the cumulative expense arising from ESOP) is transferred into Retained Earnings upon expiry of the ESOP, whether or not the Options vest to the employees.

The cumulative expense recognized for ESOP at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of Options that will ultimately vest.

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

# Notes to the Consolidated Financial Statements continued

## for the year ended 31 December 2019

### 5. SIGNIFICANT ACCOUNTING POLICIES continued

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

#### 5.23. Conversion of Foreign Currency Transactions

Foreign currency transactions are converted and recorded 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 reporting date, monetary 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 differences are charged or credited to the Consolidated Statement of Profit or Loss as appropriate.

As at the reporting date, the assets and liabilities of these subsidiaries are translated into Saudi Riyal (SAR), at the rate of exchange ruling at the Consolidated Statement of Financial Position date and their Consolidated Statement of Profit or Loss are translated at the weighted average exchange rates for the year. Components of equity, other than retained earnings, are translated at the rate ruling at the date of occurrence of each component. Translation adjustments in respect of these components of equity are recorded through Consolidated Statement of Other Comprehensive Income as a separate component of equity.

#### 5.24. Revenue Recognition

Revenue represents the fair value of the consideration received or receivable for goods sold, net of returns, trade discounts and volume rebates. The Group recognises revenue when a customer obtains controls of the goods at a point in time i.e. on delivery and acknowledgement of goods.

Products are sold principally on a sale or return basis. Allowances for expected sales returns are calculated based on the forecasted return of expired products. Expected sales returns are netted off against revenue with the corresponding impact in 'trade and other payables' for cash sales and 'trade receivables' for credit sales.

The goods are often sold with retrospective volume discounts based on aggregate sales over a twelve month period. Revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. The related liability (included in trade and other payables) is recognized for expected volume discounts payable to customers in relation to sales made during the year.

No element of financing component is deemed present as the sales are made either on cash or on credit term consistent with market practice.

#### 5.25. Government Grants

The Group receives government grants on import of feeds for its biological assets and production of infant nutrition products. Government grants are initially recognized within other liabilities at fair value when there is reasonable assurance that it will be received, and the Group will comply with the conditions associated with the grant.

Government grants are recognized in the Consolidated Statement of Profit or Loss on a systematic basis over the periods in which the Group recognizes as expenses the related inventories which the grants are intended to compensate.

### 5.26. Selling, Distribution, General and Administration Expenses

Selling, Distribution, General and Administration Expenses include direct and indirect costs not specifically part of Cost of Sales. Allocations between Cost of Sales and Selling, Distribution, General and Administration Expenses, when required, are made on a consistent basis.

### 5.27. Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method. Borrowings are removed from the Consolidated Statement of Financial Position when the obligation specified in the contract is discharged, cancelled or expired. The borrowings are classified as a current liability when the remaining maturity is less than 12 months.

### 5.28. Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time, that is more than one year, to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. No borrowing costs are capitalised during idle periods.

To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is recognized in the Consolidated Statement of Other Comprehensive Income and released to the Consolidated Statement of Profit or Loss when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalised borrowing costs reflect the hedged interest rate.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognized in the Consolidated Statement of Profit or Loss in the period in which they are incurred.

### 5.29. Segmental Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's relevant Business Heads' which in the Group's case is to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Group's relevant Business Heads' include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

# Notes to the Consolidated Financial Statements continued

## for the year ended 31 December 2019

### 6. USE OF JUDGEMENTS AND ESTIMATES

The preparation of these Consolidated Financial Statements, in conformity with IFRS as endorsed in the Kingdom of Saudi Arabia, requires the use of judgements, 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 Consolidated Statement of Financial Position 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

#### 6.1. Judgement

Information about the judgement made in applying the Group's accounting policy on biological assets with respect to dairy herd and poultry flock is given below;

**Dairy Herd:** At cost less accumulated depreciation and impairment losses. IAS 41 "Agriculture" requires measurement at fair value less costs to sell from initial recognition of such biological assets up to the point of harvest, other than when fair value cannot be measured reliably on initial recognition. Management has concluded as follows:

Level 1 - there is no active market for dairy cows in the Kingdom of Saudi Arabia and therefore a level 1 valuation is not possible.

Level 2 - there is no observable market data available and due to the significant differences in location, environment, associated costs, average yield per dairy animal, majority of distribution within the Kingdom of Saudi Arabia and distance to active markets means that a level 2 valuation is not possible.

Level 3 –

- i) Discounted cash flow ("DCF") techniques (income or market approach) - the lack of a relevant market for unpasteurized milk or any other intermediate product requires that any DCF valuation technique would use overall revenue as a basis for any valuation and then eliminate costs and associated profit margin relating to pasteurization, manufacturing, packaging and sales and distribution so as to determine the net indirect cash inflows arising from the production of unpasteurized milk. Management considers that any fair value so derived would be clearly unreliable as the costs of the dairy herd operation are a relatively small part of the Group's overall activities and any imputed cash flows derived from such a valuation approach would be overly dependent on a large number of assumptions, many of which could not be derived from, or compared to, market assumptions or observed data.
- ii) Cost or current replacement cost – management considers that any replacement cost approach would need to incorporate the cost of replacing new-born calves. As discussed above, level 1 and 2 valuations for dairy animals are not possible.

As the dairy herd is currently accounted for at cost less accumulated depreciation and impairment losses, which excludes any costs for the purchase of new born calves (as they are a necessary part of the lactation cycle), management believes that any depreciated replacement cost of existing nature and size (could it be so determined) would not be less than the current carrying value of the dairy herd.



**Poultry flock:** At cost less accumulated depreciation and impairment losses. IAS 41 “Agriculture” requires measurement at fair value less costs to sell from initial recognition of such biological assets up to the point of harvest, other than when fair value cannot be measured reliably on initial recognition. Given the relatively short life of the poultry flock (less than a year), management believes that any differences between depreciated cost and fair value are not material.

## 6.2. Assumptions and estimation uncertainties

Assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments to the carrying amount of assets and liabilities are included in following notes:

- Refer to note 9: Goodwill - Annual impairment testing of goodwill.
- Refer to note 14: Trade Receivables - Allowance for impairment of trade receivables.
- Refer to note 22: Measurement of employee retirement benefits obligations - key actuarial assumptions.
- Refer to note 13: Inventories - Allowance for slow moving inventories.

# Notes to the Consolidated Financial Statements continued

## for the year ended 31 December 2019

### 7. PROPERTY, PLANT AND EQUIPMENT

|                                                | Land and Buildings<br>SAR '000 | Plant, Machinery and Equipment<br>SAR '000 | Motor Vehicles<br>SAR '000 | Capital Work-in Progress<br>SAR '000 | Bearer Plant                   |                                  | Total<br>SAR '000 |
|------------------------------------------------|--------------------------------|--------------------------------------------|----------------------------|--------------------------------------|--------------------------------|----------------------------------|-------------------|
|                                                |                                |                                            |                            |                                      | Mature Plantations<br>SAR '000 | Immature Plantations<br>SAR '000 |                   |
| <b>Cost</b>                                    |                                |                                            |                            |                                      |                                |                                  |                   |
| At 1 January 2019                              | 13,112,184                     | 14,156,377                                 | 2,701,397                  | 3,349,095                            | 223,727                        | 26,448                           | 33,569,228        |
| On acquisition of subsidiaries                 | 13,668                         | 16,618                                     | 224                        | -                                    | -                              | -                                | 30,510            |
| Additions during the year                      | -                              | -                                          | -                          | 1,509,650                            | -                              | 38,515                           | 1,548,165         |
| Transfers during the year                      | 1,742,832                      | 1,720,247                                  | 300,121                    | (3,763,200)                          | 32,327                         | (32,327)                         | -                 |
| Disposals during the year                      | (59,209)                       | (297,305)                                  | (108,778)                  | -                                    | (41,692)                       | -                                | (506,984)         |
| Currency Translation Difference                | 15,062                         | 40,261                                     | 3,888                      | 40,943                               | 3                              | -                                | 100,157           |
| <b>At 31 December 2019</b>                     | <b>14,824,537</b>              | <b>15,636,198</b>                          | <b>2,896,852</b>           | <b>1,136,488</b>                     | <b>214,365</b>                 | <b>32,636</b>                    | <b>34,741,076</b> |
| <b>Accumulated Depreciation and Impairment</b> |                                |                                            |                            |                                      |                                |                                  |                   |
| At 1 January 2019                              | 2,383,101                      | 6,859,219                                  | 1,525,740                  | -                                    | 194,626                        | -                                | 10,962,686        |
| Depreciation for the year                      | 411,724                        | 963,703                                    | 238,602                    | -                                    | 24,597                         | -                                | 1,638,626         |
| Disposals during the year                      | (46,683)                       | (282,332)                                  | (94,995)                   | -                                    | (41,692)                       | -                                | (465,702)         |
| Impairment of Assets (Ref 29.2)                | -                              | 9,224                                      | -                          | -                                    | -                              | -                                | 9,224             |
| Currency Translation Difference                | 2,260                          | 15,106                                     | 1,987                      | -                                    | 1                              | -                                | 19,354            |
| <b>At 31 December 2019</b>                     | <b>2,750,402</b>               | <b>7,564,920</b>                           | <b>1,671,334</b>           | <b>-</b>                             | <b>177,532</b>                 | <b>-</b>                         | <b>12,164,188</b> |
| <b>Net Book Value</b>                          |                                |                                            |                            |                                      |                                |                                  |                   |
| <b>At 31 December 2019</b>                     | <b>12,074,135</b>              | <b>8,071,278</b>                           | <b>1,225,518</b>           | <b>1,136,488</b>                     | <b>36,833</b>                  | <b>32,636</b>                    | <b>22,576,888</b> |

|                                         | Land and Buildings<br>SAR '000 | Plant, Machinery and Equipment<br>SAR '000 | Motor Vehicles<br>SAR '000 | Capital Work-in Progress<br>SAR '000 | Bearer Plant                   |                                  | Total<br>SAR '000 |
|-----------------------------------------|--------------------------------|--------------------------------------------|----------------------------|--------------------------------------|--------------------------------|----------------------------------|-------------------|
|                                         |                                |                                            |                            |                                      | Mature Plantations<br>SAR '000 | Immature Plantations<br>SAR '000 |                   |
| Cost                                    |                                |                                            |                            |                                      |                                |                                  |                   |
| At 1 January 2018                       | 11,991,774                     | 12,831,133                                 | 2,600,134                  | 4,262,315                            | 175,930                        | 51,563                           | 31,912,849        |
| On acquisition of subsidiary            | 87,434                         | 11,673                                     | 1,778                      | -                                    | -                              | -                                | 100,885           |
| Additions during the year               | -                              | -                                          | -                          | 1,895,277                            | -                              | 35,959                           | 1,931,236         |
| Transfers during the year               | 1,110,437                      | 1,464,080                                  | 230,953                    | (2,805,470)                          | 59,266                         | (59,266)                         | -                 |
| Disposals during the year               | (76,547)                       | (147,797)                                  | (131,018)                  | -                                    | (11,461)                       | -                                | (366,823)         |
| Currency Translation Difference         | (914)                          | (2,712)                                    | (450)                      | (3,027)                              | (8)                            | (1,808)                          | (8,919)           |
| At 31 December 2018                     | 13,112,184                     | 14,156,377                                 | 2,701,397                  | 3,349,095                            | 223,727                        | 26,448                           | 33,569,228        |
| Accumulated Depreciation and Impairment |                                |                                            |                            |                                      |                                |                                  |                   |
| At 1 January 2018                       | 1,998,434                      | 6,040,585                                  | 1,358,073                  | -                                    | 114,065                        | -                                | 9,511,157         |
| Depreciation for the year               | 407,687                        | 929,770                                    | 252,821                    | -                                    | 93,828                         | -                                | 1,684,106         |
| Disposals during the year               | (66,677)                       | (144,096)                                  | (104,474)                  | -                                    | (11,461)                       | -                                | (326,708)         |
| Impairment of Assets (Ref 29.2)         | 43,772                         | 34,117                                     | 19,447                     | -                                    | -                              | -                                | 97,336            |
| Currency Translation Difference         | (115)                          | (1,157)                                    | (127)                      | -                                    | (1,806)                        | -                                | (3,205)           |
| At 31 December 2018                     | 2,383,101                      | 6,859,219                                  | 1,525,740                  | -                                    | 194,626                        | -                                | 10,962,686        |
| Net Book Value                          |                                |                                            |                            |                                      |                                |                                  |                   |
| At 31 December 2018                     | 10,729,083                     | 7,297,158                                  | 1,175,657                  | 3,349,095                            | 29,101                         | 26,448                           | 22,606,542        |

7.1 Capital Work-in-Progress includes SAR 24.0 million of borrowing costs capitalised during the year. (2018: SAR 42.4 million).

