

# Resilience Through Quality

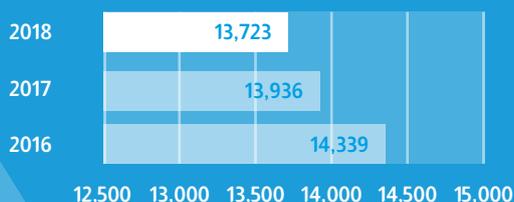


# In 2018, Almarai® showed resilience through quality

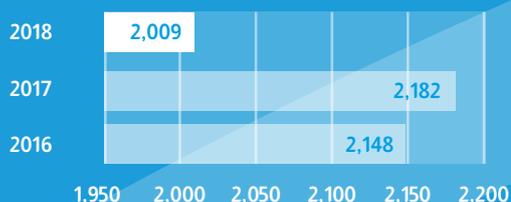
In a challenging operating environment, we refused to compromise on our commitment to 'Quality you can trust'. We thereby maintained our focus on product innovation, and diversification of our categories and geographies.

## Highlights 2018

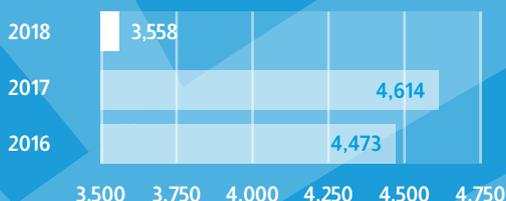
**Total Sales**  
(SAR million)



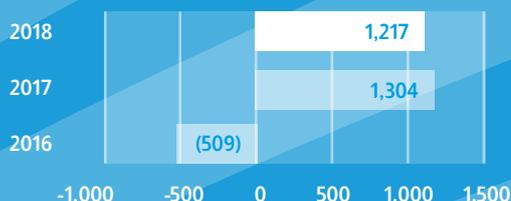
**Net Profit**  
(SAR million)



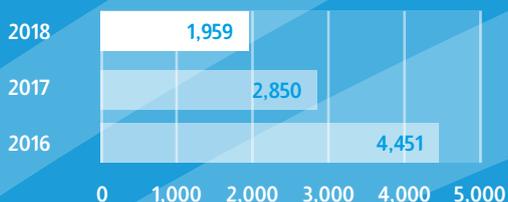
**Operating Cash Flow**  
(SAR million)



**Free Cash Flow**  
(SAR million)



**CAPEX**  
(SAR million)



**Total Head Count**



## Contents

Highlights 2018	02
Almarai at a glance	04
<hr/>	
<b>STRATEGIC REPORT</b>	<b>08</b>
Chairman's Statement	10
Resilience Through Quality	12
A track record for quality	14
CEO's Review	16
Strategy	18
How we deliver value	20
CFO's Review	22
Key performance indicators	26
Our marketplace	28
Divisional review	30
Investing in human capital	36
Sustainability	38
Risk management	42
<hr/>	
<b>GOVERNANCE</b>	<b>48</b>
Board of Directors	50
Executive Management	52
Almarai Organization Chart	55
Tadawul Announcements	56
Almarai and its Subsidiaries	57
Share Price and Shareholder Information	60
Main Transactions, Investments and Other Events	64
Important events in 2019	65
Preparation of the Financial Statements	66
Dividend Policy	67
Statutory Payments, Penalties and Sanctions	70
Corporate Governance Code	71
Rights of Shareholders and the General Assembly	72
Board of Directors Formation and Functions	74
Regular Meetings of the Board of Directors during 2018	77
Ownership of Board Members, Spouses and Minors	78
Ownership of Senior Managers	79
Details of Paid Compensation and Remuneration	80
Company Committees	84
Executive Committee	86
Remuneration and Nomination Committee	88
Audit Committee	90
Results of Annual Internal Audit Procedures	92
Risk Committee	94
Related Party Transactions	95
Disclosure & Transparency Policy	97
Board of Directors Certification	98
A Resilient Financial Performance for 2018	99
<hr/>	
<b>FINANCIAL STATEMENTS</b>	<b>102</b>
Independent auditors' report	104
Consolidated Statement of Financial Position	112
Consolidated Statement of Profit or Loss	113
Consolidated Statement of Comprehensive Income	114
Consolidated Statement of Changes in Equity	115
Consolidated Statement of Cash Flows	116
Notes to the Consolidated Financial Statements	117



Read our Annual Report online,  
including a link to the investor film.

# Almarai at a glance

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 Middle East and North Africa (MENA) region and is 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 major brand names Almarai, L'usine, 7DAYS, ALYOUUM, and Nuralac. Meanwhile, the Company operates successful joint ventures with Chipita and PepsiCo.

As at 31 December 2018, Almarai's paid-up share capital amounted to SAR 10.0 billion, consisting of 1 billion fully paid and issued shares of SAR 10.00 each. Available and tradable shares by the end of 2018 amounted to 216 million, representing 21.7% of Almarai's total available shares, with a market capitalization of SAR 48.0 billion.

## Vision



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

## Values

A<sub>d</sub>aptable S<sub>h</sub>aring P<sub>a</sub>ssionate I<sub>n</sub>novative R<sub>e</sub>spect E<sub>x</sub>cellence

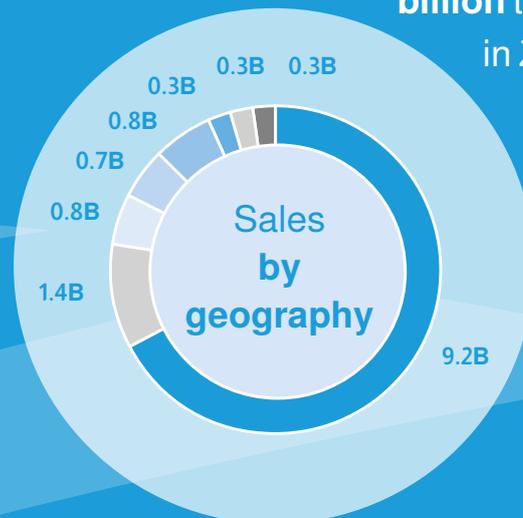
# Where does our revenue come from?

# SAR 13.7

billion total sales in 2018



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



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

## Awards in 2018



# #61

## Forbes

world's best employer



2<sup>ND</sup> BEST ANNUAL REPORT 2017 (PRINT)



ACT MIDDLE EAST TREASURY AWARDS

LARGE CORPORATE TREASURY TEAM OF THE YEAR



ACT MIDDLE EAST TREASURY AWARDS

HIGHLY COMMENDED: CORPORATE FUNDING

# Almarai at a glance (continued)

## What do we do?



### Dairy

Our Dairy segment is the founding cornerstone of Almarai, including Fresh Dairy, Long Life Dairy and Dairy Foods. We have earned the trust of our consumers over the last 40 years and are the regional market leader in fresh milk, laban, flavored milk, cream, yogurt, natural and processed cheeses, butter and ghee. We are also one of the market leaders in the packaged dairy industry in both Jordan and Egypt via IDJ, our joint venture with PepsiCo.

Pg. 30



### Juice

Almarai is the GCC market leader in fresh juice, offering consumers a wide range of juices, nectars and drinks, as well as specific products for children. At the end of 2017, Almarai entered the Long Life Juice segment under the Joosy Life brand, with carton packs and cans. Our most recent launch was a premium range of not-from-concentrate juices under the Almarai Super Fruit sub-brand, with pomegranate as the leading product. This innovation stream has continued in Egypt and Jordan via multiple flavor offerings in both long-life and fresh juice.

Pg. 31

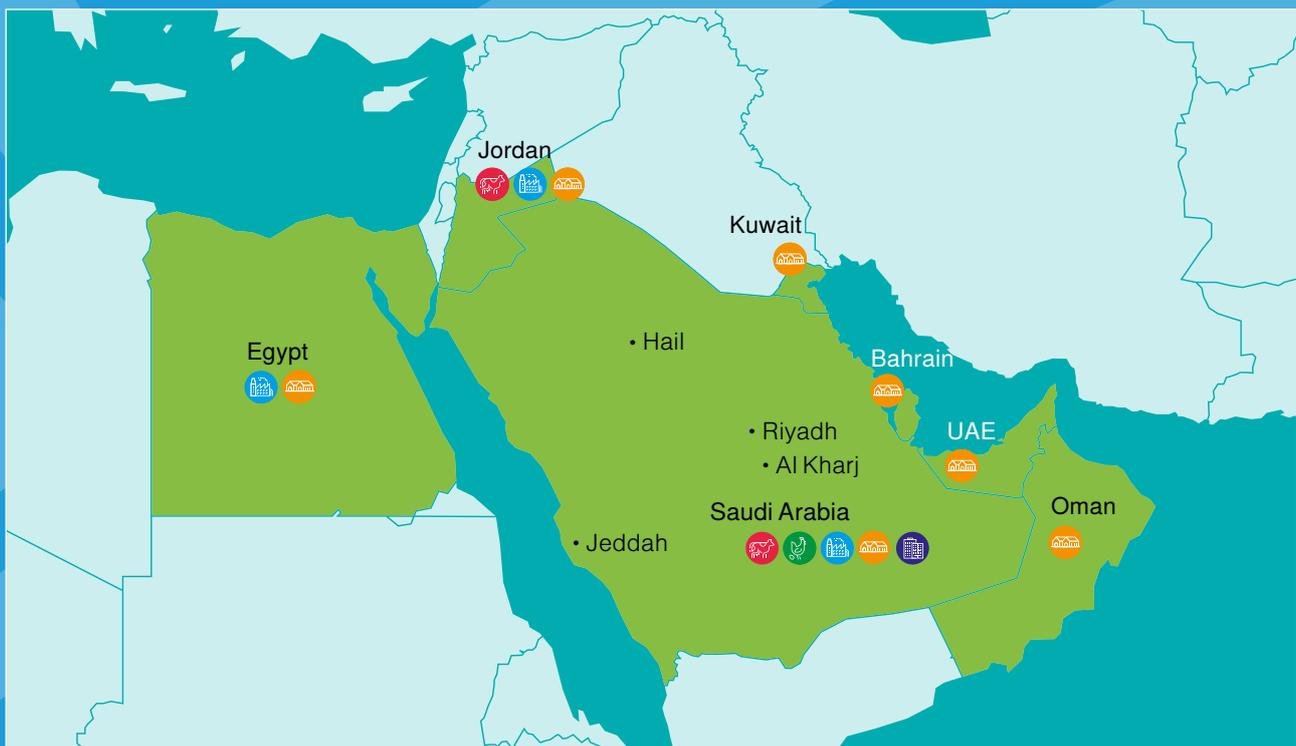


### Bakery

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 cakes, providing consumers with exciting and innovative baked products. In 2018, we launched our Bake Rolls range of snacks, available in flavors including chili, zaatar, pizza and salt. Small loaf bread and muffins were among other new products launched in 2018.

Pg. 32

## Where do we operate?





## Poultry

ALYOUM has come to be regarded by the market as synonymous with quality and innovation – that is why it is the brand of choice for over 40% of the Kingdom of Saudi Arabia’s fresh poultry consumers. Our product range includes a comprehensive selection of whole, part and value-added products. Both ALYOUM and the newly launched Albashayer value brand are free from antibiotics.

Pg. 33



## Infant Nutrition

Our Infant Nutrition products are available to mothers and children across the Kingdom of Saudi Arabia. Almarai’s brands include Nuralac and Nuralac Plus, Nurababy cereal and the Nuraplus Suregrow supplement for children. Since 2017, we have produced a new and innovative ready-to-drink formula, which is preservative-free and has proven popular with consumers.