7.2 Refer note 21 for information on property, plant and equipment pledged as security by the Group.

## 8. RIGHTS-OF-USE ASSETS AND LEASE LIABILITIES

Right-of-use assets - class wise depreciation charge and balances are as follows:

|                                  | 2019                     |                     | 2018                     |                     |
|----------------------------------|--------------------------|---------------------|--------------------------|---------------------|
|                                  | Depreciation<br>SAR '000 | Balance<br>SAR '000 | Depreciation<br>SAR '000 | Balance<br>SAR '000 |
| Land                             | 28,654                   | 198,229             | 26,754                   | 268,390             |
| Buildings                        | 69,477                   | 237,361             | 65,281                   | 252,026             |
| Vehicles                         | 2,070                    | 12,107              | 1,608                    | 11,914              |
| Equipment                        | 126                      | 410                 | 96                       | 875                 |
| Plant and Machinery              | 1,461                    | 13,268              | 993                      | 14,728              |
| <b>Total Right-of-Use Assets</b> | <b>101,788</b>           | <b>461,375</b>      | <b>94,732</b>            | <b>547,933</b>      |

Additions to Right-of-Use assets during the year ended 31 December 2019 are SAR 17.5 million (31 December 2018: SAR 40.2 million).

Lease liabilities as at year end are as follows:

|                                          | 2019<br>SAR '000 | 2018<br>SAR '000 |
|------------------------------------------|------------------|------------------|
| Non-Current portion of Lease Liabilities | 335,659          | 409,703          |
| Current portion of Lease Liabilities     | 95,750           | 89,796           |
| <b>Total Lease Liabilities</b>           | <b>431,409</b>   | <b>499,499</b>   |

The total interest expense on lease liabilities recognized during the year ended 31 December 2019 is SAR 20.0 million. (31 December 2018: SAR 21.8 million).

Expenses relating to short-term and low-value leases are SAR 4.1 million and SAR 1.9 million respectively.

## 9. INTANGIBLE ASSETS AND GOODWILL

|                               | 2019<br>SR '000  | 2018<br>SR '000  |
|-------------------------------|------------------|------------------|
| Software Licenses (Refer 9.1) | 187,400          | 104,036          |
| Goodwill (Refer 9.2)          | 941,133          | 934,335          |
|                               | <b>1,128,533</b> | <b>1,038,371</b> |

# Notes to the Consolidated Financial Statements continued

## for the year ended 31 December 2019

### 9. INTANGIBLE ASSETS AND GOODWILL continued

#### 9.1 Software Licenses

|                                 | Software Licenses<br>SAR '000 | Software Licenses in Progress*<br>SAR '000 | Total<br>SAR '000 |
|---------------------------------|-------------------------------|--------------------------------------------|-------------------|
| <b>Cost</b>                     |                               |                                            |                   |
| At 1 January 2019               | 233,273                       | 32,814                                     | 266,087           |
| Additions during the year       | -                             | 132,983                                    | 132,983           |
| Transfers during the year       | 130,389                       | (130,389)                                  | -                 |
| Disposals during the year       | (635)                         | -                                          | (635)             |
| Currency Translation Difference | 756                           | -                                          | 756               |
| <b>At 31 December 2019</b>      | <b>363,783</b>                | <b>35,408</b>                              | <b>399,191</b>    |
| <b>Accumulated Amortisation</b> |                               |                                            |                   |
| At 1 January 2019               | 162,051                       | -                                          | 162,051           |
| Amortisation for the year       | 49,938                        | -                                          | 49,938            |
| Disposals during the year       | (635)                         | -                                          | (635)             |
| Currency Translation Difference | 437                           | -                                          | 437               |
| <b>At 31 December 2019</b>      | <b>211,791</b>                | <b>-</b>                                   | <b>211,791</b>    |
| <b>Net Book Value</b>           |                               |                                            |                   |
| <b>At 31 December 2019</b>      | <b>151,992</b>                | <b>35,408</b>                              | <b>187,400</b>    |
| <b>Cost</b>                     |                               |                                            |                   |
| At 1 January 2018               | 197,791                       | 28,710                                     | 226,501           |
| Additions during the year       | -                             | 39,797                                     | 39,797            |
| Transfers during the year       | 35,695                        | (35,695)                                   | -                 |
| Disposals during the year       | (156)                         | -                                          | (156)             |
| Currency Translation Difference | (57)                          | 2                                          | (55)              |
| <b>At 31 December 2018</b>      | <b>233,273</b>                | <b>32,814</b>                              | <b>266,087</b>    |
| <b>Accumulated Amortisation</b> |                               |                                            |                   |
| At 1 January 2018               | 114,782                       | -                                          | 114,782           |
| Amortisation for the year       | 47,451                        | -                                          | 47,451            |
| Disposals during the year       | (156)                         | -                                          | (156)             |
| Currency Translation Difference | (26)                          | -                                          | (26)              |
| <b>At 31 December 2018</b>      | <b>162,051</b>                | <b>-</b>                                   | <b>162,051</b>    |
| <b>Net Book Value</b>           |                               |                                            |                   |
| <b>At 31 December 2018</b>      | <b>71,222</b>                 | <b>32,814</b>                              | <b>104,036</b>    |

\*Software licenses in progress include certain software under installation.

## 9.2 Goodwill

The goodwill relates to the acquisition of Western Bakeries Company Limited (WB) in 2007, Hail Agricultural Development Company (HADCO) in 2009 and International Dairy and Juice Limited (IDJ) in 2012.

|                                 | WB<br>SAR '000 | HADCO<br>SAR '000 | IDJ<br>SAR '000 | Total<br>SAR '000 |
|---------------------------------|----------------|-------------------|-----------------|-------------------|
| <b>Cost</b>                     |                |                   |                 |                   |
| At 1 January 2019               | 548,636        | 244,832           | 469,049         | 1,262,517         |
| Currency Translation Difference | -              | -                 | 6,798           | 6,798             |
| <b>At 31 December 2019</b>      | <b>548,636</b> | <b>244,832</b>    | <b>475,847</b>  | <b>1,269,315</b>  |
| <b>Accumulated Impairment</b>   |                |                   |                 |                   |
| At 1 January 2019               | -              | -                 | 328,182         | 328,182           |
| <b>At 31 December 2019</b>      | <b>-</b>       | <b>-</b>          | <b>328,182</b>  | <b>328,182</b>    |
| <b>Net Carrying Value</b>       |                |                   |                 |                   |
| <b>At 31 December 2019</b>      | <b>548,636</b> | <b>244,832</b>    | <b>147,665</b>  | <b>941,133</b>    |
| <b>Cost</b>                     |                |                   |                 |                   |
| At 1 January 2018               | 548,636        | 244,832           | 469,602         | 1,263,070         |
| Currency Translation Difference | -              | -                 | (553)           | (553)             |
| <b>At 31 December 2018</b>      | <b>548,636</b> | <b>244,832</b>    | <b>469,049</b>  | <b>1,262,517</b>  |
| <b>Accumulated Impairment</b>   |                |                   |                 |                   |
| At 1 January 2018               | -              | -                 | 328,182         | 328,182           |
| <b>At 31 December 2018</b>      | <b>-</b>       | <b>-</b>          | <b>328,182</b>  | <b>328,182</b>    |
| <b>Net Carrying Value</b>       |                |                   |                 |                   |
| <b>At 31 December 2018</b>      | <b>548,636</b> | <b>244,832</b>    | <b>140,867</b>  | <b>934,335</b>    |

WB forms part of the Bakery Products reporting segment, HADCO represents Poultry reporting segment while IDJ falls under the Dairy and Juice reporting segment having its cash generating units in Jordan and Egypt by the name of Teeba and Beyti respectively.

Goodwill is subject to annual impairment testing. Assets are tested for impairment by comparing the carrying amount of each cash-generating unit (CGU) to the recoverable amount which has been determined based on a value in use calculation using cash flow projections based on financial forecasts approved by senior management covering a five-year period. The discount rate applied to cash flow projections varies between 7.5% and 19.6% as relevant for each CGU and the terminal value. Terminal value is calculated using earnings multiple / Gordon Growth Model for the final year of the forecast period.

The calculation of value in use is most sensitive to the assumptions on sales growth rate and terminal value used to extrapolate cash flows beyond the budget period of five years, as well as the factors used in computing terminal value.

### Sensitivity to Changes in Assumptions – Western Bakeries Company Limited

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

# Notes to the Consolidated Financial Statements continued

## for the year ended 31 December 2019

### 9. INTANGIBLE ASSETS AND GOODWILL continued

#### (a) Sales Growth Assumption

The sales growth in the forecast period has been estimated to be a compound annual growth rate of 4.8%. If all other assumptions kept the same, a reduction of this growth rate by 32.1% would give a value in use equal to the current carrying amount.

#### (b) Terminal Value Multiple

The implied EBITDA multiple of terminal value to final year EBITDA is 13.9. If all other assumptions kept the same, a reduction of this multiple to 6.5 would give a value in use equal to the current carrying amount.

#### Sensitivity to Changes in Assumptions – HADCO

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

#### (a) Sales Growth Assumption

The sales growth in the forecast period has been estimated to be a compound annual growth rate of 3.9%. If all other assumptions kept the same, a reduction of this growth rate by 77.3% would give a value in use equal to the current carrying amount.

#### (b) Terminal Value Multiple

The implied EBITDA multiple of terminal value to final year EBITDA is 14.5. If all other assumptions kept the same, a reduction of this multiple to 6.1 would give a value in use equal to the current carrying amount.

#### Sensitivity to Changes in Assumptions – IDJ

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

#### (a) Sales Growth Assumption

The sales growth in the forecast period has been estimated to be a compound annual growth rate of 5.4%. If all other assumptions kept the same, a reduction of this growth rate by 9.5% would give a value in use equal to the current carrying amount.

#### (b) Terminal Value Multiple

The implied EBITDA multiple of terminal value to final year EBITDA is 13.5. If all other assumptions kept the same, a reduction of this multiple to 9.1 would give a value in use equal to the current carrying amount.

### 10. BIOLOGICAL ASSETS

The Group's biological assets consist of dairy herd, poultry birds and plantations.

Biological assets owned by the Group are measured as follows:

- Dairy Herd and Poultry Flock: At cost less accumulated depreciation and impairment losses, if any (refer note 6.1).
- Crops: The crops that have reached a considerable degree of biological development have been stated at the present value of the net cash flows that will be provided by such crops in progress, estimated on the basis of the degree of biological development and the risks related to the completion of the development process of crops sown.

|                                                           | Dairy Herd<br>SAR '000 | Parent Poultry<br>Birds<br>SAR '000 | Other<br>Poultry<br>SAR '000 | Crops<br>SAR '000 | Total<br>SAR '000 |
|-----------------------------------------------------------|------------------------|-------------------------------------|------------------------------|-------------------|-------------------|
| <b>Cost</b>                                               |                        |                                     |                              |                   |                   |
| At 1 January 2019                                         | 1,821,796              | 131,328                             | 65,273                       | -                 | 2,018,397         |
| Additions during the year*                                | 630,121                | 125,359                             | 1,290,551                    | -                 | 2,046,031         |
| Transfers to inventories                                  | -                      | -                                   | (1,289,337)                  | -                 | (1,289,337)       |
| Disposals during the year                                 | (628,025)              | (87,213)                            | -                            | -                 | (715,238)         |
| Currency Translation Difference                           | 27                     | -                                   | -                            | -                 | 27                |
| <b>At 31 December 2019</b>                                | <b>1,823,919</b>       | <b>169,474</b>                      | <b>66,487</b>                | <b>-</b>          | <b>2,059,880</b>  |
| <b>Accumulated Depreciation</b>                           |                        |                                     |                              |                   |                   |
| At 1 January 2019                                         | 531,928                | 54,630                              | -                            | -                 | 586,558           |
| Depreciation for the year                                 | 272,930                | 111,193                             | -                            | -                 | 384,123           |
| Disposals during the year                                 | (272,825)              | (85,738)                            | -                            | -                 | (358,563)         |
| Currency Translation Difference                           | 7                      | -                                   | -                            | -                 | 7                 |
| <b>At 31 December 2019</b>                                | <b>532,040</b>         | <b>80,085</b>                       | <b>-</b>                     | <b>-</b>          | <b>612,125</b>    |
| <b>Net Book Value</b>                                     |                        |                                     |                              |                   |                   |
| <b>At 31 December 2019</b>                                | <b>1,291,879</b>       | <b>89,389</b>                       | <b>66,487</b>                | <b>-</b>          | <b>1,447,755</b>  |
| <b>Measured at Fair Value</b>                             |                        |                                     |                              |                   |                   |
| At 1 January 2019                                         | -                      | -                                   | -                            | 33,166            | 33,166            |
| Additions during the year                                 | -                      | -                                   | -                            | 55,066            | 55,066            |
| Transfers to inventories                                  | -                      | -                                   | -                            | (62,298)          | (62,298)          |
| Gain arising from changes in Fair Value less Cost to Sell | -                      | -                                   | -                            | 4,030             | 4,030             |
| Currency Translation Difference                           | -                      | -                                   | -                            | 11                | 11                |
| <b>At 31 December 2019</b>                                | <b>-</b>               | <b>-</b>                            | <b>-</b>                     | <b>29,975</b>     | <b>29,975</b>     |
| <b>Carrying Amount</b>                                    |                        |                                     |                              |                   |                   |
| <b>At 31 December 2019</b>                                | <b>-</b>               | <b>-</b>                            | <b>-</b>                     | <b>29,975</b>     | <b>29,975</b>     |
| <b>Biological Assets Classification:</b>                  |                        |                                     |                              |                   |                   |
| <b>At 31 December 2019</b>                                |                        |                                     |                              |                   |                   |
| Biological assets classified as Non-Current Assets        | 1,291,879              | 89,389                              | -                            | -                 | 1,381,268         |
| Biological assets classified as Current Assets            | -                      | -                                   | 66,487                       | 29,975            | 96,462            |
|                                                           | <b>1,291,879</b>       | <b>89,389</b>                       | <b>66,487</b>                | <b>29,975</b>     | <b>1,477,730</b>  |