Pg. 34



Arable farms



Dairy farms



Poultry farms



Manufacturing



Sales depots



Head office



مخبوزات  
طازجة



Bakery  
Fresh

# STRATEGIC REPORT



# Chairman's Statement

On behalf of the Board of Directors, I am pleased to introduce Almarai's Annual Report for the year ended 31 December 2018. This was a year in which the underlying quality of our work shone through, to deliver resilience in the face of headwinds. We proved our ability to succeed and grow, regardless of market conditions.

## SAR 48

billion

market capitalization as at 31 December 2018

## SAR 750

million

cash distribution for 2017, equating to SAR 0.75 per share

### Our economic environment

Challenges exist in the macroeconomic environment in which we work. This year, Saudi Arabia and other GCC countries introduced value added tax (VAT). This new regulation, along with other factors including the introduction of dependents' fees for expatriate workers and increased energy costs, put pressure on consumers, retailers and manufacturers. In addition, a number of expatriate workers left the Saudi labor market, which directly reduced consumer spending. These adverse factors existed for much of the year, but Almarai was ready

for their impact and navigated the challenges they brought.

Meanwhile, on a positive note, improvements in oil prices gave the GCC economies a tangible boost, as they continue to structurally reform and to diversify their sources of income. Saudi Arabia remains a regional leader in this regard, with the effects of the National Transformation Plan and its parent programme – Vision 2030 – already bearing fruit. As a leading Saudi corporate, we are proud of the active role that we play in supporting the Vision, and we see our own growth and international expansion as directly linked to the national agenda. We will continue to empower and grow the Kingdom's workforce, as together we strive for a more dynamic and vibrant economy.

### Sustainability

This year, it was my privilege to write a foreword for Almarai's first ever Sustainability Report, pertaining to 2017. The Report sets out our six pillars of sustainability: to promote responsible consumption; to ensure

ethical and sustainable sourcing; to prioritize quality and safety; to reduce natural resource use and waste; to nurture and reward colleagues; and to generate significant economic value.

Today, these pillars form the basis of our sustainability strategy, focusing the Company on our key material issues. Highlights in 2018 included our successful transition to the 100% importation of animal feed requirements, relieving pressure on the Kingdom's precious supply of water. We have also continued to grow the scale and depth of our Future Leaders and Graduate programmes, improving the effectiveness of our workforce. Furthermore, we introduced 35 new products to the market, fueling the long term value generation challenge for the Company and delighting our consumers.

### Governance

In 2018, the Board of Directors continued to perform its duties with the diligence and commitment that has characterized its work. In March, the Board announced the resignation



of Engr. Rayan bin Mohammed Fayez (a non-executive Board Member and representative of the Savola Group, as well as a member of the Executive Committee), along with the appointment of Engr. Anees bin Ahmed Moumina (as non-executive Board member and representative of the Savola Group, as well as a member of the Executive Committee). The appointment was approved by shareholders at the Annual General Meeting. We thank Engr. Rayan for the commitment he showed during his time on the Board, and we welcome Engr. Anees.

In October, the Company announced Board approval for the establishment of a Risk Committee, as per Saudi Arabia's new Company Law and our own Corporate Governance Code. The standalone Committee will strengthen our governance architecture and is composed of accomplished and experienced professionals with broad business experience. The Committee is chaired by Mr. Bader bin Abdullah Al Issa, a non-executive Board member and representative of the Savola Group.

Perhaps our most important Board announcement of the year was to inform the market that Almarai's Chief Executive Officer (CEO) Georges P. Schorderet, will retire in 2019 after 15 years with the Company. Georges very much deserves his retirement, having been an immensely important asset to our business throughout his tenure. We wish him well in his retirement and we look forward to welcoming Alois Hofbauer as our next CEO. Alois has a proven track record of successful leadership at large multinational food and beverage businesses and will bring valuable experience to the role.

#### **Delivering shareholder value**

Almarai's total market capitalization as at 31 December 2018 reached SAR 48.0 billion, with 1 billion shares in issue. At the Annual General Meeting, to be held on 7 April 2019, the Board of Directors will propose a cash distribution of SAR 850 million, which is equivalent to SAR 0.85 per share or 42.3% of Net Income.

#### **With thanks**

It remains for me to express my gratitude to fellow members of the Board of Directors, for the steady guidance and wise judgment that they have delivered throughout the year. On behalf of the Board, I would like to thank Almarai's management and staff, for their ongoing and tireless commitment to delivering on the Company's promises to shareholders and consumers, and for their dedication to our future achievements.

On behalf of the Company, I would like to place on record our thanks to our two most important external stakeholder groups: our consumers and our shareholders. Both have put their trust in the quality of our operations and our products, and both expect the very best from us. The Company looks forward to continuing to meet and exceed their expectations in the years ahead.

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

# Resilience Through Quality

While Saudi Arabia and the wider MENA region's economy faced a challenging year, Almarai exhibited agility and the institutional strength to navigate headwinds and deliver achievements demonstrating a high level of resilience.

We have shown that, regardless of our operating environment, a refusal to compromise on the quality that our stakeholders expect puts us in a unique position to maintain performance and establish a path to ensure future growth. We have shown this by our ongoing commitment to product innovation, as well as the diversification of both our category base and our geographic footprint.

In the face of market adversity, our business had the courage to make the difficult decisions necessary to maintain the supply chain and manufacturing quality that have made Almarai a success story and have inspired the loyalty of our consumers.

While quality has been vital in ensuring our resilience, it has at the same time existed as a culture for our people – the 'makers' of that quality. Our team, at every level, are doers, and they have had an instrumental role in actively overcoming the challenges we have faced.

Almarai ensures that its people are the very best available in the market, through first-class recruitment, training and professional development programmes. In line with our commitment to the Vision 2030 reform agenda, a growing number of these 'quality makers' are Saudi nationals, as we play our part in building the local economy.

Our people are supported by an increasingly sophisticated set of technology platforms and assets, which make Almarai the regional leader in food and beverage manufacturing. These include state-of-the-art manufacturing facilities, proprietary backend software solutions, and process management tools, which support our objective of excellence in cost management.

In 2018, we demonstrated 'resilience through quality', and we firmly believe that this will be the bedrock for grasping the opportunities that lie ahead.





# A track record for quality



Almarai Company is founded in Saudi Arabia by HH Prince Sultan bin Mohammed bin Saud Al Khabeer

1977



New, centralized structure enables development of the first central processing plant (CPP) and consolidation of 10 small dairy farms to four large farms in Al Kharj, Saudi Arabia

1990

Almarai increases its equity stake in IDJ from 48.0% to 52.0%

2012

Almarai acquires Fondomonte in Argentina, a traditional agriculture business, with the vision of developing an alfalfa sourcing footprint to serve the Company's animal feed requirements



2011

First acquisition of arable land in North America, to further support the Company's animal feed requirements, progressing towards the aim of achieving 100% imported feed

2016



CPP3, the new state-of-the-art fresh dairy product manufacturing facility is inaugurated to mark the 40<sup>th</sup> anniversary of Almarai

2017



Almarai Farming achieves ISO 9001 certification, with Operations soon following suit

Almarai becomes a publicly listed company on the Saudi Stock Exchange (Tadawul) through an Initial Public Offering of its ordinary shares

Almarai diversifies to enter the Bakery segment by acquiring Western Bakeries and establishing a joint venture with Chipita and Olayan to form Modern Food Industries (MFI), adding L'usine and 7DAYS product ranges to its portfolio

1996

2005

2007

Almarai diversifies its operations into the Poultry segment, by acquiring HADCO in Saudi Arabia's largest-ever public company acquisition. The Company also establishes a joint venture with PepsiCo, setting up IDJ (International Dairy & Juice) to target non-GCC dairy and juice markets. In the same year, International Pediatric Nutrition Company (IPNC) is established as a joint venture with Mead Johnson, allowing Almarai to enter Infant Nutrition



2009

Almarai demonstrates 'Resilience Through Quality', maintaining a commitment to product innovation, category diversification and geographic expansion in order to deliver on the expectations of consumers across the region

Infant Nutrition category improves its profitability to achieve first EBIT break-even since foundation

Successful delivery of Poultry category turnaround to record first profitable year

Delivery of promise of achieving 100% overseas import for animal feed requirements

Launch of first value brand - Albashayer available for some poultry and dairy products

Ongoing market share gains in Egypt, increasing the contribution of non-GCC markets

2018

# CEO's Review

**In my final Annual Report as CEO of Almarai, I am pleased to look back on a year in which we demonstrated 'resilience through quality'. I believe that we can collectively be proud of the achievements that we have realized together.**

## Highlights of the year

The Consolidated Net Income for 2018 was SAR 2,009 million, as compared with SAR 2,182 million in 2017, with Net Revenue decreasing by 1.5% to reach SAR 13,723 million. With ongoing and successful cost optimization programmes in place, we have maintained profitability and robust market share across core categories.

Among the most important achievements of the year was the delivery of a turnaround for our Poultry and Infant Nutrition businesses. The former achieved profitability for the first time since its establishment, having broken even last year. Considerable efforts have been made to improve the performance of Poultry, through increased operating efficiencies and the exploration of new sales channels. Meanwhile, Infant Nutrition achieved its first ever EBIT break-even result, as it grows and develops towards a profitable future. Optimization initiatives for both businesses have borne fruit, and as we seek to occupy a more powerful market share in the Kingdom of Saudi

Arabia and the GCC, we look forward to further success.

We operate in an increasingly competitive marketplace, so we have worked internally to centralize our strategic planning process, with decisions deriving from the information provided by our bespoke business intelligence unit. This has enabled us to establish the 'Almarai biorhythm', which brings together all planning and budgetary processes into an end-to-end integrated planning system. In this way, we can improve the performance monitoring and see which categories and markets are providing the most compelling growth opportunities, while the core objectives of the five year strategic plan are integrated throughout the annual budget and our monthly planning cycles.

Two important new launches were delivered in 2018. The first was our standalone Foodservice business, the introduction of which began in 2017. 'Almarai Pro' has been purpose-built to meet the requirements of the Middle

East's growing hotel, restaurant and catering (HORECA) market, as well as other wholesale customers such as schools and hospitals and we have introduced a number of products to service this segment. The Foodservice business has already shown strong growth and we regard it as a high-potential category for the future. Meanwhile, we introduced a new value range – Albashayer – to the market, for consumers prioritizing lower-price products. A number of new poultry and dairy products have been launched under the Albashayer value brand, with more to come in 2019.

## Resilience Through Quality

The theme of this year's Annual Report – 'resilience through quality' – demonstrates the institutional strength of Almarai as a business, and its ability to overcome the challenges that it faces. We are working in a macroeconomic environment that has provided headwinds, but our fundamental commitment to quality – from products and services, through to people and processes – has enabled us to maintain our strategic growth path.



The Almarai Continuous Excellence (ACE) Programme remains in place as we strive to enhance the processes and systems that are central to our daily activities. Meanwhile, our journey into Quality 4.0 was initiated in 2018, expanding our traditional quality model towards new horizons that will further entrench the promise of quality within our business model.

#### **Investing in people**

In line with both our own growth strategy and the Saudi national agenda as outlined by Vision 2030, we maintained our commitment to enhancing the quality of our workforce while directly contributing to the Kingdom's socioeconomic development. Key initiatives for Saudi nationals, including the Dairy & Food Polytechnic (DFP), our Graduate Professional Training Programme and the Almarai Future Leaders Programme received increasing investment and support. These schemes are at the heart of our effort to build a workforce of the future, to develop and retain high-flying talents, and to create opportunities for professional Saudi nationals.

Meanwhile, we continued to focus on succession planning and leadership development as a core component of our five year strategic plan. As part of Project Horizon, which has been in place since 2016, we focus on internal talent selection and development to build a pool of successors who may be able to take over from today's senior leaders.

#### **Strategic pathway**

In May, the Board of Directors confirmed that the Company is on track with Almarai 2025 – our long term strategy to reinforce our position as Middle East consumers' preferred choice for food and beverage products. The latest five year strategic plan (2019-2023) continues to build on the infrastructure created – in terms of processes, people and systems – for the business to meet future challenges and achieve its long term objectives. Each of our five business units will drive growth and innovation across traditional trade, modern trade and foodservice channels, with an operating model transformed by the implementation of automation and

digitization of manufacturing and distribution activities.

A focus on efficiency, cost optimization and sustainability measures will be maintained to ensure our competitive advantage, with continued strong capital investment in line with our long term investment cycle.

#### **A warm farewell**

It remains for me to thank my colleagues at Almarai for the 15 rewarding years that I have spent at the Company, and to express my gratitude for your role in the achievements that we have delivered together. On behalf of the whole Company, I express my thanks to the Board of Directors and our shareholders for their support of our business and its objectives. I would, lastly, like to thank our loyal consumers, who I trust will continue to enjoy the nutritious products that we deliver to them every day.

**Georges P. Schorderet**  
Chief Executive Officer

# Strategy

## Almarai 2025

Our strategy is designed to achieve a clearly defined set of goals by 2025, as outlined below. To deliver on this strategy, we have established where we will play, and how we will win.

### Where we will play



#### Focus on GCC core full potential

- Work to achieve the core business's full potential in Saudi Arabia
- Secure a leadership position in all categories and regions where we operate

#### Turnaround

- Infant Nutrition
- International Dairy & Juice (IDJ)

#### Develop high-potential new businesses

- Enter adjacent new product categories
- Grow Foodservice operations
- Evaluate geographic expansion

### How we will win

#### Cost reduction and asset optimization

- Eliminate waste
- Optimize assets
- Improve working capital management

#### Innovation and marketing

- Increased speed to market
- Focus on meeting consumer needs
- Evaluate and adapt brand architecture

#### Strategic acquisition(s)

- Selective acquisitions to enter new categories or countries

## Case study: Poultry

### Challenge

Our Poultry business faced challenges in production and profitability. The key challenge was mortality rates, which led to lower bird performance and inconsistency in bird supply. This made it difficult for the ALYOUM brand to create and supply market demand, leading to underutilization of the supply chain from farming, processing and then into distribution. In turn, this led to a higher cost base that limited the business to high-margin channels.

### Action

Actions taken included safeguarding the wellbeing of the flocks by the development and implementation of a unique air filtration system in our broiler farms. In addition, enhanced nutrition, husbandry and vaccination programmes supported the health, well-being and performance of the birds. Through the centralization of sales and distribution with Almarai's core business, along with the introduction of the Almarai Continuous Excellence (ACE) Programme in the processing facility, the business was able to increase its efficiencies and cost leadership.

Our primary focus will be on realizing our full potential in core GCC markets, turning around not yet performing assets – for which in 2018 we made critical strides forward – and seeding high-potential new businesses.



**Operating model and talent**

- Role of center
- Superstructure
- Governance
- Ways of working
- Resources
- Saudization
- Succession planning

**Technology (digital and IT)**

- E-commerce and engagement
- Transitioning of legacy systems - manufacturing, procurement, logistics

**Goals for 2025**



- **Leading market share (value)**
- **Grow faster than the market**
- **Significant growth from new businesses**
- **Maintain strong return on assets**
- **Top quartile employee satisfaction**
- **Preferred consumer brand**



**Result**

- Supply chain stability enabling expansion into new markets and into Foodservice
- Increase in asset utilization as a result of a stable supply of birds
- Health and performance consistently exceed global standards
- Centralized sales and distribution along with increased asset utilization, resulting in 45% reduction in sales and distribution costs
- ACE program deployment in processing plant, focusing on cost management and KPIs leading to lower production costs
- Better asset utilization resulting in over 35% reduction of overall costs
- Improved overall farming performance from breeder flocks to broiler flocks
- Ongoing focus on increasing retail sales and delivering cost leadership to reach new levels of success
- Use of vegetarian diets and antibiotic free production

# How we deliver value

Our business model is structured to deliver on the promise of 'Quality you can trust'. It is tailored to our unwavering commitment to ongoing improvement and exists as a guiding force for team members 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 core.

## Inputs

### Raw materials

- 1,700+ suppliers
- Supplying 55,000+ items
- Over SAR 5.6 billion spent on raw materials in 2018

### Advanced manufacturing

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

### Leading innovation

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

### Best-loved brands

- Seven leading brands

### Innovative people

- Workforce of 42,971, inspired by innovation
- World-class training and development program
- 69 different nationalities

### Strong financial support

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

## Adding value

### Business unit structure

- In 2017, transition from functional structure to business unit model
- Management focus on end-to-end sales, profitability and Return on Net Operating Assets (RONOA) for each category
- 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)

## How we do it



### Crop cultivation and selection

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



### 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



### Best-in-class manufacturing

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

### Commitment to quality

- 'Quality you can trust' is in our DNA
- The Almarai Quality 4.0 program 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

## Outputs

### 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 as one of 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 they can trust



### Exceptional transport and logistics

- Transport and Logistics division larger than any logistics company in the Middle East
- 8,500 vehicles deliver 2 billion kg of products on time and in perfect condition



### Consumer insights and powerful branding

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



### 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

### Almarai innovation management

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

# CFO's Review

**While pressure on revenue and profitability exists, the Company's traditional focus on innovative cost management and efficiency gains is undimmed. This continues to put us in a robust position when we seek to raise financing from the market, and we remain an attractive proposition to lenders and investors both at home and abroad.**

## Highlights

While revenue growth in 2018 was subdued, mainly as a result of contraction in the market and demographic pressure, strong progress was made against the financial objectives of the Almarai 2025 long term strategy. Perhaps most importantly, and in response to a higher cost environment, the Company was successful in its cost optimization and efficiency program delivering a saving of approximately over SAR 200 million for the year ended 31 December 2018. A positive Free Cash Flow of SAR 1,217 million, was significantly influenced by a substantial feed stock build-up in preparation for 100% reliance on imported animal feed requirements – which we achieved in November.

Key achievements included the first EBIT break-even year for the Infant Nutrition business, and the first year of Net Income profitability for the Poultry business – both of which are evaluated in more detail in this report – which form key components of our long term strategy for turning

under-performing segments. In July, we increased prices of six SKUs within the Dairy business unit ranging between 4% to 8% – the first such increase in over 10 years – to offset the impact of higher costs. This decision was made in order for Almarai to maintain the product and service quality that has always been our promise to consumers.

## 2018 one-offs

During 2018, Almarai's performance was impacted by the adverse macro-economic conditions mainly originating from the VAT introduction causing more conservative consumer behavior and a significant disruption in the large Traditional Trade channel. Increases in labor and energy costs and the large reduction of the consumer base resulting from the expatriate exodus.

Beyond these external factors, full compliance with the new regulations on the importation of grain forage has had a direct effect on alfalfa importation costs and generated a one-off charge related to the closure

of its arable activities in KSA of SAR 77 million. Also in its effort to resize its operations in Jordan, we had to recognize a one-off asset write-off of SAR 23 million. Finally, we had to record an asset write-down of SAR 27 million in other GCC countries.

## Key operational transactions

In April, Almarai completed the acquisition of a controlling stake in Pure Breed Company, acquiring a further 14% of the share capital, giving the Company 55.9% of Pure Breed's total share capital. Pure Breed's operations are focused on poultry and grandparent farming. This acquisition will support our ongoing efforts to streamline, integrate and strengthen the Poultry supply chain. The transaction was fully financed by Operating Cash Flow.

In December, Almarai successfully completed the divestment of its participation in UFHC (United Farmers Holding Company), refocusing its sourcing feedstock strategy in North and South America.



### Key financial transactions

In March, we announced the full repayment of our Second Sukuk Series III, for an amount of SAR 513 million. With the completion of this payment, the Sukuk which had been issued in 2013 is fully redeemed at par for the principal and profit of all Sukuk-holders. In addition, Almarai called and completely redeemed the SAR 1.7 billion Perpetual Senior Sukuk on its first call date of 30 September. These repayments were financed mostly by Operating Cash Flow as well as by existing credit facilities.

### Looking ahead

Future revenue growth will be driven by expansion in existing geographies such as Egypt, where we had a strong year in 2018, and new markets in the region. In addition, we will continue to better leverage our fixed assets as the current investment cycle closes, while improving the utilization of investments in non-GCC markets. Key targets in 2019 will be to realize profitability for the Infant Nutrition business, as well as for IDJ

where so much good progress was made this year, particularly in Egypt.

Given persistently challenging economic conditions across the region, our focus on efficiency and cost optimization will maintain its place at the center of our plan for ensuring a continuous competitive advantage. In this respect, the most important components of our capital investment plan will be a focal point for the continual enhancement of existing infrastructure and assets – including manufacturing and farming facilities – to better leverage their capabilities and exploit efficiency opportunities. Meanwhile, innovation in technology, processes and products will drive further efficiencies and ensure maximum profitability across segments and markets.

Future investments will be financed through improving Operating Cash Flow, and when appropriate through banks, the Saudi Industrial Development Fund (SIDF), Agriculture Development Fund (ADF), European Bank for

Reconstruction & Development (EBRD) and local and international Sukuk programmes.

While pressure on revenue and profitability exists, the Company's traditional focus on innovative cost management and efficiency gains is undimmed. This continues to put us in a robust position when we seek to raise financing from the market, and we remain an attractive proposition to lenders and investors both at home and abroad.

**Paul-Louis Gay**  
Chief Financial Officer

## Five year financial highlights

(SAR million)	2018	2017	2016	2015	2014
<b>Operational Performance</b>					
Revenue	13,723	13,936	14,339	13,795	12,606
Gross Profit	5,445	5,584	5,522	5,283	4,535
Operating Profit	2,461	2,583	2,518	2,262	1,998
Profit attributable to shareholders	2,009	2,182	2,148	1,916	1,674
<b>Balance Sheet</b>					
Net Working Capital	2,729	1,429	1,318	1,383	2,006
Property, Plant and Equipment	22,607	22,402	21,145	18,696	16,176
Biological Assets	1,367	1,283	1,271	1,228	1,070
Intangible Assets	1,038	1,047	1,040	1,009	1,350
Investments	-	129	97	198	325
Net Debt	12,659	10,910	10,883	9,344	8,762
Total Equity	14,516	14,881	13,478	12,618	11,631
Total Assets	32,318	31,896	29,194	27,371	23,949
Total Liabilities	17,802	17,015	15,716	14,753	12,318
<b>Cash Flow</b>					
Cash Flow Generated from Operating Activities	3,558	4,614	4,473	4,932	3,199
Addition to Property, Plant and Equipment	(1,919)	(2,797)	(4,515)	(4,005)	2,740
Free Cash Flows	1,217	1,304	(509)	523	84
<b>Key Indicators</b>					
EBIT to Sales	17.9%	18.5%	17.6%	16.4%	15.8%
EBITDA to Sales	28.2%	28.1%	25.9%	24.2%	23.5%
Return on Net Operating Assets	9.4%	10.5%	11.1%	11.2%	10.7%
Net Debt to Equity Ratio	87.2%	73.3%	80.7%	74.0%	75.3%
EPS - Basic* in SAR	1.97	2.13	2.10	1.88	1.63
EPS - Diluted* in SAR	1.95	2.11	2.08	1.87	1.62
DPS (Dividend Per Share)* in SAR	0.85	0.75	0.72	0.69	0.60

\*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.