\*Additions include Biological Assets appreciation amounting to SAR 629.8 million. (2018: SAR 639.1 million)

# Notes to the Consolidated Financial Statements continued

## for the year ended 31 December 2019

### 10. BIOLOGICAL ASSETS continued

|                                                           | Dairy Herd<br>SAR '000 | Parent Poultry<br>Birds<br>SAR '000 | Other<br>Poultry<br>SAR '000 | Crops<br>SAR '000 | Total<br>SAR '000 |
|-----------------------------------------------------------|------------------------|-------------------------------------|------------------------------|-------------------|-------------------|
| <b>Cost</b>                                               |                        |                                     |                              |                   |                   |
| At 1 January 2018                                         | 1,755,268              | 83,534                              | 49,732                       | -                 | 1,888,534         |
| Additions during the year*                                | 639,142                | 97,765                              | 1,150,403                    | -                 | 1,887,310         |
| Additions on acquisition of subsidiary                    | -                      | 25,276                              | -                            | -                 | 25,276            |
| Transfers to inventories                                  | -                      | -                                   | (1,134,862)                  | -                 | (1,134,862)       |
| Disposals during the year                                 | (572,602)              | (75,247)                            | -                            | -                 | (647,849)         |
| Currency Translation Difference                           | (12)                   | -                                   | -                            | -                 | (12)              |
| At 31 December 2018                                       | 1,821,796              | 131,328                             | 65,273                       | -                 | 2,018,397         |
| <b>Accumulated Depreciation</b>                           |                        |                                     |                              |                   |                   |
| At 1 January 2018                                         | 526,641                | 28,819                              | -                            | -                 | 555,460           |
| Depreciation for the year                                 | 213,068                | 100,770                             | -                            | -                 | 313,838           |
| Disposals during the year                                 | (207,776)              | (74,959)                            | -                            | -                 | (282,735)         |
| Currency Translation Difference                           | (5)                    | -                                   | -                            | -                 | (5)               |
| <b>At 31 December 2018</b>                                | <b>531,928</b>         | <b>54,630</b>                       | <b>-</b>                     | <b>-</b>          | <b>586,558</b>    |
| <b>Net Book Value</b>                                     |                        |                                     |                              |                   |                   |
| <b>At 31 December 2018</b>                                | <b>1,289,868</b>       | <b>76,698</b>                       | <b>65,273</b>                | <b>-</b>          | <b>1,431,839</b>  |
| <b>Measured at Fair Value</b>                             |                        |                                     |                              |                   |                   |
| At 1 January 2018                                         | -                      | -                                   | -                            | 37,589            | 37,589            |
| Additions during the year                                 | -                      | -                                   | -                            | 464,351           | 464,351           |
| Transfers to inventories                                  | -                      | -                                   | -                            | (467,572)         | (467,572)         |
| Loss arising from changes in Fair Value less Cost to Sell | -                      | -                                   | -                            | (1,214)           | (1,214)           |
| Currency Translation Difference                           | -                      | -                                   | -                            | 12                | 12                |
| <b>At 31 December 2018</b>                                | <b>-</b>               | <b>-</b>                            | <b>-</b>                     | <b>33,166</b>     | <b>33,166</b>     |
| <b>Carrying Amount</b>                                    |                        |                                     |                              |                   |                   |
| <b>At 31 December 2018</b>                                | <b>-</b>               | <b>-</b>                            | <b>-</b>                     | <b>33,166</b>     | <b>33,166</b>     |
| <b>Biological Assets Classification:</b>                  |                        |                                     |                              |                   |                   |
| <b>At 31 December 2018</b>                                |                        |                                     |                              |                   |                   |
| Biological assets classified as Non-Current Assets        | 1,289,868              | 76,698                              | -                            | -                 | 1,366,566         |
| Biological assets classified as Current Assets            | -                      | -                                   | 65,273                       | 33,166            | 98,439            |
|                                                           | <b>1,289,868</b>       | <b>76,698</b>                       | <b>65,273</b>                | <b>33,166</b>     | <b>1,465,005</b>  |

\* Additions include Biological Assets appreciation amounting to SAR 639.1 million

Dairy Herd represents cows held for milk production.

Parent Poultry Birds are held for the purpose of laying eggs which are hatched into Broiler Birds (Other Poultry).  
Crops are mainly held for the purpose of serving as animal feed which are consumed internally.

#### Agricultural Risk Management:

The Group is subject to the following risks relating to its agricultural activities:

**a) Failure to secure long-term production of fodder**

Fodder production has been strategically shifted overseas/outside KSA as per domestic law and regulations. Almarai has developed an extensive supply chain network in Romania, North and South America, covering both own and sourced fodder production, to ensure continuous supply of fodder for its dairy herd. KSA farms also carry a large Inventory of forage to ensure no disruption of supply.

**b) Large scale loss of biological assets due to disease/pandemic**

Strong bio-security procedures, livestock located on multiple sites to reduce risk, disease control and vaccination programme in place along with screening and quarantine of incoming animals. Professional vet group within the farming division ensure large scale losses do not occur.

**c) Severe operational disruption (Fire, Flood etc.)**

Almarai is prepared to respond to operational disruptions to minimise losses and remain viable. An effective Business Continuity Plan is continually reviewed and adapted for the changing nature of operational disruptions. Risk assessments are continually performed to identify possible events that could cause significant disruptions. Risk of business disruption from flood has been removed through farm design. Farm buildings are constructed in areas that do not have flash floods and also elevated above ground level.

## 11. INVESTMENTS

The investments comprise the following:

| Investments in Associates and Joint Venture | Nature        | Principal activity                          | Place of Incorporation | 2019 % | 2018 % | 2019 SAR '000 | 2018 SAR '000 |
|---------------------------------------------|---------------|---------------------------------------------|------------------------|--------|--------|---------------|---------------|
| Almarai Company W.L.L.                      | Joint Venture | Dormant                                     | Qatar                  | 50.0%  | 50.0%  | 204           | 204           |
| Maria Fondomonte S.A.<br>(Refer note 11.1)  | Associate     | Source, Process and Sale of Forage Supplies | Romania                | 49.0%  | -      | 87,825        | -             |
|                                             |               |                                             |                        |        |        | 88,029        | 204           |

| Equity Investment (Refer note 11.2) | 2019 % | 2018 % | 2019 SAR '000 | 2018 SAR '000 |
|-------------------------------------|--------|--------|---------------|---------------|
| Mobile Telecommunications Company   |        |        |               |               |
| Saudi Arabia - ("Zain")             | 2.1%   | 2.1%   | 145,684       | 102,624       |

# Notes to the Consolidated Financial Statements continued

## for the year ended 31 December 2019

### 11. INVESTMENTS continued

**11.1.** On 23 Safar 1441 A.H. (22 October 2019) the Group, through its subsidiary Almarai Investment Holding Company W.L.L., obtained 49% equity interest in Maria Fondomonte S.A. for a cash consideration of SAR 87.8 million (EUR 21.0 million). Maria Fondomonte S.A.'s main operations are to source, process and sale of forage supplies to the Group and its acquisition will add to the Group's on-going efforts to further streamline, integrate and strengthen its feed supply.

**11.2.** The equity investment of 12.4 million shares in Zain is measured at fair value based on quoted market price available on the Saudi Stock Exchange (Tadawul). The fair valuation resulted in unrealized gain of SAR 43.1 million for the year ended 31 December 2019 which is presented within Consolidated Statement of Other Comprehensive Income.

The Company has pledged Zain shares to Banque Saudi Fransi ("BSF") to secure the BSF loan to Zain KSA.

### 12. BUSINESS COMBINATION

#### 12.1. Pure Breed Poultry Company Limited ("Pure Breed")

The Group obtained control of Pure Breed on 17 Rajab 1439 A.H. (2 April 2018). Details of this acquisition were disclosed in note 11 of the Group's Consolidated Financial Statements for the year ended 31 December 2018.

As at 31 December 2018, the Group had accounted for the transaction provisionally based on the carrying values of the assets and liabilities (with the exception of the previously held equity interest) as of the acquisition date. During the current year, the Group finalised the allocation of purchase consideration to the identifiable assets, liabilities and contingent liabilities acquired and there was no change to the provisionally recognized values of assets and liabilities, as disclosed in note 11 of the Consolidated Financial Statements for the year ended 31 December 2018.

On 15 Dhul-Qa'dah 1441 A.H. (18 July 2019), the Group has acquired further shares for the consideration of SAR 43.5 million. (Refer Note 1) (2018: SAR 3.8 million)

**Fair Value on Acquisition**  
**SAR'000**

|                                               |                |
|-----------------------------------------------|----------------|
| <b>Assets Acquired:</b>                       |                |
| Non-Current Assets                            |                |
| Property, Plant and Equipment                 | 100,885        |
| Biological Assets                             | 25,276         |
|                                               | <b>126,161</b> |
| <b>Current Assets</b>                         |                |
| Cash and Cash Equivalents                     | 16,441         |
| Trade Receivables and Prepayments             | 20,766         |
| Inventories                                   | 6,574          |
|                                               | 43,781         |
| <b>Total Assets</b>                           | <b>169,942</b> |
| <b>Liabilities Assumed:</b>                   |                |
| Non-Current Liabilities                       |                |
| Loans and Borrowings                          | 2,883          |
| Employee Retirement Benefits                  | 6,798          |
|                                               | 9,681          |
| <b>Current Liabilities</b>                    |                |
| Loans and Borrowings                          | 360            |
| Trade and Other Payables                      | 14,588         |
|                                               | 14,948         |
| <b>Total Liabilities</b>                      | <b>24,629</b>  |
| Total Identifiable Net Assets                 | 145,313        |
| Total Acquisition Cost                        | <b>145,313</b> |
| <b>Total Acquisition Cost</b>                 |                |
| Cash consideration                            | 20,313         |
| Fair Value of Previously Held Equity Interest | 60,938         |
| NCI                                           | 64,062         |
| Total                                         | 145,313        |
| <b>Cash Outflow on Acquisition:</b>           |                |
| Net Cash Acquired with the Subsidiary         | 16,441         |
| Cash Paid                                     | (20,313)       |
| Net Cash Outflow                              | (3,872)        |

## 12.2. Premier Foods Industries Company L.L.C

As explained in note 1, the Group acquired Premier Foods on 22 Ramadan 1440 A.H (27 May 2019), as the Group effectively obtained control of Premier Foods from that date. The acquired business contributed revenues of SAR 65.7 million and net loss of SAR 10.6 million to the Group from the period from 27 May 2019 to 31 December 2019. If the acquisition had taken place at the beginning of the year, the consolidated revenue and loss for the year ended 31 December 2019 would have been impacted by SAR 117.6 million and SAR 14.4 million, respectively.

# Notes to the Consolidated Financial Statements continued

## for the year ended 31 December 2019

### 12. BUSINESS COMBINATION continued

The assets and liabilities recognized as a result of the acquisition are as follows:

|                                                      | Fair Value on Acquisition<br>SAR'000 |
|------------------------------------------------------|--------------------------------------|
| <b>Assets Acquired:</b>                              |                                      |
| Non-Current Assets                                   |                                      |
| Property, Plant and Equipment                        | 30,510                               |
| Right-of-Use Assets                                  | 26,196                               |
|                                                      | <b>56,706</b>                        |
| <b>Current Assets</b>                                |                                      |
| Cash and Cash Equivalents                            | 1,568                                |
| Trade Receivables, Prepayments and Other Recievables | 77,096                               |
| Inventories                                          | 26,091                               |
|                                                      | <b>104,755</b>                       |
| <b>Total Assets</b>                                  | <b>161,461</b>                       |
| <b>Liabilities Assumed:</b>                          |                                      |
| Non-Current Liabilities                              |                                      |
| Lease Liability                                      | 21,880                               |
| Employee Retirement Benefits                         | 5,684                                |
|                                                      | <b>27,564</b>                        |
| <b>Current Liabilities</b>                           |                                      |
| Lease Liability                                      | 3,837                                |
| Trade and Other Payables                             | 11,443                               |
|                                                      | <b>15,280</b>                        |
| <b>Total Liabilities</b>                             | <b>42,844</b>                        |
| Total Identifiable Net Assets                        | <b>118,617</b>                       |
| Total Acquisition Cost                               | <b>118,617</b>                       |
| <b>Cash Outflow on Acquisition:</b>                  |                                      |
| Net Cash Acquired with the Subsidiary                | 1,568                                |
| Cash Paid                                            | (99,161)                             |
| Net Cash Outflow                                     | <b>(97,593)</b>                      |

Out of total purchase consideration of SAR 118.6 million, SAR 99.1 million was paid in cash with remainder settled against the amounts payable to Premier Foods prior to the acquisition.

## 13. INVENTORIES

|                                                         | 2019<br>SAR '000 | 2018<br>SAR '000 |
|---------------------------------------------------------|------------------|------------------|
| Raw Materials                                           | 3,439,823        | 3,036,534        |
| Finished Goods                                          | 454,660          | 518,166          |
| Spares                                                  | 544,761          | 518,697          |
| Work in Progress                                        | 150,835          | 209,489          |
| Total Inventories                                       | 4,590,079        | 4,282,886        |
| Allowance for Slow Moving Inventories (Refer note 13.1) | (392,074)        | (408,693)        |
| <b>Total</b>                                            | <b>4,198,005</b> | <b>3,874,193</b> |

### 13.1. Movement in the allowance for slow moving inventories:

|                             | 2019<br>SAR '000 | 2018<br>SAR '000 |
|-----------------------------|------------------|------------------|
| Opening balance             | 408,693          | 459,198          |
| Reversed during the year    | (13,803)         | (34,574)         |
| Written off during the year | (2,816)          | (15,931)         |
| Closing balance             | 392,074          | 408,693          |

13.2. Allowance for slow moving inventories is based on nature of inventories, ageing profile, their expiry and sales expectation based on historic trends and other qualitative factors.

# Notes to the Consolidated Financial Statements continued

## for the year ended 31 December 2019

### 14. TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

|                                                                       | 2019<br>SAR '000 | 2018<br>SAR '000 |
|-----------------------------------------------------------------------|------------------|------------------|
| Trade Receivables - Third Parties                                     | 1,066,329        | 1,038,088        |
| - Related Parties (Refer Note 35)                                     | 154,300          | 142,413          |
|                                                                       | 1,220,629        | 1,180,501        |
| Less: Allowance for impairment of trade receivables (Refer note 37.2) | (91,510)         | (57,333)         |
| Net Trade Receivables                                                 | 1,129,119        | 1,123,168        |
| Prepayments                                                           | 413,946          | 441,313          |
| Government Grants                                                     | 195,424          | 183,210          |
| Other Receivables                                                     | 130,406          | 165,511          |
|                                                                       | 1,868,895        | 1,913,202        |
| <b>Ageing of Trade Receivables</b>                                    |                  |                  |
| Upto 2 months                                                         | 1,032,123        | 919,415          |
| 2 - 3 months                                                          | 89,218           | 87,535           |
| More than 3 months                                                    | 99,288           | 173,551          |
|                                                                       | 1,220,629        | 1,180,501        |

14.1. Movement in allowance for impairment of trade receivables is as follows:

|                                                               | 2019<br>SAR '000 | 2018<br>SAR '000 |
|---------------------------------------------------------------|------------------|------------------|
| At the beginning of the year                                  | 57,333           | 76,824           |
| Allowance made / (reversed) during the year (Refer Note 14.4) | 34,177           | (19,491)         |
| At the end of the year                                        | 91,510           | 57,333           |

14.2. Trade receivables disclosed above are classified as financial assets at amortised cost.

14.3. The average credit period on sales of goods is 29 days (2018: 28 days).

14.3. It includes SAR 2.1 million trade receivables written off during the year (2018: SAR 0.5 million). Trade receivables are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments.

## 15. TIME DEPOSIT

|              | 2019<br>SAR '000 | 2018<br>SAR '000 |
|--------------|------------------|------------------|
| Time Deposit | 590,038          | -                |
|              | 590,038          | -                |

15.1. The average rate on time deposit (Murabaha) is 2.5% with a maturity of less than one year.

## 16. CASH AND BANK BALANCES

|                                           | 2019<br>SAR '000 | 2018<br>SAR '000 |
|-------------------------------------------|------------------|------------------|
| Cash at Bank - Current accounts           | 392,575          | 850,650          |
| Cash at Bank - Deposits (Refer note 16.1) | 23,271           | 192,644          |
| Cash in Hand                              | 141,707          | 139,608          |
|                                           | 557,553          | 1,182,902        |

16.1. The average rate on bank deposits during 2019 is 1.7% (2018: 2.6 %) per annum with an average maturity of two months.

## 17. SHARE CAPITAL

The Company's share capital at 31 December 2019 amounted to SAR 10,000 million (2018: SAR 10,000 million), consisting of 1,000 million (2018: 1,000 million) fully paid and issued shares of SAR 10 each.

## 18. EMPLOYEE STOCK OPTION PROGRAMME (ESOP)

The Company has offered certain employees (the "Eligible Employees") the option (the "Option") for equity ownership (treasury shares) opportunities and performance-based incentives which will result in more alignment between the interest of both shareholders and these employees. The vesting of the Option is dependent on meeting performance targets (such as earnings per share) set by the Company along with the required period of stay in service by the Eligible Employees. The exercise of the Option is contingent upon the shares of the Company continuing to be listed on the Saudi Stock Exchange (Tadawul).

Treasury shares that have not been granted to Eligible Employees in the reporting period for which those were earmarked shall carry over to the next reporting period.

In the event of a capital increase, share split or dividend distribution (in the form of shares), the number of shares and the exercise price subject to the Option will be adjusted accordingly.

The number of share options and the exercise price has been retrospectively adjusted for the prior period to reflect the effect of the bonus share issue.

The ESOP 2015 was granted in Dul Qadah 1436 A.H. (August 2015). The number of shares shall not exceed 2,283,000 shares.

The ESOP 2016 was granted in Jumada Al-Thani 1437 A.H. (April 2016). The number of shares shall not exceed 2,933,333 shares.

# Notes to the Consolidated Financial Statements continued

## for the year ended 31 December 2019

### 18.EMPLOYEE STOCK OPTION PROGRAMME (ESOP) continued

The ESOP 2017 was granted in Muharram 1439 A.H. (February 2017). The number of shares shall not exceed 4,125,000 shares.

The ESOP 2018 was granted in Muharram 1440 A.H. (September 2018). The number of shares shall not exceed 4,000,000 shares.

The ESOP 2019 was granted in Dhul-Hijjah 1440 A.H. (August 2019). The number of shares shall not exceed 4,500,000 shares.

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

|                              | 2019<br>SAR '000 | 2018<br>SAR '000 |
|------------------------------|------------------|------------------|
| At the beginning of the year | 9,993,968        | 7,726,000        |
| Granted during the year      | 4,300,000        | 4,000,000        |
| Settled during the year      | (2,160,988)      | (1,024,951)      |
| Forfeited during the year    | (1,294,922)      | (707,081)        |
| At the end of the year       | 10,838,058       | 9,993,968        |

The fair value per Option is estimated at the grant date using the Black Scholes Merton pricing model, taking into account the terms and conditions upon which the share options were granted.

|                                              | ESOP<br>2015 | ESOP<br>2016 | ESOP<br>2017 | ESOP<br>2018 | ESOP<br>2019 |
|----------------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Input to the Model;                          |              |              |              |              |              |
| Dividend Yield (%)                           | 1.1%         | 2.2%         | 1.8%         | 1.4%         | 1.5%         |
| Expected Volatility (%)                      | 25.0%        | 33.2%        | 15.0%        | 19.1%        | 22.9%        |
| Risk Free Interest Rate (%)                  | 5.0%         | 5.0%         | 5.0%         | 3.0%         | 3.0%         |
| Contractual Life of Share Options (Years)    | 2.5          | 2.8          | 3.0          | 2.4          | 2.5          |
| Share Price (SAR) at Grant Date              | 90.5         | 52.5         | 55.6         | 49.2         | 51.9         |
| Exercise Price (SAR) at Grant Date           | 73.5         | 45.0         | 46.0         | 55.0         | 55.0         |
| Fair Value per Option                        | 26.7         | 15.7         | 13.9         | 4.1          | 6.7          |
| Exercise Price (SAR) after bonus split       | 44.1         | 36.0         | 46.0         | 55.0         | 55.0         |
| Remaining Contractual Life (Years)           | -            | -            | 0.1          | 1.4          | 2.6          |
| Weighted Average Share Price during the year | 51.4         | 44.4         | 58.8         | 53.2         | 52.6         |

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the Options is indicative of future trends, which may also not necessarily be the actual outcome.

The following table shows movement during the year:

|                                     | 2019<br>SAR '000 | 2018<br>SAR '000 |
|-------------------------------------|------------------|------------------|
| <b>Treasury Shares</b>              |                  |                  |
| At the beginning of the year        | 593,567          | 453,156          |
| Acquired during the year            | 314,930          | 222,707          |
| Disposed off on exercise of options | (137,757)        | (82,296)         |
| At the end of the year              | 770,740          | 593,567          |

## 19. OTHER RESERVES

|                              | 2019<br>SAR '000 | 2018<br>SAR '000 |
|------------------------------|------------------|------------------|
| Hedging Reserve              | (3,754)          | (6,660)          |
| Currency Translation Reserve | 565,658          | 611,585          |
| Others                       | (111,317)        | (84,425)         |
|                              | 450,587          | 520,500          |

## 20. NON-CONTROLLING INTERESTS

Summarised aggregate financial information of the Group's subsidiaries that has material non-controlling interests (Refer note1) is set out below. The summarised financial information below represents amounts before intragroup eliminations.

|                                                      | 2019<br>SAR '000 | 2018<br>SAR '000 |
|------------------------------------------------------|------------------|------------------|
| Non-current assets                                   | 2,110,043        | 1,568,082        |
| Current assets                                       | 745,113          | 677,028          |
| Non-current liabilities                              | 524,129          | 376,897          |
| Current liabilities                                  | 700,358          | 616,003          |
| Equity attributable to owners of the Company         | 1,647,085        | 1,252,210        |
| Non-Controlling Interests                            | 605,771          | 586,061          |
| Revenue                                              | 2,462,539        | 2,425,943        |
| Expenses                                             | (2,467,397)      | (2,407,638)      |
| Net (Loss) / Profit for the year                     | (4,858)          | 18,305           |
| Net Profit / (Loss) attributable to:                 |                  |                  |
| Owners of the Company                                | 6,042            | 19,952           |
| Non-Controlling Interests                            | (10,181)         | (3,417)          |
| Total Comprehensive Income / (Loss) attributable to: |                  |                  |
| Owners of the Company                                | 94,792           | (12,046)         |
| Non-Controlling Interests                            | 27,230           | (5,267)          |
| Total Comprehensive Income / (Loss) for the year     | 122,022          | (17,313)         |

# Notes to the Consolidated Financial Statements continued

## for the year ended 31 December 2019

### 21. LOANS AND BORROWINGS

|                                            | Notes | 2019<br>SAR '000  | 2018<br>SAR '000  |
|--------------------------------------------|-------|-------------------|-------------------|
| Islamic Banking Facilities (Murabaha)      | 21.1  | 5,119,508         | 7,231,948         |
| Saudi Industrial Development Fund          | 21.2  | 2,665,478         | 2,146,926         |
| Banking Facilities of Non-GCC Subsidiaries | 21.3  | 363,296           | 339,214           |
| Supranational                              | 21.4  | 276,099           | 278,614           |
| Agricultural Development Fund              | 21.5  | 159,173           | 176,938           |
| Banking Facilities of GCC Subsidiaries     | 21.6  | -                 | 150,314           |
|                                            |       | 8,583,554         | 10,323,954        |
| Sukuk                                      | 21.7  | 2,408,180         | 3,422,308         |
| International Sukuk                        | 21.7  | 1,891,986         | -                 |
|                                            |       | 12,883,720        | 13,746,262        |
| Short Term Loans                           |       | 51,419            | 25,521            |
| Current Portion of Long Term Loans         |       | 1,934,974         | 2,068,771         |
| <b>Loans - Current Liabilities</b>         |       | <b>1,986,393</b>  | <b>2,094,292</b>  |
| <b>Loans - Non-Current Liabilities</b>     |       | <b>10,897,327</b> | <b>11,651,970</b> |
|                                            |       | <b>12,883,720</b> | <b>13,746,262</b> |

**21.1.** The borrowings under Islamic banking facilities (Murabaha) are secured by promissory notes given by the Group. The Islamic banking facilities (Murabaha) with a maturity period of less than two years are predominantly of a revolving nature. During the year ended 31 December 2019, the Group entered into new Islamic Banking facilities amounting to SAR 1,850 million. As at 31 December 2019, SAR 7,445.1 million Islamic banking facilities (Murabaha) were unutilized and available for drawdown with maturities predominantly greater than five years. (2018: SAR 5,510.4 million).

**21.2.** The borrowings of the Group from the Saudi Industrial Development Fund (SIDF) are secured by a mortgage on land and other fixed assets equivalent to the outstanding borrowings. As at 31 December 2019, the Group had SAR 66.8 million of unutilized SIDF facilities available for drawdown with maturities predominantly greater than five years (2018: SAR 192.2 million). Assets held as collateral are subject to restriction of disposal until the loan is settled or the disposal is approved by SIDF.

**21.3.** These banking facilities of Non-GCC subsidiaries represent foreign currency denominated borrowings, including USD, EGP, JOD and ARS from foreign banking and developing institutions, secured by corporate guarantee given by the Parent Company. As at 31 December 2019, SAR equivalent 461.7 million (2018: SAR 448.6 million) facilities were unutilized and available for drawdown.

**21.4.** The borrowings granted by Supranational ("IFC" - Member of World Bank Group and "EBRD" - European Bank for Reconstruction and Development) are in USD, secured by promissory notes given by the Group. During the year ended 31 December 2019, the Group entered into new loan facility with EBRD amounting to USD 100 million. As at 31 December 2019, the Group had SAR 656.7 million of unutilized facility available for drawdown (2018: SAR 281.4 million).