# Key performance indicators

In order to deliver on the objectives of our strategy, we comply with a set of key performance indicators (KPIs) that ensure satisfactory progress in the course of the year. The KPIs are structured to adhere to both our Vision – to be the consumers’ preferred choice by leading in chosen markets with superior food



## Vision

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



## Corporate scorecard

Normalized net sales growth of 1.5%

Market share growth: 0.50%-0.75% in selected products



## Culture

Quality-driven, consumer-focused



## KPIs 2018

### Growth drivers

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

and beverage products – and our ‘quality-driven, consumer-focused’ working culture. The long term objectives and a corporate scorecard for the delivery of our KPIs are presented below, along with a three-pillar roadmap for the year, which focuses on growth drivers, operations/efficiency and capabilities/enablers.

On track for year 2025 with successful acquisition of Pure Breed and disposal of UFHC in 2018

Return on Net Operating Assets (RONOA) of 9.4%

Platinum status in all categories for Nitaqat purposes

### Operations/efficiency

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

### Capabilities/enablers

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

# Our marketplace

In 2018, our operating environment underwent fundamental and systemic change that impacted the nature of the industry and affected the performance of companies across the sector. Developments in our marketplace have shown the resilience of Almarai’s business model, coupled with its ability to adapt to changing circumstances. As a Company, we keep a constant eye on global, regional and local market trends, allowing us to more effectively respond to challenges and opportunities.

## MENA: the macroeconomic picture

MENA’s demographics remain weighted towards a young population, with the number of college graduates across the Middle East and North Africa expected to reach 30 million by 2020, putting pressure on the regional economy to provide a greater number of skilled jobs for a better-educated population. The World Bank regards this as a major challenge<sup>1</sup>, for which embracing the ‘digital economy’ is likely to be the most effective solution. This, in turn, will put pressure on governments and corporates to prioritize innovation and technology as drivers for growth and competitiveness.

Economic growth in MENA reached an average of 2.0% for 2018, compared with an average of 1.4% in 2017, as countries realize the positive impact of government reform and stabilization policies, as well as improved oil prices supported by international demand. Looking ahead, the World Bank expects MENA economic growth to improve to 2.6% in 2019-2020.

## The Saudi economy

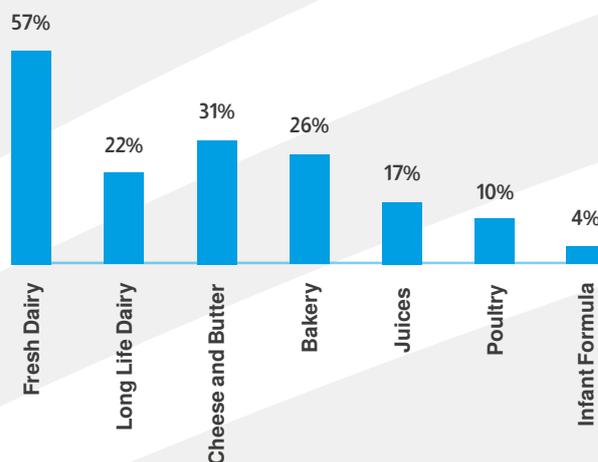
In 2018, the Saudi economy partially recovered from a contraction in 2017. This recovery was driven by higher oil prices and the impact of the government’s emphasis on stimulating the private sector economy. Demographics, however, put pressure on consumer spending, with a large number of expatriates leaving the local labor market. Saudi crude oil production reached 10.4 million barrels per day in June 2018, the highest since 2016, and was followed by an agreement between the OPEC+ countries to limit production. Meanwhile, non-oil exports, in which Almarai is a key participant, registered a significant increase of 26% year-on-year in April 2018, according to the latest available data from the World Bank.

The Kingdom’s 2019 budget aims to provide a boost to the economy, increasing state spending by 7.0% to spur growth that was damaged by weaker oil prices in the final quarter of 2018. Spending is projected to rise to SAR 1.10 trillion, from SAR 1.03 trillion in 2018. The deficit in 2018, which the government intends to eliminate by 2023, was SAR 136 billion, well below the SAR 195 billion gap originally projected. This was partly due to higher oil export revenues, but non-oil revenues also improved, supported by steps such as the introduction of 5% VAT at the start of 2018.

## Established leadership in the GCC

In successfully navigating regional market headwinds, Almarai maintained a robust share of the GCC consumer food and beverage shopping basket. This strong market share reflects into each of the following product categories:

### GCC market share by category



<sup>1</sup> MENA Economic Monitor, October 2018: A New Economy for the Middle East and North Africa (the World Bank)

## The food and beverage industry

Trends in the local and regional food and beverage market are driven by a combination of global and regional factors, as well as by a range of unique local nuances. Broader global trends are influenced primarily by adjusting consumption habits and shifts in consumer channels, while regional trends include both of these factors, in addition to demographic and socioeconomic change. The top six trends identified in Almarai's marketplace can be summarized as follows:

### 1. An industry shift from from double-digit to low-single-digit growth

Pressure on consumer spending and increased production costs is directly impacting top- and bottom-line growth across the sector

### 2. Societal and regulatory changes leading to major channel shifts

- Growing Modern Trade and declining Traditional Trade (individual grocers or 'bakalas') in the retail market, with likely consolidation of Modern Trade players
- In the future, online delivery and e-commerce will become more important, along with Foodservice distribution to HORECA customers

### 3. Cost inflation for producers vs. pressure on pricing

Additional expenses due to higher labor costs, operating expenses including importation of overseas green fodder, and higher taxes including VAT, which was introduced in 2018, all place pressure on pricing strategies

### 4. Slower growth as traditional categories mature

In the longer term, responses to these slower growth trends include private labels, ready-to-eat products, and health and wellness innovations

### 5. The growing importance of business-to-business (B2B) for regional food and beverage manufacturers

In particular, the development of the HORECA market, which is driving a move towards Foodservice and B2B sales channels

### 6. Pressure for price increases for key products, and Dairy in particular

Manufacturers will be forced to increase prices in order to maintain product quality and profitability of operations, in light of rising production costs and a move to a free market environment

## Divisional review

# Dairy

Our Dairy products have been at the heart of Almarai’s range since the Company’s foundation in 1977. Today, the business covers Fresh Dairy, Long Life Dairy and Dairy Foods.

## Almarai’s Dairy Foods volume is twice its nearest competitor



### Performance

In 2018, the Fresh Dairy sub-category represented 39% of total revenues, with Almarai sustaining its GCC leadership in the wider dairy market at 57% market share. There are three other sizeable players in the market, but it is fragmented by small businesses, with potential for future consolidation.

While milk is considered a consumer staple in Saudi Arabia, with a quasi-regulated pricing environment, Almarai was successful in increasing Fresh Milk prices (six SKUs) by 4% to 8% to meet increasing production costs. This move was necessary to ensure the quality standards we set ourselves, and on a full-year basis had a limited impact on sales volumes.

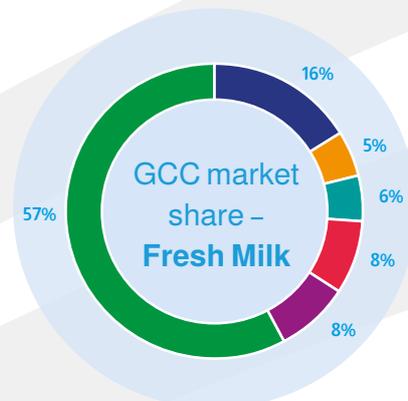
Product innovation, improved marketing and focused distribution strategies were important for Long Life Dairy, with a significant increase in market share.

For Dairy Foods, the stiffest competition has come from

international brands, necessitating a significant step-up in promotions – particularly for cheese and butter products. With modern trade increasing its contribution to total retail sales, especially in Saudi Arabia and the UAE, plus the introduction of VAT on 1 January 2018, Almarai was successful in maintaining a strong market share, which stood at 31% for the year. Strategic sourcing and careful ingredient cost management were key to the success of the category in 2018.

### New product launches

- Almarai Natural Cream Cheese Tub
- Almarai Sweetened Condensed Milk
- Almarai Evaporated Milk (410g)
- Almarai Strawberry Yoghurt Set (150g)
- Almarai Feta White Cheese (16kg)
- Almarai Greek Style Yoghurt
- Almarai Spreadable Cheese (1100g)
- Albashayer Shredded Mozzarella (1kg)
- Albashayer Feta (500g)
- Almarai Cream Cheese Portion Desserts
- Almarai UHT Plain Milk (250ml)
- Almarai Fresh Vanilla Flavored Milk (180ml and 360ml)
- Almarai Full Fat Zabadi (4kg)
- Almarai Tomato Sauce



■ Almarai ■ Comp. 1 ■ Comp. 2 ■ Comp. 3  
■ Comp. 4 ■ Other

# Juice

Almarai’s Juice products are available to consumers across the Middle East, offering a wide range of juices, nectars and drinks, as well as specific products for children. Recent launches have been in the Long Life Juice segment and the premium not-from-concentrate range under the Super Fruit sub-brand. The portfolio also includes juice products marketed by IDJ in Egypt and Jordan, with Almarai currently offering more than 20 flavors.

More than  
50  
Fresh Juice SKUs



### Performance

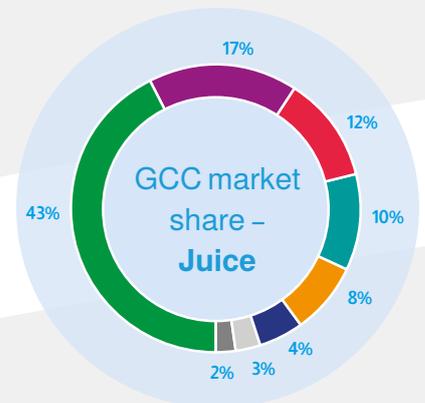
In 2018, Juice accounted for 11% of Almarai’s total revenues, with Saudi Arabia accounting for 64% of the GCC market, followed by the UAE with a 13% contribution. The marketplace itself remained highly fragmented, mainly due to low barriers to entry.

A focused distribution strategy was supported by a robust level of product innovation. Fresh Juice was the main contributor to revenue, with 20 flavors and over 50 SKUs. Meanwhile, Long Life Juice, under the brand name Joosy Life – which launched in 2017 with four flavors – aimed to cater to a wider consumer base and stimulate growth in the portfolio. With the recent launch of our premium not-from-concentrate range, under the Almarai Super Fruit sub-brand, pomegranate emerged as a leading flavor.

While Juice sales experienced the same challenges and pressure as other segments, as a result of lower numbers of consumers in the market and tightening family budgets, performance was broadly robust compared to other players in the market. Supportive innovation initiatives included the launch of a 1l bottle size for Fresh Juice products and 100% juices in the 200ml bottle sizes.

In 2018, IDJ’s contribution to Juice sales was of particular importance, as we made excellent progress in the Egyptian market, achieving significant market share gains.

In the GCC, Almarai’s market share remained strong. In Saudi Arabia, we maintained our market share at 19% of the total juice segment and 49% of the Fresh Juice segment, considerably well ahead of any competitor.



■ Almarai ■ Comp. 1 ■ Comp. 2 ■ Comp. 3  
■ Comp. 4 ■ Comp. 5 ■ Comp. 6 ■ Others

### New product launches

- Joosy Life in cartons and cans pack formats
- Fresh Juice (1l)
- Fresh Juice 100% in (200ml)
- Almarai Super Juice (1l)

# Bakery

L'usine and 7DAYS offer a range of baked bread, snacks, and treats to consumers throughout GCC markets. The Bakery category has been characterized by innovation and product diversification and remained true to that reputation in 2018.