**21.5.** The borrowing from Agriculture Development Fund ("ADF") is secured by a mortgage on land and other fixed assets equivalent to the outstanding borrowings. As at 31 December 2019, the Group had no unutilized ADF facilities available (2018: Nil). Assets mortgaged are subject to the restriction of disposal until the loan is settled or the disposal is approved by ADF.

**21.6.** The borrowings under GCC subsidiaries are in USD, secured by corporate guarantee given by the Parent Company. As at 31 December 2019, the Group had SAR equivalent 149.9 million unutilized facility available for drawdown (2018: Nil).

**21.7.** On 14 Rabi Thani 1433 A.H. (7 March 2012), the Company issued its first Sukuk – Series I amounting to SAR 1,000.0 million at a par value of SAR 1.0 million each without discount or premium. The Sukuk issuance bears a return based on Saudi Arabia Interbank Offered Rate (SIBOR) plus a pre-determined margin payable semi-annually in arrears. The Sukuk was redeemed at par on its date of maturity i.e. 30 Jumada Thani 1440 A.H. (7 March 2019).

On 19 Jumada Awal 1434 A.H. (31 March 2013), the Company issued its second Sukuk – Series II amounting to SAR 787.0 million at a par value of SAR 1.0 million each without discount or premium. The Sukuk issuance bears a return based on SIBOR plus a pre-determined margin payable semi-annually in arrears. The Sukuk will be redeemed at par on its date of maturity i.e. 7 Shabaan 1441 A.H. (31 March 2020).

On 19 Jumada Awal 1434 A.H. (31 March 2013), the Company issued its second Sukuk – Series III amounting to SAR 513.0 million at a par value of SAR 1.0 million each without discount or premium. The Sukuk issuance bears a return based on SIBOR plus a pre-determined margin payable semi-annually in arrears. The Sukuk was redeemed at par on 12 Rajab 1439 A.H. (29 March 2018).

On 3 Dhul Hijja 1436 A.H. (16 September 2015), the Company issued its third Sukuk amounting to SAR 1,600.0 million at a par value of SAR 1.0 million each without discount or premium. The Sukuk issuance bears a return based on SIBOR plus a pre-determined margin payable semi-annually in arrears. The Sukuk will be redeemed at par on its date of maturity i.e. 20 Safar 1444 A.H. (16 September 2022).

The terms of the Sukuk entitle the Company to commingle its own assets with the Sukuk assets. Sukuk assets comprise the Sukukholders' share in the Mudaraba assets and the Sukukholders' interest in the Murabaha transactions, together with any amounts standing to the credit of the Sukuk account and the reserve retained by the Company from the Sukuk account.

On 28 Jumada Al-Akhirah 1440 A.H. (5 March 2019), the Group issued its first International Sukuk – Series I amounting to USD 500.0 million out of USD 2000.0 million Euro Medium Term Note Programme at a par value of USD 0.2 million each. The International Sukuk Issuance bears a return of 4.3% per annum payable semi-annually in arrears. The International Sukuk will be redeemed at par on its date of maturity i.e. 24 Shaban 1445 A.H. (5 March 2024).

**21.8.** The loans contain certain covenants. A future breach of covenants may lead to renegotiation. The covenants are monitored on a monthly basis by Management, in case of potential breach, actions are taken by management to ensure compliance. During 2019, there has been no non-compliance for any of the covenants.

# Notes to the Consolidated Financial Statements continued

## for the year ended 31 December 2019

### 22. EMPLOYEE RETIREMENT BENEFITS

|                                                       |             | 2019<br>SAR '000 | 2018<br>SAR '000 |
|-------------------------------------------------------|-------------|------------------|------------------|
| Opening Balance                                       |             | 699,325          | 621,536          |
| On acquisition of subsidiary                          |             | 5,684            | 6,798            |
| <b>Consolidated Statement of Profit or Loss</b>       |             |                  |                  |
| Current Service Cost                                  |             | 91,371           | 89,844           |
| Interest Cost                                         |             | 26,528           | 19,558           |
| Past Service Cost                                     |             | -                | (742)            |
| <b>Consolidated Statement of Comprehensive Income</b> |             |                  |                  |
| Actuarial Loss                                        |             | 65,770           | 18,686           |
| <b>Cash Movements:</b>                                |             |                  |                  |
| Benefits paid                                         |             | (62,279)         | (56,355)         |
| Closing Balance                                       |             | 826,399          | 699,325          |
|                                                       |             |                  |                  |
| <b>Sensitivity in Defined Benefit Obligation</b>      |             |                  |                  |
| Salary Inflation                                      | 1% Decrease | 798,124          | 623,243          |
|                                                       | Base        | 826,399          | 699,325          |
|                                                       | 1% Increase | 860,338          | 779,209          |
| Discount Rate                                         | 1% Decrease | 888,119          | 779,277          |
|                                                       | Base        | 826,399          | 699,325          |
|                                                       | 1% Increase | 774,670          | 624,665          |

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the employee retirement benefits to significant actuarial assumptions, the same method (present value of the employee retirement benefits calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the employee retirement benefits recognized in the Consolidated Statement of Financial Position.

### Demographic Assumptions

|                                        | 2019<br>SAR '000 | 2018<br>SAR '000 |
|----------------------------------------|------------------|------------------|
| <b>Membership Data (GCC employees)</b> |                  |                  |
| Number of Employees                    | 37,447           | 38,035           |
| Average age of employees (years)       | 35.1             | 34.4             |
| Average years of past service          | 6.7              | 5.1              |

Weighted average duration of the defined benefit obligation is 11.4 years.

| Country              | Gross Discount Rate |      | Salary Growth Rate |      |
|----------------------|---------------------|------|--------------------|------|
|                      | 2019                | 2018 | 2019               | 2018 |
| Saudi Arabia         | 2.9%                | 3.9% | 2.9%               | 2.1% |
| United Arab Emirates | 2.7%                | 3.5% | 2.7%               | 1.9% |
| Oman                 | 4.7%                | 6.3% | 4.7%               | 3.0% |
| Kuwait               | 2.4%                | 4.3% | 2.4%               | 2.7% |
| Bahrain              | 4.1%                | 7.8% | 4.1%               | 1.5% |
| Qatar                | -                   | 3.7% | -                  | 2.0% |

### Risk Exposure:

The Group is exposed to a number of risks, the most significant of which are detailed below:

#### Inflation risk

The majority of the plan's benefit obligations are linked to inflation and higher inflation will lead to higher liabilities.

#### Changes in bond yields

Decrease in corporate bond yields will increase plan liabilities

### Maturity Analysis

|                            | Less than a<br>year<br>SAR '000 | Between<br>1 - 2 years<br>SAR '000 | Between<br>2 - 5 years<br>SAR '000 | Over<br>5 years<br>SAR '000 | Total<br>SAR '000 |
|----------------------------|---------------------------------|------------------------------------|------------------------------------|-----------------------------|-------------------|
| <b>31 December 2019</b>    |                                 |                                    |                                    |                             |                   |
| Defined benefit obligation | 106,756                         | 142,326                            | 305,681                            | 462,597                     | 1,017,360         |

## 23. DEFERRED TAX

Following are the major deferred tax assets and liabilities recognized by the Group:

### 23.1. Deferred Tax Assets

|                                 | 2019<br>SAR '000 | 2018<br>SAR '000 |
|---------------------------------|------------------|------------------|
| Opening Balance                 | 11,488           | 39,926           |
| Credit / (Charge) for the year  | 27,614           | (4,376)          |
| Currency Translation Difference | 1,734            | (24,062)         |
| Closing Balance                 | 40,836           | 11,488           |

Deferred tax assets relate to unused tax losses for its subsidiaries in Argentina and Egypt. Management believes that future taxable profits will be available against which deferred tax assets can be realized.

# Notes to the Consolidated Financial Statements continued

## for the year ended 31 December 2019

### 23. DEFERRED TAX continued

#### 23.2. Deferred Tax Liabilities

|                                 | 2019<br>SAR '000 | 2018<br>SAR '000 |
|---------------------------------|------------------|------------------|
| Opening Balance                 | 37,967           | 48,060           |
| Charge for the year             | 50,232           | -                |
| Currency Translation Difference | 15,129           | (10,093)         |
| Closing Balance                 | 103,328          | 37,967           |

Deferred tax liability of SAR 103.3 million relates to taxable temporary differences arising on Property, Plant and Equipment. This includes SAR 23.8 million on the fair valuation adjustment of land amounting to SAR 68.1 million carried out at the time of business combination of its subsidiaries in Argentina, being the temporary difference between the carrying amount of land for financial reporting purposes and the amount used for taxation purposes.

|                                                                                     | 2019<br>SAR '000 | 2018<br>SAR '000 |
|-------------------------------------------------------------------------------------|------------------|------------------|
| <b>Liability for deferred taxation comprising temporary differences related to:</b> |                  |                  |
| Accelerated tax depreciation                                                        | 79,502           | 14,141           |
| Fair valuation adjustment of land                                                   | 23,826           | 23,826           |
|                                                                                     | 103,328          | 37,967           |

### 24. ZAKAT AND FOREIGN INCOME TAX

|                                                | 2019<br>SAR '000 | 2018<br>SAR '000 |
|------------------------------------------------|------------------|------------------|
| Zakat Provision (Refer note 24.1)              | 363,488          | 302,911          |
| Foreign Income Tax Provision (Refer note 24.2) | 31,578           | 13,153           |
|                                                | 395,066          | 316,064          |

#### 24.1. Zakat Provision

Zakat is charged at the higher of net adjusted income or Zakat base as required by the General Authority of Zakat and Tax (GAZT). In the current year, the Zakat charge is based on the net adjusted income method for Almarai Company including HADCO while Zakat charge for MFI is calculated based on Zakat base.

|                     | 2019<br>SAR '000 | 2018<br>SAR '000 |
|---------------------|------------------|------------------|
| Opening Balance     | 302,911          | 256,235          |
| Charge for the year | 71,426           | 49,352           |
| Payments            | (10,849)         | (2,676)          |
| Closing Balance     | 363,488          | 302,911          |

The Company has filed its Consolidated Zakat returns for all the years up to 2018 and settled its Zakat liabilities accordingly. The Zakat assessments have been agreed with the GAZT for all the years up to 2006 for Almarai Company while Zakat and Tax movement for MFI have been with GAZT for all years up to 2009. During 2018, the Group received assessment orders for Almarai Company and MFI for the years from 2007-2014 and 2009-2013 respectively. Appeals against both assessments have been filed and are under review as at 31 December 2019. Management believes that the decisions on appeal against the open years' assessments will not result in material additional amounts that are already recorded in the Consolidated Financial Statements.

HADCO has filed its Zakat returns for all years up to 2008 and has settled its Zakat liabilities accordingly. The Zakat assessments have been agreed with the GAZT for all years up to 2007 while the 2008 Zakat return is under review by the GAZT. From 2009 onwards, HADCO is not required to file a separate return as its results are included in the Company's Consolidated Zakat return.

## 24.2. Foreign Income Tax Provision

|                     | 2019<br>SAR '000 | 2018<br>SAR '000 |
|---------------------|------------------|------------------|
| Opening Balance     | 13,153           | 16,671           |
| Charge for the year | 26,853           | 16,770           |
| Payments            | (8,428)          | (20,288)         |
| Closing Balance     | 31,578           | 13,153           |

Foreign subsidiaries have filed their tax returns for all years up to 2018 and settled their tax liabilities accordingly. While all the returns have been filed, final assessments are pending for certain years. The earliest year open for assessment is 2010, and the latest year assessed is 2018.

## 25. TRADE AND OTHER PAYABLES

|                                    | 2019<br>SAR '000 | 2018<br>SAR '000 |
|------------------------------------|------------------|------------------|
| Trade Payable - Third Parties      | 1,326,630        | 1,326,865        |
| - Related Parties (Refer note 35)  | 76,912           | 105,194          |
| Accrued Expenses (Refer note 25.1) | 1,142,964        | 992,219          |
| Other Payables                     | 472,654          | 383,764          |
|                                    | 3,019,160        | 2,808,042        |

**25.1.** Management considers that the carrying amount of trade payables approximates to their fair value. The average credit period taken for trade purchases is 58 days (2018: 67 days). Accrued expenses include accrued leave obligations amounting to SAR 123.2 million (2018: SAR 120.3 million), accrual against expected sales returns amounting to SAR 50.0 million and accrual against volume discounts amounting to SAR 203.7 million. Other payables include unrecognized portion of Government grants related to inventories held at the reporting date.

# Notes to the Consolidated Financial Statements continued

## for the year ended 31 December 2019

### 26. COST OF SALES

|                                                   | 2019<br>SAR '000 | 2018<br>SAR '000 |
|---------------------------------------------------|------------------|------------------|
| Material Consumed                                 | 5,227,346        | 4,812,066        |
| Government Grants                                 | (427,815)        | (438,659)        |
| Employee Costs                                    | 1,651,694        | 1,422,995        |
| Depreciation of Property, Plant and Equipment     | 1,368,747        | 1,403,779        |
| Repairs and Maintenance                           | 506,700          | 492,159          |
| Depreciation of Biological Assets                 | 384,123          | 313,838          |
| Telephone and Electricity                         | 325,948          | 311,325          |
| Vaccines and Drugs                                | 140,382          | 129,689          |
| Depreciation of Right-of-Use Assets               | 33,505           | 29,427           |
| Amortisation of Software Licenses                 | 16,195           | 12,371           |
| Other Expenses                                    | 387,563          | 380,862          |
| Less:                                             |                  |                  |
| Appreciation of Biological Assets (Refer note 10) | (629,785)        | (639,089)        |
|                                                   | 8,984,603        | 8,230,763        |

### 27. SELLING AND DISTRIBUTION EXPENSES

|                                               | 2019<br>SAR '000 | 2018<br>SAR '000 |
|-----------------------------------------------|------------------|------------------|
| Employee Costs                                | 1,448,184        | 1,283,179        |
| Marketing Expenses                            | 326,996          | 299,377          |
| Depreciation of Property, Plant and Equipment | 252,683          | 262,376          |
| Repairs and Maintenance                       | 152,440          | 141,843          |
| Depreciation of Right-of-Use Assets           | 55,263           | 52,975           |
| Telephone and Electricity                     | 24,137           | 24,649           |
| Amortisation of Software Licenses             | 8,495            | 7,576            |
| Other Expenses                                | 108,130          | 108,269          |
|                                               | 2,376,328        | 2,180,244        |

## 28. GENERAL AND ADMINISTRATION EXPENSES

|                                               | 2019<br>SAR '000 | 2018<br>SAR '000 |
|-----------------------------------------------|------------------|------------------|
| Employee Costs                                | 241,753          | 218,608          |
| Insurance                                     | 64,456           | 56,281           |
| Repairs and Maintenance                       | 31,829           | 32,405           |
| Amortisation of Software Licenses             | 25,248           | 27,504           |
| Depreciation of Property, Plant and Equipment | 17,196           | 17,951           |
| Depreciation of Right-of-Use Assets           | 13,020           | 12,330           |
| Telephone and Electricity                     | 4,012            | 5,152            |
| Other Expenses                                | 2,759            | 4,973            |
|                                               | 400,273          | 375,204          |

## 29. OTHER EXPENSES, NET

|                                                            | 2019<br>SAR '000 | 2018<br>SAR '000 |
|------------------------------------------------------------|------------------|------------------|
| (Gain) / Loss on Disposal of Property, Plant and Equipment | (4,655)          | 4,375            |
| Loss on Disposal of Biological Assets (Refer 29.1)         | 127,886          | 164,875          |
| Gain on Disposal of Right of Use Assets                    | (9,322)          | -                |
| Exchange Gain                                              | (34,161)         | (26,224)         |
| Dividend on Equity Investment                              | (300)            | (225)            |
| Impairment of Assets (Refer note 29.2)                     | 9,224            | 127,336          |
| Loss on Disposal of Investment                             | -                | 4,938            |
|                                                            | 88,672           | 275,075          |

**29.1.** Each cow within the dairy herd is depreciated over the average useful life of approximately four lactations (Refer note 5.11). In order to maintain the size and health of the dairy herd, a significant proportion of the herd is culled or sold each year based on an assessment by management of the productivity, breeding and efficiency of each herd member and only those meeting predefined levels are retained. It is not possible to predict in advance which herd members will be culled early or late and accordingly the average useful life of approximately four lactations is applied across the whole of the dairy herd. Underperforming herd members are often sold in a secondary market where the value received for each herd member is generally not linked to the age of the herd member. Herd members culled or sold before four lactations will typically have a depreciated cost higher than the expected residual value and thus a loss on disposal will generally arise. Management believe that such loss on disposal broadly offsets the absence of depreciation on those herd members that survive beyond the average four lactation period and accordingly neither the profit for the year nor the net carrying cost of the dairy herd as reported in the Consolidated Statement of Financial Position is materially distorted.

# Notes to the Consolidated Financial Statements continued

## for the year ended 31 December 2019

### 29. OTHER EXPENSES, NET continued

29.2. It includes:

31 December 2019:

- During the year, Beyti identified idle assets with net book value of SAR 9.2 million which are considered impaired during the year.

31 December 2018:

- In accordance with the terms of the Ministerial Council Resolution (66) dated 25 Safer 1440H (corresponding to 07 December 2015) to completely halt the local production of green forage for areas above fifty Hectares, the Group had stopped the production of alfalfa and green forage in the Kingdom of Saudi Arabia. This resulted in impairment of these assets amounted to SAR 47.7 million.
- Expenses related to the closure of farming operations in 2018, including dilapidation costs and crop input cost, amounted to SAR 30.0 million.
- Part of Teeba business operations were changed in 2018 resulting in an asset impairment charge of SAR 22.8 million.

### 30. FINANCE COST, NET

|                                                         | 2019<br>SAR '000 | 2018<br>SAR '000 |
|---------------------------------------------------------|------------------|------------------|
| Interest and Finance Charges                            | 586,492          | 462,653          |
| Interest on Lease Liabilities                           | 20,045           | 21,823           |
| Interest Income on other Deposits                       | (21,443)         | (8,751)          |
| Exchange (Gain) / Loss                                  | (3,055)          | 7,196            |
| Interest Capitalisation                                 | (23,998)         | (42,402)         |
| Net Gain on Settlement of Interest Rate Swap Instrument | (7,302)          | (3,753)          |
|                                                         | 550,739          | 436,766          |

## 31. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

|                                                                                                            | 2019<br>SAR '000 | 2018<br>SAR '000 |
|------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Profit for the year attributable to the shareholders of the Company                                        | 1,811,753        | 2,011,975        |
| Less: Profit attributable to Sukukholders                                                                  | -                | (55,591)         |
| Earnings for the purposes of basic earnings per share                                                      | 1,811,753        | 1,956,384        |
| <b>Number of shares '000'</b>                                                                              |                  |                  |
| Weighted average number of ordinary shares for the purposes of basic earnings                              | 987,628          | 989,472          |
| Weighted average number of ordinary shares repurchased                                                     | 12,372           | 10,528           |
| Weighted average number of ordinary shares for the purposes of diluted earning                             | 1,000,000        | 1,000,000        |
| <b>Earnings per Share (SAR), based on Profit for the year attributable to Shareholders of the Company"</b> |                  |                  |
| - Basic                                                                                                    | 1.83             | 1.98             |
| - Diluted                                                                                                  | 1.81             | 1.96             |

Weighted average number of shares are retrospectively adjusted to reflect the effect of Bonus Shares and are adjusted to take account of Treasury Shares held under the Almarai Employee Stock Options Programme.

## 32. SEGMENT REPORTING

The Group's principal business activities involve manufacturing and trading of dairy and juice products under Almarai, Joosy Life Beyti and Teeba brands, bakery products under L'usine and 7 Days brands and poultry products under Alyoum and AlBashayer brands. Other activities include Arable, Horticulture and Infant Nutrition. Selected financial information as at 31 December 2019 and 31 December 2018, and for the years then ended, categorised by these business segments, is as follows:

|                  |                                                                             |
|------------------|-----------------------------------------------------------------------------|
| Dairy and Juice  | Milk production, dairy and fruits juice product processing and distribution |
| Bakery           | Bakery products manufacturing and distribution                              |
| Poultry          | Poultry products manufacturing and distribution                             |
| Other Activities | Horticulture and Infant Nutrition                                           |

# Notes to the Consolidated Financial Statements continued

## for the year ended 31 December 2019

### 32. SEGMENT REPORTING continued

|                                                             | Dairy and<br>Juice<br>SAR '000 | Bakery<br>SAR '000 | Poultry<br>SAR '000 | Other<br>Activities<br>SAR '000 | Total<br>SAR '000 |
|-------------------------------------------------------------|--------------------------------|--------------------|---------------------|---------------------------------|-------------------|
| <b>31 December 2019</b>                                     |                                |                    |                     |                                 |                   |
| Revenue                                                     | 15,412,244                     | 2,582,510          | 5,926,597           | 1,200,102                       | 25,121,453        |
| Third Party Revenue                                         | 10,209,987                     | 1,749,297          | 2,124,593           | 267,400                         | 14,351,277        |
| Depreciation and Amortisation                               | (1,378,182)                    | (250,959)          | (399,064)           | (146,270)                       | (2,174,475)       |
| Profit / (loss) attributable to Shareholders of the Company | 1,427,270                      | 235,698            | 263,690             | (114,905)                       | 1,811,753         |
| Profit / (loss)                                             | 1,401,976                      | 250,840            | 263,295             | (114,539)                       | 1,801,572         |
| Impairment recognized during the year                       | 9,224                          | -                  | -                   | -                               | 9,224             |
| Total Assets                                                | 22,327,971                     | 2,229,028          | 5,239,310           | 3,351,733                       | 33,148,042        |
| Total Liabilities                                           | 15,668,242                     | 457,357            | 1,000,988           | 762,335                         | 17,888,922        |
| <b>31 December 2018</b>                                     |                                |                    |                     |                                 |                   |
| Revenue                                                     | 9,989,876                      | 1,641,248          | 1,800,471           | 1,311,429                       | 14,743,024        |
| Third Party Revenue                                         | 9,919,665                      | 1,641,393          | 1,800,350           | 196,429                         | 13,557,837        |
| Depreciation and Amortisation                               | (1,297,175)                    | (250,614)          | (373,112)           | (219,226)                       | (2,140,127)       |
| Share of Results of Associates                              | -                              | -                  | (4,699)             | (714)                           | (5,413)           |
| Profit / (loss) attributable to Shareholders of the Company | 1,734,737                      | 192,426            | 182,451             | (97,639)                        | 2,011,975         |
| Share of Other Comprehensive Income of Associates           | -                              | -                  | -                   | 567                             | 567               |
| Profit / (loss)                                             | 1,713,399                      | 212,714            | 180,084             | (97,639)                        | 2,008,558         |
| Impairment on non-financial assets                          | (49,627)                       | -                  | -                   | (77,709)                        | (127,336)         |
| Total Assets                                                | 22,144,438                     | 2,354,347          | 5,330,716           | 2,953,046                       | 32,782,547        |
| Total Liabilities                                           | 16,052,834                     | 471,598            | 1,082,856           | 712,615                         | 18,319,903        |

The Group's revenue is derived from contracts with customers for sale of consumer products. Control of products is transferred at a point in time and directly sold to customers.

Finance cost is not analysed at segment level, as it is driven by the central treasury function, which manages the cash position at the group level.

Segment assets are measured in the same way as in the Consolidated Financial Statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

|                         | Dairy and<br>Juice<br>SAR '000 | Bakery<br>SAR '000 | Poultry<br>SAR '000 | Other<br>Activities<br>SAR '000 | Total<br>SAR '000 |
|-------------------------|--------------------------------|--------------------|---------------------|---------------------------------|-------------------|
| <b>31 December 2019</b> |                                |                    |                     |                                 |                   |
| Saudi Arabia            | 6,265,550                      | 1,435,593          | 1,875,567           | 160,554                         | 9,737,264         |
| Other GCC Countries     | 2,661,002                      | 304,092            | 199,331             | (91)                            | 3,164,334         |
| Other Countries         | 1,283,435                      | 9,612              | 49,695              | 106,937                         | 1,449,679         |
| Total                   | 10,209,987                     | 1,749,297          | 2,124,593           | 267,400                         | 14,351,277        |
| <b>31 December 2018</b> |                                |                    |                     |                                 |                   |
| Saudi Arabia            | 6,104,459                      | 1,347,080          | 1,633,574           | 94,689                          | 9,179,802         |
| Other GCC Countries     | 2,670,961                      | 290,416            | 127,342             | 1,684                           | 3,090,403         |
| Other Countries         | 1,144,245                      | 3,897              | 39,434              | 100,056                         | 1,287,632         |
| Total                   | 9,919,665                      | 1,641,393          | 1,800,350           | 196,429                         | 13,557,837        |

### 33. CASH FLOW INFORMATION

#### 33.1. Cash and Cash Equivalents

|                                   | 2019<br>SAR '000 | 2018<br>SAR '000 |
|-----------------------------------|------------------|------------------|
| Cash at Bank - Current accounts   | 392,575          | 850,650          |
| Cash at Bank - Deposits           | 23,271           | 192,644          |
| Cash in Hand                      | 141,707          | 139,608          |
| Cash and Bank Balances            | 557,553          | 1,182,902        |
| Bank Overdrafts (Refer note 33.2) | (219,118)        | (179,321)        |
| Total                             | 338,435          | 1,003,581        |

**33.2.** It represents the overdraft facility arrangement in IDJ (Egypt and Jordan) amounting to SAR 437.0 million, secured by corporate guarantee given by the Parent Company. The average rate on overdraft facility during 2019 was 13.5% and 6.5 % per annum for Egypt and Jordan respectively (2018: 18.0% and 7.0%).

#### 33.3. Non-cash Investing and Finance Activities

Transfer to Property, Plant and Equipment from Capital Work-in-Progress. (Refer note 7).

Borrowing Cost Capitalised as part of Capital Work-in-Progress. (Refer note 7).

Acquisition of Right-of-Use-Assets. ((Refer note 8).

Transfer to Intangible Assets from Capital Work-in-Progress. (Refer note 9).

Transfer from Immature Plantation to Mature Plantation. (Refer note 7).

# Notes to the Consolidated Financial Statements continued

## for the year ended 31 December 2019

### 34. COMMITMENT AND CONTINGENCIES

**34.1.** The contingent liabilities against letters of credit are SAR 199.7 million at 31 December 2019 (2018: SAR 312.5 million).