Bakery segment accounts for **13% of total revenue**



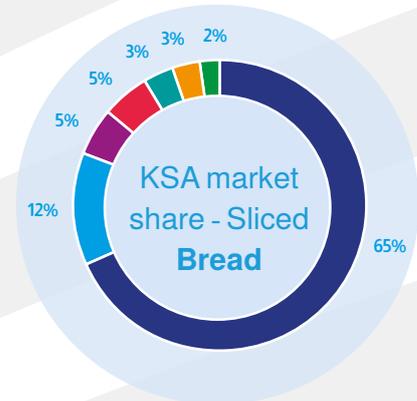
### Performance

In 2018, Bakery accounted for 13% of Almarai's total revenues. L'usine and 7DAYS maintained leadership position in the Saudi market, with more than 60% market share in most of the categories. The GCC market remains highly fragmented with the top 10 producers holding less than 70% of the total market. Bread remains the dominant sub-category in the Kingdom of Saudi Arabia, with approximately 66% of the total market.

A growing distribution footprint and leveraging the production capacity of our recently commissioned state-of-the-art bakeries in Hail and Al Kharj enabled the business to maintain its position as a driving force behind Almarai's growth journey.

As with other categories, the introduction of VAT created headwinds for the Bakery category, mainly for the single-serve segment. The Bakery business worked closely with retailers to find appropriate solutions in order to remain the preferred choice for consumers.

Highlights for the category included the launch of a range of snacks called Bake Rolls, which was made possible by the successful launch of a purpose-built plant. Bake Rolls are available in two packet sizes and four different flavors. Meanwhile, existing products were relaunched – including Sandwich Squares – with competitive promotions and improved retail display visibility. Total Bakery sales for 2018 were SAR 1,737 million.



■ L'usine ■ Comp. 1 ■ Comp. 2 ■ Comp. 3  
■ Comp. 4 ■ Comp. 5 ■ Comp. 6

### New product launches

- L'usine Bran Bread
- L'usine Multigrain Cream Cheese Sandwich
- L'usine Mini Arabic Bread
- L'usine Triple Chocolate Muffin
- 7DAYS Bake Rolls (Salt, Pizza, Zaatar, Chili)

# Poultry

The fresh Poultry range, under the ALYOUM brand, comprises fresh whole chickens and portion packs (including wings, drumsticks, whole legs, thighs, mixed parts and breast fillets) as well as a fresh value-added range of marinated chicken and chicken parts, kebabs and minced chicken. ALYOUM had a strong year of growth and played a key role in our agenda for turning around the performance of not-yet-performing assets.

Poultry  
production output  
increased by 20%



### Performance

In 2018, the Poultry business accounted for 13% of Almarai’s total revenues. The ALYOUM brand maintained its leadership position in the Saudi market, with a 38% value share.

The local market is among the world’s largest on a per capita basis, valued at SAR 15 billion with an average annual growth rate of 8%. The market is expected to develop a preference for fresh products over frozen options, including whole and portion birds as well as value-added products, which will be positive for the ALYOUM range’s future growth.

This year, the Poultry business’s strategic direction focused on maximizing output from the current asset base, to improve its efficiency and bring down the cost of

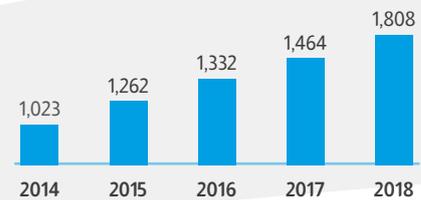
production. In addition, Foodservice sales were an important driver, with sales to HORECA markets increasing by 100%.

The most important achievement for the ALYOUM brand was to deliver its first year of profitability, having broken even in 2017. Full-year Net Profit was SAR 183 million, representing a turnaround of over SAR 477 million in 24 months. Total sales volumes for the year increased by 24%.

Total output for the year was 155 million birds, increasing by 20% and showing robust progress towards reaching our capacity of 200 million birds in 2019. Approximately 45% of total sales were fresh products to retail channels, with Foodservice accounting for another 45% and recently introduced frozen products

comprising 10%. A case study on the Poultry turnaround initiative can be found earlier in the Strategy chapter of this report.

### Poultry revenues (SAR million)



### New product launches

- ALYOUM Whole Chicken Bulk Pack (Foodservice)
- ALYOUM Frozen Whole Chicken Box (eight pieces)
- Albashayer Chicken



# Infant Nutrition

Our Infant Nutrition business manufactures and distributes the Nuralac and Nurababy range of products to families throughout Saudi Arabia. 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 liters of liquids.

Total production  
of 18,000  
metric tons in 2018



## Performance

Almarai remains a challenger in the local Infant Nutrition market, with the top four players accounting for more than 50% of market share. In retail, pharmacies dominate consumer sales with 94% share of the market. Currently, 96% of demand in the category is fulfilled by imported products from outside the region.

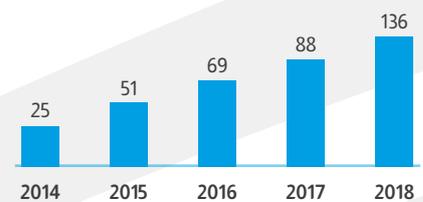
The Infant Nutrition business successfully launched a new range of products in a ready-to-drink liquid format, providing access to the growing demand for convenience products. Meanwhile, Nuralac achieved its highest Saudi market share to date – reaching 4% as at 31 December 2018 – and positioning Almarai as an increasingly competitive player among the top 10 brands.

With regional export volumes increasing by 400% on a year-on-year

basis, Almarai has demonstrated the strength of its position as the Middle East’s only local manufacturer of infant formula, while at the same time improving the cost-efficiency of its operations by optimization of the Al Kharj manufacturing assets. As the Infant Nutrition business unit grows its output and revenues, cost per kg has improved, and in 2018 the business achieved a break-even EBIT for the first time since its establishment.

Demonstrating the same unwavering commitment to quality that exists across the Company’s business units, Infant Nutrition achieved the FSSC 22000 Global Food Safety Initiative (GFSI) standard, which is among the most-recognized international food safety standards and will play an important role in opening up new sales markets.

Infant Nutrition revenues (SAR million)



## New product launches

- Nuralac Stage 1 (105ml) RTF
- Babywell Stage 1, 2 and 3 (1.7kg)



# Investing in human capital

Almarai continuously focuses on attracting, retaining and developing talent across all of its functions and business units. Through investing in our people, we not only secure the future of Almarai, but we also support society through supply of highly skilled supervisors, specialists, managers and leaders.

## Human Resources (HR) facts and figures



### Rewards and remuneration

Our compensation philosophy allows us to attract, motivate and retain the best talent available in the market. In addition to market-competitive salaries, we offer additional benefits to employees that range from allowances such as housing and transport to both long- and short-term incentive schemes. In order to achieve exceptional business results, we have implemented a Performance Management Process, which motivates staff based on personal performance. This promotes a 'paid for

performance' culture 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 program, designed to reward high-achieving employees. Possible incentive payouts take place three years after the allocation year.

### Almarai Future Leaders Programme graduates



## Training and development

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

Divisional Training Managers, Regional Training Managers and Regional Training Officers take responsibility for ensuring that employees across business divisions are properly briefed and trained and are operating in accordance with their designated tasks. OJT training exists across the Company, from transport operations – including bespoke training for our long-haul drivers – to warehouse operations – such as training and qualification for forklift drivers. In addition, OJT training is provided to our DFP candidates, who spend six months training as mechanics, electricians and refrigeration technicians.

### Almarai Academy

The Almarai Academy is responsible for developing leadership qualities at all levels of the Company, enabling the identification of the leaders of tomorrow, while building the skills of the leaders of today.

The program starts from junior leadership programmes such as Foundation of Personal Leadership, through more advanced programmes (Advanced Personal Leadership, Leadership Discovery and Leadership Acceleration), up to senior leadership programmes developed and delivered in collaboration with one of the top international business schools.

### Almarai Future Leaders Programme

We have operated the Almarai Future Leaders Programme since 2016, with the ultimate goal of supporting our long term Saudi leadership pipeline. The Programme begins with a rigorous recruitment process that uses a qualitative and quantitative approach to identify and hire high-caliber Saudi graduates.

In 2018, Almarai recruited a new cohort of future leaders, who started their term in November. In the coming 24 months, they will expand their knowledge and enhance their skills to better understand the complexity of the food and beverage industry. The success of the Programme rests on its ability to enable future leaders to ‘think big’ on key macro and strategic issues – particularly in relation to the Vision 2030 agenda – while at the same time focusing on micro issues directly relevant to Almarai’s corporate vision and strategy. Ultimately, the Programme will train a cohort that will be the bedrock of our Company’s future leadership.

# Sustainability

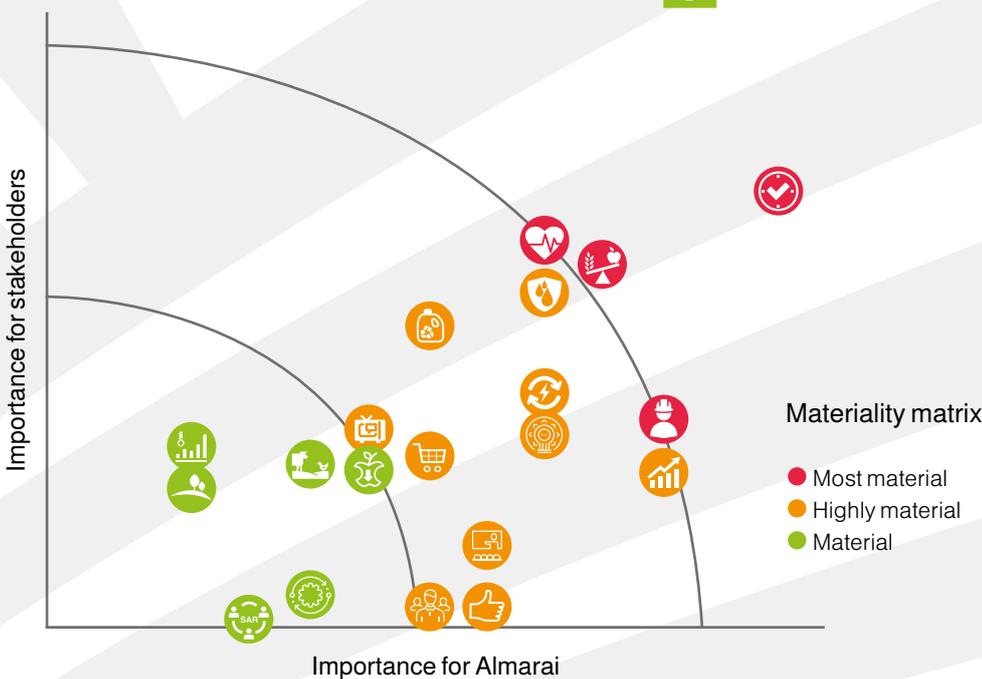
Almarai is proud of the sustainability excellence that it has achieved. Through our sustainability framework, we are building social, environmental and economic issues into our strategic thinking, to ensure we maximize the value that we deliver to all stakeholders.

In 2018, we developed our sustainability program to address our most material issues and published our first standalone Sustainability Report for 2017. In this chapter, we have included a summary of our materiality approach, our sustainability framework and some examples of highlights for 2018 from each pillar of our strategy. Our 2018 Sustainability Report provides a full overview of our social, environmental and economic approach to the financial year ended 31 December 2018.

## Materiality

Through consultation with internal and external stakeholders we have identified and ranked a set of key sustainability issues according to their material importance, or 'materiality'. This process has allowed us to identify and prioritize our most material issues, enabling the business to better understand where we should focus our efforts. Our 20 most important issues from this consultation process have been ranked and plotted below.

Material topic	Rank
Food safety and quality	1
Product nutrition and health	2
Consumer health and choice awareness	3
Workforce health and safety	4
Efficient and profitable business	5
Water protection	6
Energy and fuel efficiency	7
Product innovation and new market access	8
Packaging and waste reduction	9
Training, development and retention	10
Employee satisfaction and equal opportunity	11
Sustainable procurement	12
Responsible marketing	13
Local leadership development	14
Food waste reduction	15
Animal welfare	16
Productive capacity expansion	17
Climate change adaptation and mitigation	18
Sustainable land use and biodiversity protection	19
Community investment	20



**Almarai sustainability framework**

Our sustainability framework groups our material issues into six key pillars. Almarai uses this framework as the foundation of the Company's sustainability strategy. The framework summarizes what sustainability means for Almarai, identifying the areas that we manage and balance to ensure a more inclusive, resilient and successful business.



### Sustainability highlights



**Obesity campaign:** An obesity campaign that achieved over 18 million views was launched in 2018. It highlighted that the rising trend in obesity is not confined to the developed world but is a global issue that confronts Almarai's markets too

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**Emphasis on animal welfare:** Our dairy herd and poultry flock have access to the highest quality 24-hour veterinary care. In addition, 100% of our cows live in enclosed, temperature-controlled housing and 100% of our chickens inhabit temperature-controlled, cage-free barns

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**Commitment to ongoing improvement:** Attainment of certification against GFSI for IPNC in 2018 will roll out to other areas of the business in 2019, further enhancing protection of the brand. We have also commenced a program for attaining ISO 45001 standard in Occupational Health and Safety, with audits scheduled for 2019. The program will embed and nurture the importance of HSS across all units of the business

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**Preserving water resources:** In 2018, Almarai was proud to achieve 100% importation of its animal feed requirements



**Supporting Saudi career progression:** The Almarai Future Leaders and Graduate Professional Trainee programmes continued to grow in both scale and impact, with 21 future leaders recruited in 2018, along with 22 graduate professional trainees joining the Company



**Market-leading product innovation:** Almarai launched a total of 35 new products to the market, with a further 12 undergoing reformulation or improvement

**Engaging with our stakeholders**

We engage in ongoing dialogue with our stakeholders, who range from consumers through to investors, employees, regulatory bodies and civil society organizations. To achieve this, we employ a range of communication channels that enable us to best meet their specific interests.

Among the most popular and effective engagement programmes, designed specifically with our consumers in mind, is the opening of our manufacturing facilities to

the public. We are proud of the cutting-edge technology and exceptional levels of hygiene and safety that our processing plants comply with, and there is no better way to showcase this than by opening our doors.

We regularly invite schools, families and interested individuals to tour our plants and learn about our production processes, offering free bus services and refreshments to our guests. In 2018, we hosted more than 73,000 visitors, as well as over 70 investors and analysts at our Annual Investor Day in November.

# Risk management

Almarai has defined its risk management process according to the COSO<sup>2</sup> 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 are responsible for Almarai's Internal Control System, while the Audit Committee is responsible for oversight of the effectiveness of Almarai's control. To this end, senior management relies primarily upon the finance function disseminated throughout Almarai, 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 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 Corporate, which comprises of Corporate and Divisional Finance; Legal, 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 Executive Management Team 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 Policies Group

### Internal Audit Department

Almarai has a fully developed and independent Internal Audit Department reporting directly to the Chairman of

<sup>2</sup> Committee of Sponsoring Organizations of the Treadway Commission

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 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<sup>3</sup> 9001:2015, 14001:2015, 22000:2005 and 27001:2013, FSSC 22000):

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

#### 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, which are widely communicated across the Company
- Almarai's Corporate Governance Rules, updated and approved by the Board in December 2017
- Human Resources and social policies, particularly regarding employee development and training
- Directions given by the Board of Directors and Almarai's Executive 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.

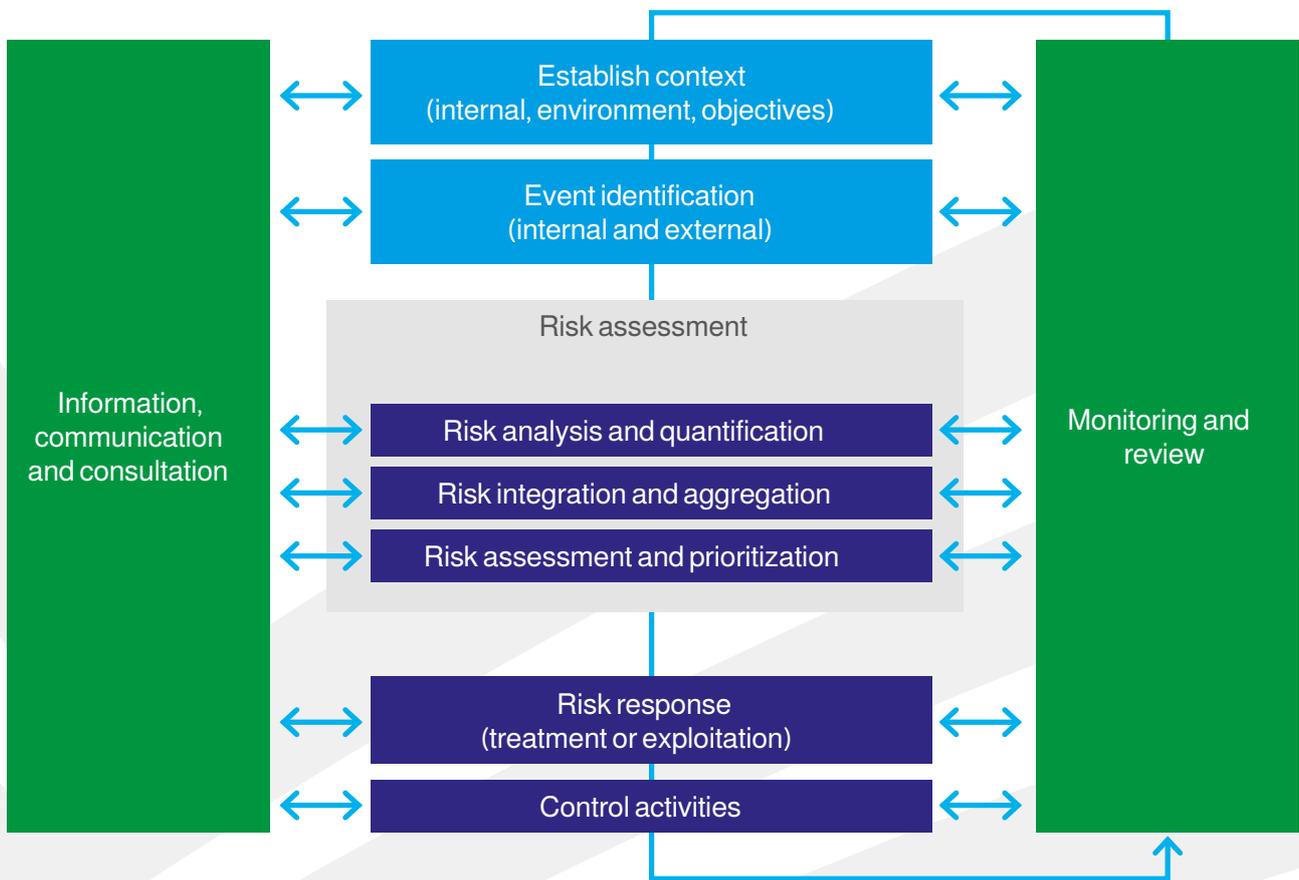
The methodology is reviewed regularly and, where necessary, adapted to ensure it evolves with the Company's business needs, thereby allowing Almarai to

<sup>3</sup> International Organization for Standardization

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 Department 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**

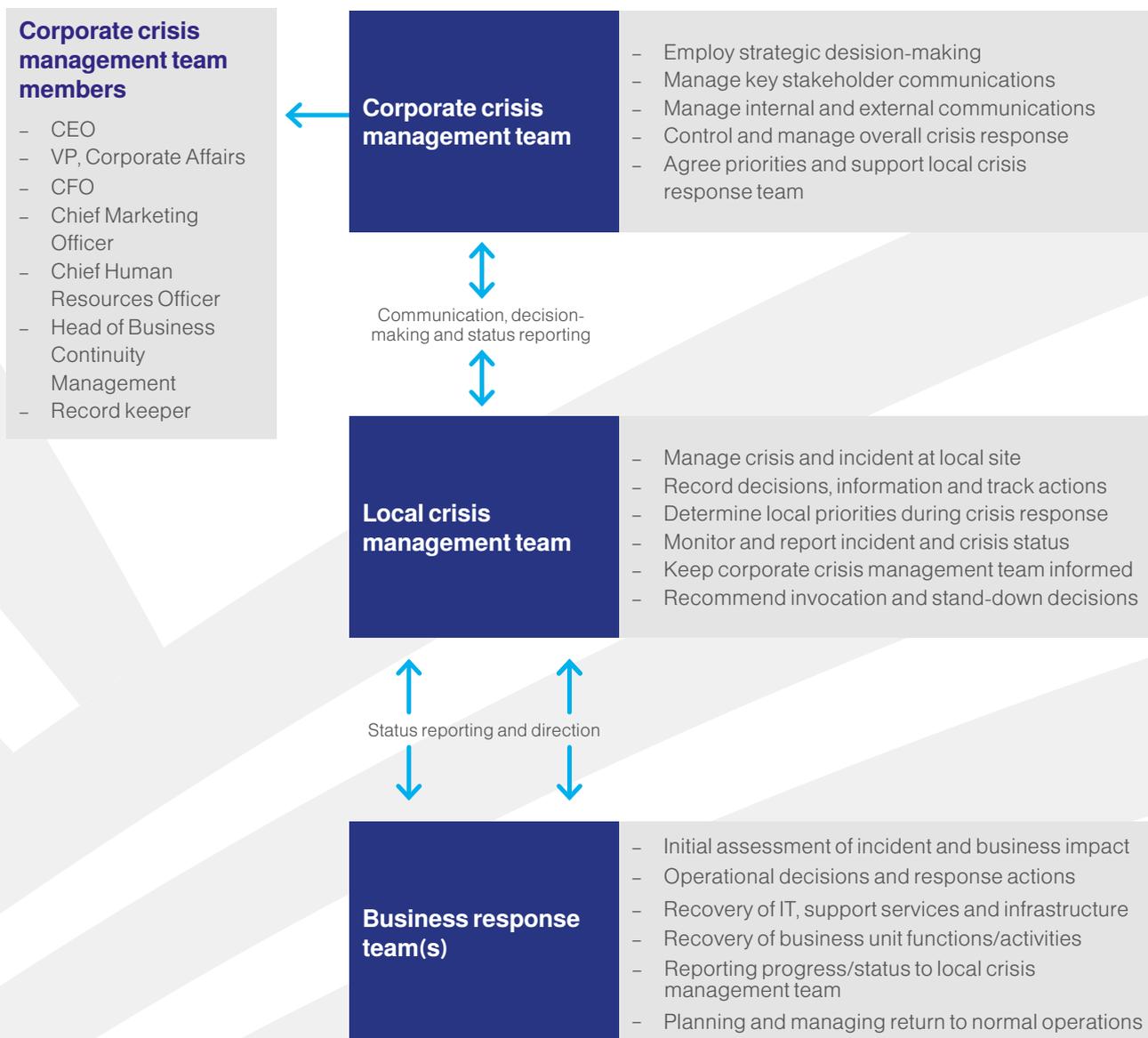
Aligned with industry-recognized and adopted best practice, Almarai operates a three-lines-of-defense model to ensure accountability across the Company for governance, management and reporting of risks and the control environment.