**34.2.** The contingent liabilities against letters of guarantee are SAR 990.8 million at 31 December 2019 (2018: SAR 825.6 million). Contingent liabilities against letter of guarantee expire as follows.

|                   | 2019<br>SAR '000 | 2018<br>SAR '000 |
|-------------------|------------------|------------------|
| Within one year   | 398,723          | 143,746          |
| Two to five years | 424,618          | 501,498          |
| After five years  | 167,446          | 180,356          |
| Total             | 990,787          | 825,600          |

**34.3.** The Group had capital commitments amounting to SAR 699.4 million at 31 December 2019 in respect of ongoing projects (2018: SAR 921.6 million). The majority of the capital commitments are for updating the existing production facilities, sales depot development, distribution fleet, fridges and IT equipment.

**34.4.** Refer to note 24.1 for Zakat related matters.

### 35. RELATED PARTY TRANSACTIONS

During the normal course of its operations, the Group had the following significant transactions with related parties during the year ended 31 December 2019 along with their balances:

|                                                           | Transaction Amount |                  | Balance at 31 December |                  |
|-----------------------------------------------------------|--------------------|------------------|------------------------|------------------|
|                                                           | 2019<br>SAR '000   | 2018<br>SAR '000 | 2019<br>SAR '000       | 2018<br>SAR '000 |
| <b>Nature of Transaction</b>                              |                    |                  |                        |                  |
| <b>Sales To</b>                                           |                    |                  |                        |                  |
| Panda Retail Company                                      | 705,028            | 701,888          | 153,423                | 141,855          |
| Herfy Food Services                                       | 5,991              | 6,095            | 877                    | 558              |
|                                                           | 711,019            | 707,983          | 154,300                | 142,413          |
| <b>Services To</b>                                        |                    |                  |                        |                  |
| Al Kabeer Farms                                           | -                  | 864              | -                      | -                |
| United Farmers Holding Company                            | -                  | 116              | -                      | -                |
|                                                           | -                  | 980              | -                      | -                |
| <b>Subtotal</b>                                           | <b>711,019</b>     | <b>708,963</b>   | <b>154,300</b>         | <b>142,413</b>   |
| <b>Purchases From</b>                                     |                    |                  |                        |                  |
| United Sugar Company                                      | 63,489             | 79,315           | (4,112)                | (5,773)          |
| Al Nafoura Catering                                       | 504                | 325              | (66)                   | (78)             |
| Al Kabeer Farms - Forage                                  | -                  | 63,739           | -                      | (36,828)         |
| Arab Company for Agricultural Services (ARASCO)           | 11,118             | 2,327            | (2,507)                | (512)            |
|                                                           | <b>75,111</b>      | <b>145,706</b>   | <b>(6,685)</b>         | <b>(43,191)</b>  |
| <b>Services From</b>                                      |                    |                  |                        |                  |
| Arabian Shield Cooperative Insurance Company              | 136,517            | 120,498          | (70,152)               | (62,003)         |
| Todhia Farm                                               | -                  | 813              | -                      | -                |
| Abdulrahman bin Abdulaziz Al Muhanna (Land rent)          | 173                | 173              | -                      | -                |
| Zain                                                      | 3,965              | 1,418            | -                      | -                |
| Al Jazirah Corporation for Press, Printing and Publishing | 184                | 59               | (75)                   | -                |
|                                                           | <b>140,839</b>     | <b>122,961</b>   | <b>(70,227)</b>        | <b>(62,003)</b>  |
| <b>Subtotal</b>                                           | <b>215,950</b>     | <b>268,667</b>   | <b>(76,912)</b>        | <b>(105,194)</b> |
| <b>Finance Charges</b>                                    |                    |                  |                        |                  |
| Yamama Cement Company                                     | -                  | 365              | -                      | -                |
| Saudi British Bank                                        | 18,213             | 14,688           | (4,204)                | (4,683)          |
| Banque Saudi Fransi                                       | 5,908              | 5,280            | (1,456)                | (1,656)          |
| Arabian Shield Cooperative Insurance Company              | 21                 | 101              | -                      | (36)             |
| National Commercial Bank                                  | 16,150             | 11,267           | (3,677)                | (3,821)          |
|                                                           | <b>40,292</b>      | <b>31,701</b>    | <b>(9,337)</b>         | <b>(10,196)</b>  |
| <b>Bank Financing</b>                                     |                    |                  |                        |                  |
| Saudi British Bank                                        | 52,214             | 48,581           | 1,321,146              | 1,346,621        |
| Banque Saudi Fransi                                       | 3,660              | 8,940            | -                      | 393,000          |
| National Commercial Bank                                  | 9,962              | 15,993           | 235,714                | 446,429          |
|                                                           | <b>65,836</b>      | <b>73,514</b>    | <b>1,556,860</b>       | <b>2,186,050</b> |

# Notes to the Consolidated Financial Statements continued

## for the year ended 31 December 2019

### 35. RELATED PARTY TRANSACTIONS continued

35.1. The related party transactions were made on mutually agreed terms. The related parties, other than subsidiaries and associates, include the following:

| Entity                                                    | Relationship        |
|-----------------------------------------------------------|---------------------|
| Panda Retail Company                                      | Common Ownership    |
| Herfy Food Services                                       | Common Ownership    |
| United Sugar Company                                      | Common Ownership    |
| Afia International Company                                | Common Ownership    |
| Al Nafoura Catering                                       | Common Ownership    |
| Arab Company for Agricultural Services (ARASCO)           | Common Directorship |
| Yamama Cement Company                                     | Common Directorship |
| Arabian Shield Cooperative Insurance Company              | Common Directorship |
| Managed Arable Farms                                      | Common Directorship |
| Mobile Telecommunication Company Saudi Arabia             | Common Directorship |
| Al Jazirah Corporation for Press, Printing and Publishing | Common Directorship |
| Saudi British Bank                                        | Common Directorship |
| Banque Saudi Fransi                                       | Common Directorship |
| National Commercial Bank                                  | Common Directorship |
| <b>Individual</b>                                         |                     |
| Abdulrahman bin Abdulaziz Al Muhanna                      | Director            |

35.2. Members of the Board of Directors do not receive any remuneration for their role in managing the Company unless approved by the General Assembly. Members of the Board of Directors receive an attendance allowance for Board and Board Committee meetings. Executive Directors receive fixed remuneration as a result of their direct duties and responsibilities. The top five Senior Executives, including the Chief Executive Officer and the Chief Financial Officer, receive remuneration according to the employment contracts signed with them. The following table illustrates details of remuneration and compensation paid to Directors and Key Management Personnel:

|                                   | Non Executive<br>/ Independent<br>Board Members | Key<br>Management<br>Personnel | Total  | Non Executive<br>/ Independent<br>Board Members | Key<br>Management<br>Personnel | Total  |
|-----------------------------------|-------------------------------------------------|--------------------------------|--------|-------------------------------------------------|--------------------------------|--------|
|                                   | 2019<br>SAR '000                                |                                |        | 2018<br>SAR '000                                |                                |        |
| Salaries and Compensation         | 600                                             | 8,832                          | 9,432  | 2,600                                           | 7,003                          | 9,603  |
| Allowances                        | 2,192                                           | 950                            | 3,142  | 1,791                                           | 1,208                          | 2,999  |
| Annual and Periodic Bonuses       | -                                               | 31,214                         | 31,214 | -                                               | 11,784                         | 11,784 |
| Termination Benefits              | -                                               | 8,043                          | 8,043  | -                                               | 8,690                          | 8,690  |
| Shared Based Payment Transactions | -                                               | 1,215                          | 1,215  | -                                               | 659                            | 659    |
| In-kind Benefits                  | -                                               | 1,404                          | 1,404  | -                                               | 942                            | 942    |
| Other Benefits                    | 1,800                                           | 286                            | 2,086  | 1,800                                           | 272                            | 2,072  |
| Total                             | 4,592                                           | 51,944                         | 56,536 | 6,191                                           | 30,558                         | 36,749 |

## 36. DERIVATIVE FINANCIAL INSTRUMENTS

At 31 December 2019, the Group had various financial derivatives that were designated as cash flow hedge instruments to cover cash flow fluctuations arising from commission rates, foreign exchange prices and commodity prices that are subject to market price fluctuations. As per Group policy, derivative instruments are not used for trading or speculative purposes.

At 31 December 2019, the Group had fifteen commission rate swap agreements in place with a total notional amount of SAR 2,930.9 million. At 31 December 2018, the Group had twenty six commission rate swap agreements in place with a total notional amount of SAR 5,606.5 million.

The swaps result in the Group receiving floating SIBOR or LIBOR rates while paying fixed rates of commission rate under certain conditions. The swaps are being used to hedge the exposure to commission rate changes of the Group's Islamic borrowings.

The Group enters into hedging strategies by using various financial derivatives to cover foreign exchange firm commitments and forecasted transactions that are highly probable.

The Group enters into various commodity derivatives to hedge the price of certain commodity purchases. These derivatives match the maturity of the expected commodity purchases and use the same underlying index as for the hedged item, therefore does not result in basis risk.

All financial derivatives are carried in the Consolidated Statement of Financial Position at fair value. All cash flow hedges are considered highly effective.

The following table detail the notional principal amounts and remaining terms outstanding as at the reporting date:

|                            | Notional amount of the hedging instruments |                      | Carrying amount of the hedging instrument |                      | Carrying amount of the hedged item |                      |
|----------------------------|--------------------------------------------|----------------------|-------------------------------------------|----------------------|------------------------------------|----------------------|
|                            | Current SAR '000                           | Non-Current SAR '000 | Assets SAR '000                           | Liabilities SAR '000 | Assets SAR '000                    | Liabilities SAR '000 |
| <b>31 December 2019</b>    |                                            |                      |                                           |                      |                                    |                      |
| Forward currency contracts | 1,778,306                                  | 697,965              | 2,600                                     | 3,480                | 2,600                              | 3,480                |
| Interest rate swaps        | 1,155,901                                  | 1,775,000            | 633                                       | 2,629                | 633                                | 2,629                |
| Commodity Derivatives      | 467,045                                    | -                    | 11,243                                    | 4,613                | 11,243                             | 4,613                |
|                            | 3,401,252                                  | 2,472,965            | 14,476                                    | 10,722               | 14,476                             | 10,722               |
| <b>31 December 2018</b>    |                                            |                      |                                           |                      |                                    |                      |
| Forward currency contracts | 3,705,877                                  | 322,715              | 5,898                                     | 22,137               | 5,898                              | 22,137               |
| Interest rate swaps        | 1,500,000                                  | 4,106,502            | 26,050                                    | 4,546                | 26,050                             | 4,546                |
| Commodity Derivatives      | 303,467                                    | -                    | 8,135                                     | 6,740                | 8,135                              | 6,740                |
|                            | 5,509,344                                  | 4,429,217            | 40,083                                    | 33,423               | 40,083                             | 33,423               |

# Notes to the Consolidated Financial Statements continued

## for the year ended 31 December 2019

### 37. FINANCIAL INSTRUMENTS

#### 37.1. Fair value measurement of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Underlying the definition of fair value is the presumption that the Group is a going concern and there is no intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

When measuring the fair value the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

2019 SAR '000

|                                  | Carrying amount     |         |                |            | Fair Value |         |         |         |
|----------------------------------|---------------------|---------|----------------|------------|------------|---------|---------|---------|
|                                  | Hedging Instruments | FVOCI   | Amortised Cost | Total      | Level 1    | Level 2 | Level 3 | Total   |
| <b>Financial Assets</b>          |                     |         |                |            |            |         |         |         |
| Derivative Financial Instruments | 14,476              | -       | -              | 14,476     | -          | 14,476  | -       | 14,476  |
| Equity Investment                | -                   | 145,684 | -              | 145,684    | 145,684    | -       | -       | 145,684 |
| Trade and Other Receivables      | -                   | -       | 1,259,525      | 1,259,525  | -          | -       | -       | -       |
| Time Deposit                     | -                   | -       | 590,038        | 590,038    | -          | -       | -       | -       |
| Cash and Bank Balances           | -                   | -       | 557,553        | 557,553    | -          | -       | -       | -       |
|                                  | 14,476              | 145,684 | 2,407,116      | 2,567,276  | 145,684    | 14,476  | -       | 160,160 |
| <b>Financial Liabilities</b>     |                     |         |                |            |            |         |         |         |
| Derivative Financial Instruments | 10,722              | -       | -              | 10,722     | -          | 10,722  | -       | 10,722  |
| Loans and Borrowings             | -                   | -       | 12,883,720     | 12,883,720 | -          | -       | -       | -       |
| Bank Overdrafts                  | -                   | -       | 219,118        | 219,118    | -          | -       | -       | -       |
| Trade and Other Payables         | -                   | -       | 3,019,160      | 3,019,160  | -          | -       | -       | -       |
|                                  | 10,722              | -       | 16,121,998     | 16,132,720 | -          | 10,722  | -       | 10,722  |

2018 SAR '000

|                                  | Carrying amount     |         |                |            | Fair Value |         |         |         |
|----------------------------------|---------------------|---------|----------------|------------|------------|---------|---------|---------|
|                                  | Hedging Instruments | FVOCI   | Amortised Cost | Total      | Level 1    | Level 2 | Level 3 | Total   |
| <b>Financial Assets</b>          |                     |         |                |            |            |         |         |         |
| Derivative Financial Instruments | 40,083              | -       | -              | 40,083     | -          | 40,083  | -       | 40,083  |
| Equity Investment                | -                   | 102,624 | -              | 102,624    | 102,624    | -       | -       | 102,624 |
| Trade and Other Receivables      | -                   | -       | 1,288,679      | 1,288,679  | -          | -       | -       | -       |
| Cash and Bank Balances           | -                   | -       | 1,182,902      | 1,182,902  | -          | -       | -       | -       |
|                                  | 40,083              | 102,624 | 2,471,581      | 2,614,288  | 102,624    | 40,083  | -       | 142,707 |
| <b>Financial Liabilities</b>     |                     |         |                |            |            |         |         |         |
| Derivative Financial Instruments | 33,423              | -       | -              | 33,423     | -          | 33,423  | -       | 33,423  |
| Loans and Borrowings             | -                   | -       | 13,746,262     | 13,746,262 | -          | -       | -       | -       |
| Bank Overdrafts                  | -                   | -       | 179,321        | 179,321    | -          | -       | -       | -       |
| Trade and Other Payables         | -                   | -       | 2,808,042      | 2,808,042  | -          | -       | -       | -       |
|                                  | 33,423              | -       | 16,733,625     | 16,767,048 | -          | 33,423  | -       | 33,423  |

# Notes to the Consolidated Financial Statements continued

## for the year ended 31 December 2019

### 37. FINANCIAL INSTRUMENTS continued

Level 2 derivative financial instruments include forwards, commission rate swaps and commodity derivatives. These derivatives are valued using widely recognized valuation models. The Group relies on the counterparty for the valuation of these derivatives. The valuation techniques applied by the counterparties include the use of forward pricing standard models using present value calculations and mid-market valuations. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves, credit spreads, foreign exchange rates, and forward and spot prices.