**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.





# GOVERNANCE

# Board of Directors

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

His Highness is 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), Jousour 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 Chairman of the Arab Union for Cement & Building Materials Co. and the Arabian Shield Cooperative Insurance Co. He is Managing Director of Al Yamama Cement Co., and Owner of Nofa Al Jazeera Company. His Highness is a Member of the Board of Trustees of the King Abdul Aziz and His

Men for the Care of Talents, 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.

HH 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.

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

Mr. Al Muhaideb is the Chairman of Al Muhaideb 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.

### Left to right:

Dr. Abdulrahman bin Suliman Al Turaigi | Dr. Ibrahim bin Hassan Al Madhoun, HH Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer, HH Prince Sultan bin Mohammed bin Saud Al Kabeer (Chairman), Mr. Suliman bin Abdulkader Al Muhaideb | Mr. Abdulrahman bin Abdulaziz Al Muhanna, Engr. Anees bin Ahmed Moumina | Engr. Mosa bin Omran Al Omran | Mr. Bader bin Abdullah Al Issa



**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.

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

His Highness is Chairman of Mobile Telecommunication Company Saudi Arabia (Zain KSA). 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. Additionally, His Highness is the General Manager of Nofa Aljazeera Company. His Highness is a Business Administration graduate of King Saud University, Saudi Arabia.

**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 and Secretary**

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

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

Mr. Al Issa is the Chief Financial Officer (CFO) 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 in the United States the United States of America 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. He is serving on the boards of 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.

\*Appointment effective from 4 March 2018, confirmed by the General Assembly Resolution on 9 April 2018.

# Executive Management

## **Georges P. Schorderet, Chief Executive Officer**

Georges joined Almarai in 2004 as Chief Financial Officer (CFO). In September 2011 Georges became Chief Operating Officer before being ultimately appointed Chief Executive Officer (CEO) in 2015. Prior to joining Almarai, Georges was an independent consultant in Switzerland for various projects. Throughout his career, he held a number of Senior Executive positions such as CFO of Swissair Group and CFO of the Alusuisse-Lonza Group. Georges holds an MBA from the International Institute for Management Development, Lausanne (Switzerland) and an International Senior Management Programme from Harvard Business School, Boston (the United States of America) alongside being a certified accountant.

## **Abdullah Al Bader, Executive Vice President – Bakery**

Abdullah Al Bader 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 the 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 previously serving as the Regional Manager of Farming. Andrew also 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 & 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 & 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 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 holds the position of Chief Marketing Officer where he is responsible for the Corporate Marketing function covering Brands, Social Media, Marketing Services, Corporate Communications, Product & Packaging Innovation and Public Relations. Since he joined Almarai he has held several positions across a range of the company's divisions, including Marketing Services Manager, Marketing Manager, General Manager of Marketing and CEO of a joint venture partnership with PepsiCo and Chipita. Prior to joining Almarai, Hussam worked for Nielsen as Head of Retail Measurement Services for the Gulf Cooperation Council (GCC). He was awarded a Bachelor of Arts in Business Administration from the Amman Private University, Jordan.

**Malcolm Jordan, Executive Vice President –  
New Businesses**

Malcolm Jordan is the Executive Vice President for New Businesses and since his appointment he has been responsible for the Poultry and Infant Nutrition business units. Since he joined Almarai he has held several senior roles including CEO IPNC, General Manager of Marketing and General Manager of Quality and Product Development. Prior to joining Almarai he worked for Christian Hansen and St. Ivel in the UK. Malcolm holds a degree in Food Science and Technology from the West of Scotland Agricultural College, UK.

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

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

Paul-Louis Gay is the Chief Financial Officer (CFO) for Almarai and is responsible for the group's Corporate Financial Services Division. Before joining Almarai he held many senior financial positions across a wide range of companies including Firmenich, Givaudan, Roche Group, Computerland Europe, ICL, National Semiconductor and IBM across China, Japan, the United States of America and Europe. Paul-Louis is a certified French public accountant (tax specialization) and holds an Executive MBA from ESCP Europe, a diploma in Corporate Finance from Institut Européen d'Administration des Affaires (INSEAD) and a diploma in Company Direction awarded by the Institute of Directors, UK.

**Polys Partelides, Chief Strategy and Planning Officer**

Polys 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 business and markets. Prior to joining Almarai, Polys was Director of Global Strategy and Development Director at INVISTA and was responsible for growing the international scope of the business both organically and via M&A. Polys holds a Bachelor of Science in Economics, an MBA from INSEAD. 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.

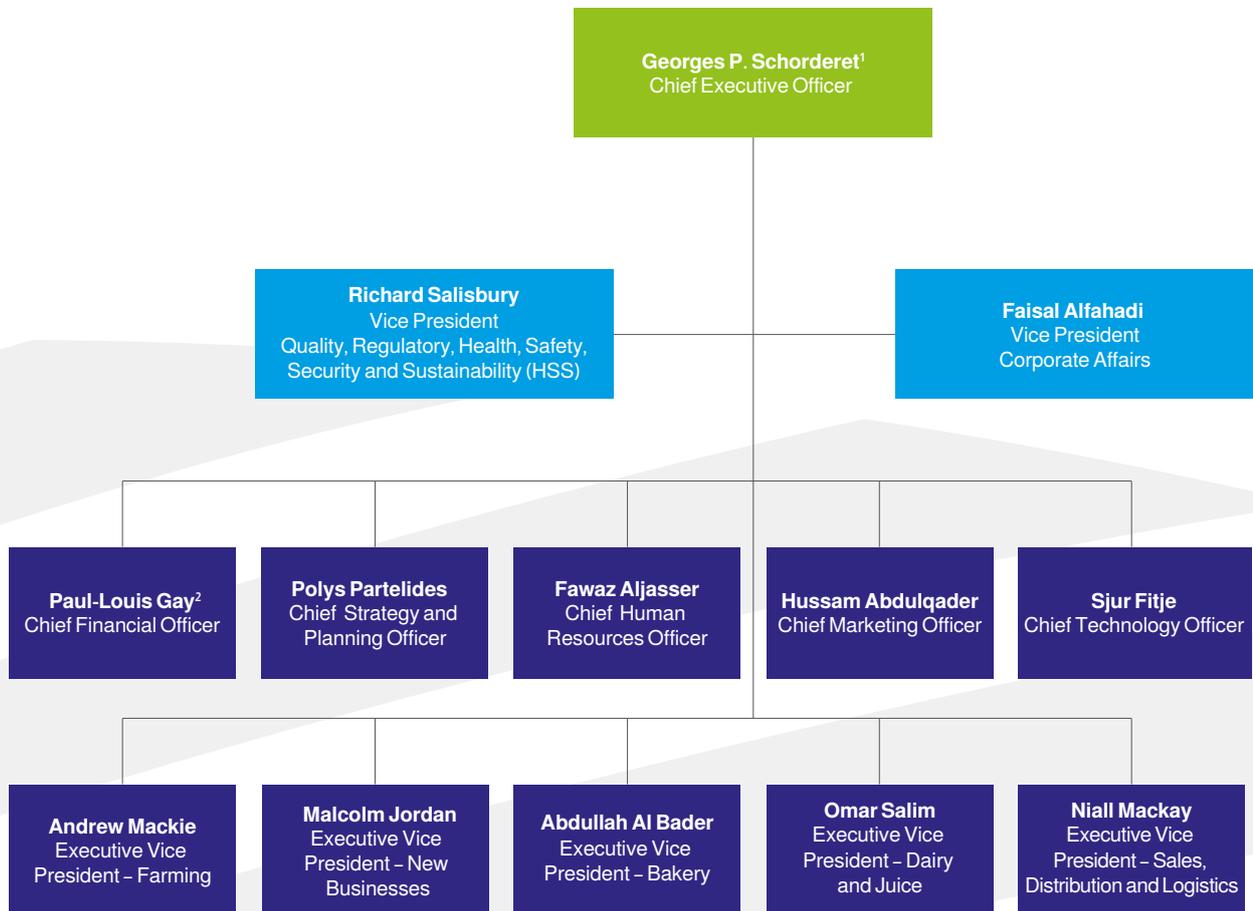
**Sjur Fitje, Chief Technology Officer**

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 Capital Projects. 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 of Science degree in Dairy Technology from the Norwegian University of Life Sciences combined with a Master of Management Programme in Logistics.

**Majed Nofal (incoming Chief Financial Officer as of 8 April 2019)**

Majed Nofal is the General Manager of New Business at Almarai, responsible for the general management of the New Business division, which focuses on opportunities in food production and distribution across the region. He has held several positions in Almarai over the years, including Head of Central Procurement. Before joining Almarai Majed was CEO and CFO of Western Bakeries Co. and held several senior posts in Audit and Assurance services at Ernst & Young, KSA. Majed holds a Bachelor of Arts degree in Business Administration from King Saud University, KSA, where he majored in Accounting.

# Almarai Organizational Chart



1. As per Tadawul announcement dated 4 October 2018, Alois Hofbauer will takeover as CEO in April 2019.
2. As per Tadawul announcement dated 10 February 2019, Majed Nofal has been appointed CFO effective 8 April 2019.

# 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, 22 announcements were made to shareholders. The following table summarizes the announcements by date, type and subject.

No.	Date	Announcement type	Title of announcement
1	21 Jan 18	Financial results	Almarai Company announces its annual Consolidated Financial Results for the year ended 31 December 2017 (Twelve Months)
2	8 Mar 18	Notice to shareholders	Almarai announces resignation of a Member of the Board of Directors and the appointment of another Member
3	26 Mar 18	Invitation to AGM	Almarai Company invites its shareholders to attend the Extraordinary General Assembly Meeting
4	28 Mar 18	Invitation to AGM	Almarai submits addendum announcement regarding its invitation to its shareholders for the Extraordinary General Assembly Meeting (First Meeting)
5	29 Mar 18	Notice to shareholders	Almarai Company announces the full repayment of its second Sukuk Q1 Series III
6	1 Apr 18	Invitation to AGM	Almarai Company invites its shareholders to the Extraordinary General Assembly Meeting (First Meeting) (Reminder)
7	3 Apr 18	Notice to shareholders	Almarai Company announces the acquisition of a controlling stake in Pure Breed
8	5 Apr 18	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)
9	8 Apr 18	Financial results	Almarai Company announces its Consolidated Financial Results for the first quarter ended 31 March 2018 (Three Months)
10	8 Apr 18	Notice to shareholders	Almarai submits a correction announcement regarding its Consolidated Financial Results for the first quarter ended 31 March 2018 (Three Months)
11	10 Apr 18	Results of AGM	Almarai Company announces the results of the Extraordinary General Assembly Meeting
12	10 Apr 18	Notice to shareholders	Almarai Company announces progress in securing 100% of its alfalfa requirements
13	27 May 18	Notice to shareholders	Almarai Company announces the approval by its Board of Directors of its five-year business plan for the period 2019-2023
14	8 Jul 18	Financial results	Almarai Company announces its Consolidated Interim Financial Results for the period ended 30 June 2018 (Six Months)
15	30 Sep 18	Notice to shareholders	Almarai Company Announces the Redemption of Its SAR 1.7 billion Perpetual Senior Sukuk on the first call date of 30 September 2018
16	1 Oct 18	Notice to shareholders	Almarai Company Announces the Approval by its Board of Directors of the Establishment of the Risk Committee
17	4 Oct 18	Notice to shareholders	Almarai Company Announces the Retirement of its CEO and the Appointment of a New CEO
18	7 Oct 18	Financial results	Almarai Company Announces its Condensed Consolidated Interim Financial Results for the Period ended 30 September 2018 (Nine Months)
19	7 Oct 18	Notice to shareholders	Correction Announcement Regarding Almarai Company Arabic Announcement of its Condensed Consolidated Interim Financial Results for the Period ended 30 September 2018 (Nine Months)
20	4 Nov 18	Notice to shareholders	Almarai Company Announces Its Full Compliance in Importing 100% of its Alfalfa and Green Forage Requirements
21	10 Dec 18	Notice to shareholders	The Board of Almarai Proposes to Pay a Cash Dividend for The Financial Year 2018
22	31 Dec 18	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