#### 37.2. Risk Management of Financial Instruments

The Group's activities expose it to a variety of financial risks, credit risk, liquidity risk, market price risk and capital management risk.

##### Credit Risk:

Credit risk is the risk that one party to financial instruments will fail to discharge an obligation and cause the other party to incur a financial loss. The Group is exposed to credit risk on its bank balances, trade receivables and receivables from related parties and derivative financial instruments as follows.

|                                     | 2019<br>SAR '000 | 2018<br>SAR '000 |
|-------------------------------------|------------------|------------------|
| Cash at Bank                        | 415,846          | 1,043,294        |
| Time Deposit                        | 590,038          | -                |
| Trade Receivables - Third Parties   | 974,819          | 980,755          |
| Trade Receivables - Related Parties | 154,300          | 142,413          |
| Derivative Financial Instruments    | 14,476           | 40,083           |
| Other Receivables                   | 130,406          | 165,511          |
|                                     | 2,279,885        | 2,372,056        |

The carrying amount of financial assets represents the maximum credit exposure.

Credit risk on receivable and bank balances is limited as:

- Cash balances, term deposits and derivative financial instruments are held with banks with sound credit ratings ranging from BBB- and above.
- The receivables are shown net of allowance for impairment of trade receivables and sales returns. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP, unemployment rate, inflation rate and interest rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusted the historical loss rates based on expected changes in these factors.

Financial position of related parties is stable.

Trade receivables outstanding balance comprises of 53% in KSA, 32% in GCC (other than KSA) and 15% in other Countries. The five largest customers account approximately for 38% of outstanding trade receivables at 31 December 2019.

The Group manages credit risk with respect to receivables from customers by monitoring in accordance with defined policies and procedures. 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.

#### Liquidity Risk:

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. Following are the contractual maturities at the end of the reporting period of financial liabilities. The amounts are grossed and undiscounted and include estimated interest payments.

| 2019 SAR '000                               |                   |                                  |                   |                   |
|---------------------------------------------|-------------------|----------------------------------|-------------------|-------------------|
|                                             | Carrying Amount   | On Demand or<br>Less than 1 year | 1 year to 5 years | More than 5 years |
| <b>Non Derivative Financial Liabilities</b> |                   |                                  |                   |                   |
| Bank Overdrafts                             | 219,118           | 234,189                          | -                 | -                 |
| Loans and Borrowings                        | 12,883,720        | 2,066,056                        | 7,899,832         | 3,433,181         |
| Trade and other payables                    | 2,942,248         | 2,942,248                        | -                 | -                 |
| Trade Payables to Related Parties           | 76,912            | 76,912                           | -                 | -                 |
|                                             | <b>16,121,998</b> | <b>5,319,405</b>                 | <b>7,899,832</b>  | <b>3,433,181</b>  |
| <b>Derivative Financial Liabilities</b>     |                   |                                  |                   |                   |
| Forward currency contracts                  | 3,480             | 3,190                            | 290               | -                 |
| Interest rate swaps                         | 2,629             | 1,363                            | 1,266             | -                 |
| Commodity Derivatives                       | 4,613             | 4,613                            | -                 | -                 |
|                                             | <b>10,722</b>     | <b>9,166</b>                     | <b>1,556</b>      | <b>-</b>          |

| 2018 SAR '000                               |                   |                                  |                   |                   |
|---------------------------------------------|-------------------|----------------------------------|-------------------|-------------------|
|                                             | Carrying Amount   | On Demand or<br>Less than 1 year | 1 year to 5 years | More than 5 years |
| <b>Non Derivative Financial Liabilities</b> |                   |                                  |                   |                   |
| Bank Overdrafts                             | 179,321           | 179,321                          | -                 | -                 |
| Loans and Borrowings                        | 13,746,262        | 2,094,292                        | 9,706,635         | 3,906,825         |
| Trade and other payables                    | 2,702,848         | 2,702,848                        | -                 | -                 |
| Trade Payables to Related Parties           | 105,194           | 105,194                          | -                 | -                 |
|                                             | <b>16,733,625</b> | <b>5,081,655</b>                 | <b>9,706,635</b>  | <b>3,906,825</b>  |
| <b>Derivative Financial Liabilities</b>     |                   |                                  |                   |                   |
| Forward currency contracts                  | 22,137            | 21,445                           | 692               | -                 |
| Interest rate swaps                         | 4,546             | 110                              | 4,436             | -                 |
| Commodity Derivatives                       | 6,740             | 6,740                            | -                 | -                 |
|                                             | <b>33,423</b>     | <b>28,295</b>                    | <b>5,128</b>      | <b>-</b>          |

# Notes to the Consolidated Financial Statements continued

## for the year ended 31 December 2019

### 37. FINANCIAL INSTRUMENTS continued

Liquidity risk is managed by monitoring on a regular basis that sufficient funds and banking and other credit 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.

#### Market Risk:

Market price risk is the risk that value of a financial instrument will fluctuate as a result of changes in market prices, such as, commission rates, commodity prices and foreign currency exchange rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group uses derivatives to manage market risks. The Group seeks to apply hedge accounting to manage volatility in profit or loss.

#### Commission Rate Risk:

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), International Finance Corporation facility and other banking facilities of Non-GCC subsidiaries and Sukuk amounting to SAR 6,325.7 million at 31 December 2019 (2018: SAR 5,030.7 million) bear variable 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 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, related to variable rate borrowings (net of hedge) with all other variables held constant. There is no direct impact on the Group's equity.

|                         |     | <b>Increase / decrease in basis<br/>points of commission rates</b> | <b>Effect on income for<br/>the year SAR'000</b> |
|-------------------------|-----|--------------------------------------------------------------------|--------------------------------------------------|
| <b>31 December 2019</b> | SAR | +100                                                               | (63,257)                                         |
|                         | SAR | -100                                                               | 63,257                                           |
| <b>31 December 2018</b> | SAR | +100                                                               | (50,307)                                         |
|                         | SAR | -100                                                               | 50,307                                           |

#### Commodity Price Risk:

Commodity Price Risk is the risk associated with changes in prices to certain commodities including corn, sugar and soya etc. that the Group is exposed to and its unfavourable effect on the Group's costs and cash flow. This commodity price risk arises from forecasted purchases of certain commodities that the Group uses as raw material, which is managed and mitigated by entering into commodity derivatives.

The Group enters into various commodity derivatives to hedge the price of certain commodity purchases. These derivatives match the maturity of the expected commodity purchases and use the same underlying index as for the hedged item.

The sensitivity of the commodity prices to reasonably possible changes in rates by 5% would have increased / (decreased) profit by SAR 9.4 million.

### Currency Risk:

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in currency that's not the Group's currency. The Group exposure to foreign currency risk is primarily limited to transactions in Argentina Pesos ("ARS"), Kuwaiti Dinar ("KWD"), Egyptian Pounds ("EGP"), Euro ("EUR"), Great British Pounds ("GBP"), United State Dollars ("USD"), Bahraini Dinar ("BHD") and Jordanian Dinars ("JOD"). The Group is not exposed to foreign currency fluctuation risk arising from the Bahraini Dinar ("BHD") and the JOD as these are pegged to USD. The fluctuation in exchange rates against ARS, KWD, EGP, EUR and GBP are monitored on a continuous basis. Quantitative data regarding the Group's exposure to currency risk arising from currencies that are not pegged to USD is as follows:

|                                              | ARS<br>SAR '000 | KWD<br>SAR '000 | EGP<br>SAR '000 | EUR<br>SAR '000 | GBP<br>SAR '000 | Total<br>SAR '000 |
|----------------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-------------------|
| <b>31 December 2019</b>                      |                 |                 |                 |                 |                 |                   |
| Cash at Bank                                 | 1,266           | 4,071           | 99,077          | 5,673           | 4,435           | 114,522           |
| Cash in Hand                                 | 7               | 18,272          | 1,258           | 148             | 51              | 19,736            |
| Trade Receivables                            | 134             | 96,865          | 46,401          | -               | -               | 143,400           |
| Bank Overdrafts                              | -               | -               | (128,640)       | -               | -               | (128,640)         |
| Short term Borrowings                        | (26,543)        | -               | -               | -               | -               | (26,543)          |
| Long Term Borrowings                         | -               | -               | (230,789)       | (208,615)       | -               | (439,404)         |
| Trade Payables                               | (3,025)         | (2,807)         | (76,261)        | (166,457)       | (17,913)        | (266,463)         |
| Net Statement of Financial Position exposure | (28,161)        | 116,401         | (288,954)       | (369,251)       | (13,427)        | (583,392)         |
| <b>31 December 2018</b>                      |                 |                 |                 |                 |                 |                   |
| Cash at Bank                                 | 172             | 22,924          | 64,322          | 5,298           | 1,240           | 93,956            |
| Cash in Hand                                 | 254             | 94              | 180             | 118             | 27              | 673               |
| Trade Receivables                            | 1,961           | 79,087          | 42,266          | -               | -               | 123,314           |
| Bank Overdrafts                              | -               | -               | (68,372)        | -               | -               | (68,372)          |
| Short term Borrowings                        | (9,393)         | -               | (46,916)        | -               | -               | (56,309)          |
| Long Term Borrowings                         | (11,117)        | -               | (168,133)       | (239,290)       | -               | (418,540)         |
| Trade Payables                               | (6,689)         | (3,761)         | (23,594)        | (171,452)       | (15,058)        | (220,554)         |
| Net Statement of Financial Position exposure | (24,812)        | 98,344          | (200,247)       | (405,326)       | (13,791)        | (545,832)         |

The Group uses forward currency contracts to eliminate significant currency exposures. Management believes 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.

A strengthening / (weakening) of the ARS, KWD, EGP, EUR, and GBP by 10% against all other currencies would have affected the measurement of financial instruments denominated in foreign currency and would have increased / (decreased) equity by the amounts shown below:

# Notes to the Consolidated Financial Statements continued

## for the year ended 31 December 2019

### 37. FINANCIAL INSTRUMENTS continued

|     | 2019<br>SAR '000 | 2018<br>SAR '000 |
|-----|------------------|------------------|
| ARS | (2,816)          | (2,481)          |
| KWD | 11,640           | 9,834            |
| EGP | (28,895)         | (20,025)         |
| EUR | (36,925)         | (40,533)         |
| GBP | (1,343)          | (1,379)          |
|     | (58,339)         | (54,584)         |

#### Capital Management:

The Board's policy is to maintain an efficient capital base so as to maintain investor, creditor and market confidence and to sustain the future development of its business. The Board of Directors monitor the return on capital employed and the level of dividends to ordinary shareholders.

The Group's objectives when managing capital are:

- i) to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- ii) to provide an adequate return to shareholders.

### 38. DIVIDEND APPROVED AND PAID

On 3 Sha'aban 1440 A.H. (8 April 2019), the shareholders in their Extraordinary General Assembly Meeting approved dividends of SAR 850.0 million (SAR 0.85 per share) for the year ended 31 December 2018 which was paid on 10 Sha'aban 1440 A.H. (15 April 2019).

### 39. DIVIDEND PROPOSED

The Board of Directors have proposed, for shareholders' approval at the General Assembly Meeting, a dividend of SAR 850 million (SAR 0.85 per share) for the year ended 31 December 2019.

### 40. SUBSEQUENT EVENTS

In the opinion of the management, there have been no significant subsequent events since the year-end that require disclosure or adjustment in these Consolidated Financial Statements.

### 41. BOARD OF DIRECTORS APPROVAL

These Consolidated Financial Statements were approved by the Board of Directors on 24 Jumada Al-Awwal 1441 A.H.(19 January 2020).



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