# 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 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.

## Almarai and its Subsidiaries Continued

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	Saudi Arabia	Dormant
Almarai Construction Company	Saudi Arabia	Dormant
Almarai for Maintenance and Operation Company	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	Saudi Arabia	Dormant
International Baking Services Company Limited	Saudi Arabia	Dormant
International Pediatric Nutrition Company	Saudi Arabia	Dormant
Modern Food Industries Company Limited (MFI)	Saudi Arabia	Bakery Company
Nourlac Company	Saudi Arabia	Dormant
Western Bakeries Company Limited	Saudi Arabia	Bakery Company
Pure Breed Poultry Company (Refer note 11)	Saudi Arabia	Poultry 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 (IDJ Bermuda)	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

## Ownership Interest

2018		2017		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
62%	62%	42%	42%	SAR 46,500,000	465,000
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 2,893,750,000	289,375,000
100%	52%	100%	52%	EGP 3,238,500,000	323,850,000
100%	100%	100%	100%	GBP 5,769,822	5,769,822
100%	52%	100%	52%	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 49,675,352	49,675,352
90%	90%	90%	90%	OMR 150,000	150,000
100%	100%	100%	100%	OMR 20,000	20,000
100%	100%	100%	100%	EUR 138,429,563	138,429,563
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%	Nil	Nil	-	-

# Share Price and Shareholder Information

## Almarai shareholdings

As of 31 December 2018, Almarai had 49,076 shareholders. Corporate investors represent 65.8% of the total share ownership, while individual investors represent 34.2%. There are 37 shareholders owning one million or more shares in Almarai, representing 90.3% of the issued shares. The following tables provide an overview of Almarai's investors:

Almarai Investors According to Nature of investor	31-Dec-18		
	Percentage of Ownership	Number of Investors	Number of Shares
Corporate investor	65.8%	303	657,566,659
Individual investor	34.2%	48,773	342,433,341
<b>Total</b>	<b>100.0%</b>	<b>49,076</b>	<b>1,000,000,000</b>

Almarai Investor According to Nationality	31-Dec-18		
	Percentage of Ownership	Number of Investors	Number of Shares
Saudi	97.0%	48,548	970,080,770
Other nationalities	3.0%	528	29,919,230
<b>Total</b>	<b>100.0%</b>	<b>49,076</b>	<b>1,000,000,000</b>

Investor According to Investor Type	31-Dec-18	
	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	23.6%	8
Other individuals	10.5%	48,772
Mutual funds	2.5%	110
Companies	2.0%	92
Swap agreements	1.1%	38
Other corporate	2.0%	54
<b>Total</b>	<b>100.0%</b>	<b>49,076</b>

Almarai Investors According to Size of Ownership	31-Dec-18	
	Percentage of Ownership	Number of Investors
Million shares and more	90.3%	37
From 500 thousand to less than a million	1.3%	20
From 100 thousand to less than 500 thousand	2.7%	138
From 50 thousand to less than 100 thousand	0.7%	105
From 10 thousand to less than 50 thousand	1.7%	819
From 5 thousand to less than 10 thousand	0.5%	793
From 1 thousand to less than 5 thousand	1.5%	8,774
Less than one thousand shares	1.2%	38,390
<b>Total</b>	<b>100.0%</b>	<b>49,076</b>

### Ownership notification

According to Article 45 of the Listing Rules issued by the Capital Market Authority (CMA), during 2018, Almarai received no new notifications of new ownership percentage of more than 5.0% of the shares issued to the Company. The following table outlines ownership of 5.0% or more of the issued shares:

Ownership of 5.0% 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%
Total	745,408,252	75.0%	745,408,252	75.0%

Number of Company's Requests of Shareholders Records	Date of Request	Reason for the Request
1	2 January 2018	Periodic Reports
2	4 February 2018	Periodic Reports
3	5 March 2018	Periodic Reports
4	2 April 2018	Periodic Reports
5	2 April 2018	Periodic Reports
6	11 April 2018	Dividends Distribution
7	6 May 2018	Periodic Reports
8	4 June 2018	Periodic Reports
9	4 June 2018	Periodic Reports
10	3 July 2018	Periodic Reports
11	5 August 2018	Periodic Reports
12	4 September 2018	Periodic Reports
13	8 October 2018	Periodic Reports
14	10 October 2018	Periodic Reports
15	11 October 2018	Periodic Reports
16	11 October 2018	Periodic Reports
17	14 November 2018	Periodic Reports
18	5 December 2018	Periodic Reports

Share data performance (SAR)

Share price 31 December 2018	Share price 1 year ago	Share price 3 years ago	52-week high	52-week low	Change from 2017-2018
<b>48.00</b>	<b>53.75</b>	<b>46.94</b>	<b>62.80</b>	<b>40.80</b>	<b>-12.3%</b>

Almarai share price performance during the year of 2018





# Main Transactions, Investments and Other Events

## Approval of the five year strategic plan for 2019-2023

In 2018 the Company completed its first 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 2019-2023, which is the initial step towards Almarai 2025. The review of the plan has confirmed that the infrastructure, in terms of processes, people and systems, is in place to enable the Company to face the future challenges and meet its long term ambition. Each of the seven 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 2019-2023 is planned to reach SAR 10.6 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; 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.

The investment programme will be financed by Operating Cash Flow and will take advantage of financing available from banks, the Saudi Industrial Development Fund (SIDF), the Agricultural Development Fund (ADF) and Sukuk programme.

## Discontinuation of arable operations

Almarai reached full compliance with the terms of the Ministerial Council Resolution 66 dated 25 Safer 1440H (corresponding to 7 December 2015) to cease the local production of green forage for areas above 50 hectares as of 3 November 2018. In line with the regulatory requirement, 100% of the supply of all forage is now procured from outside KSA, to support its Dairy and Poultry businesses. These imports originate from different locations, including the United States of America, Argentina, Spain and Eastern Europe, from selected third party suppliers or from Company operated farms. The total investments made in these countries for this purpose amounts to approximately USD 500 million over the period 2014-2018.

## Acquisitions

Almarai acquired, on 2 April 2018, for a total consideration of SAR 20 million, 14.0% of the share capital of Pure Breed Company from various shareholders. Almarai now controls 55.9% of the share capital of Pure Breed. Pure Breed's main operations are focused on poultry grandparent farming and its acquisition will add to Almarai's ongoing efforts to further streamline, integrate and strengthen its Poultry supply chain. This transaction was fully financed from Almarai's Operating Cash Flow.

## Disposal of businesses

On 31 December 2018 Almarai completed the sale of all its shares in United Farmers Holding Company (UFHC), which represent 33.0% of the paid-up capital, to Saudi Agricultural and Livestock Investment Company (SALIC). SALIC, one in the founding partners of UFHC, acquired this stake of UFHC for an aggregate amount of USD 28 million equivalent to SAR 105 million, after obtaining all the necessary regulatory and legal approvals.

## Capital Expenditure (CAPEX)

CAPEX incurred in 2018 was SAR 2.0 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.
- Sales Depot, Poultry and Logistics expansion accounted for approximately SAR 0.5 billion.
- Replacement and other CAPEX including IDJ accounted for approximately another SAR 0.6 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 2018 was another year of positive cash flow generation for Almarai, recording over SAR 1.2 billion in free cash flows.

#### Share based payment transactions

Employees of the Group receive remuneration in the form of equity settled share based payments under the employee stock option program (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 2019

#### Subject of Announcement\*

7 April 2019	The Extraordinary General Assembly meeting will be held to approve amendments to Almarai's Bylaws, the Board of Directors' report and the Financial Statements for 2018, as well as other subjects
18 April 2019	Maturity and distribution of profits to shareholders for the financial year 2018
7-11 April 2019	Announcement of the Interim Consolidated Financial Results for Q1 2019
19 May 2019	Ordinary General Assembly Meeting for the nomination of Board of Directors
7-11 July 2019	Announcement of the Interim Consolidated Financial Results for Q2 2019
6-10 October 2019	Announcement of the Interim Consolidated Financial Results for Q3 2019

\* 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) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are 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 2018 and Annual Consolidated Financial Statements for the year ended 31 December 2018 in accordance with IFRS as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by SOCPA. PricewaterhouseCoopers (PwC) was appointed as Almarai's independent auditors

after the Audit Committee recommended PwC to the Board of Directors as the preferred candidate to audit the Company's accounts for the fiscal year 2018 and Q1 2019. The Board of Directors requested the approval of the nomination of PwC and its fees during the General Assembly Meeting in March 2018, at which time the appointment was approved. After auditing the Consolidated Financial Statements for the year ended 31 December 2018, 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 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS, which 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% 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 profits 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% 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% 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 semi-annual 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 36.6% payout ratio for the five year period from 2014 to 2018. 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 16,159 million since it was listed on the Tadawul, in the form of cash dividends and bonus shares. Cash dividends amounted to approximately SAR 7,059 million, representing 43.7% 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% acquisition of Hail Agricultural Development Company (HADCO) at a nominal value of SAR 60 million.

## Dividends paid compared to Net Income

Year	Net Income (SAR million)	Dividend (SAR million)	Percentage	Capital (million shares)	Amount per 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
<b>2018</b>	<b>2,009</b>	<b>850</b>	<b>42.3%</b>	<b>1,000</b>	<b>0.85</b>
<b>Total</b>	<b>18,755</b>	<b>7,059</b>	<b>37.6%</b>		

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

## Dividend Dates

Year	Announcement Date	Due Date	Distribution Date	Amount per Share (SAR)	Distribution 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
<b>2018</b>	<b>10-Dec-18</b>	<b>7-Apr-18</b>	<b>18-Apr-19</b>	<b>0.85</b>	<b>Account transfer</b>

## Distribution in the form of granting bonus shares

Year	Share Capital (SAR million)	Nominal Value of Bonus (SAR million)	Share Capital After Bonus (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
<b>2018</b>	<b>1,000,000</b>	-	-	-	-
Total		9,100			

## Dates of bonus shares and other capital changes

Year	Announcement Date	Issue Type	Due Date	Previous Capital (SAR million)	New Capital (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
<b>2018</b>	-	-	-	-	-

With regard to cash dividends for 2018, the Board of Directors proposes to the General Assembly a dividend of SAR 850 million, representing 42.3% 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 2018

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 2018, with a brief description and related reason.

Statutory organization	Description	Reason	2018	2017
Saudi Customs	Amounts paid or charged as customs fees on imports and exports	Government requirement	97.2	107.4
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	172.8	65.7
General Organization for Social Insurance	Amounts paid or charged as social insurance expenses, in accordance with Saudi Labor Law	Government requirement	138.1	134.4
Other Statutory Organizations	Amounts paid or charged according to various other laws	Other government requirements	231.3	86.9
Total			639.4	394.4

## Penalties and sanctions

Almarai was not charged any penalties or sanctions during 2018 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 Corporate Governance Regulations. 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 & 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.

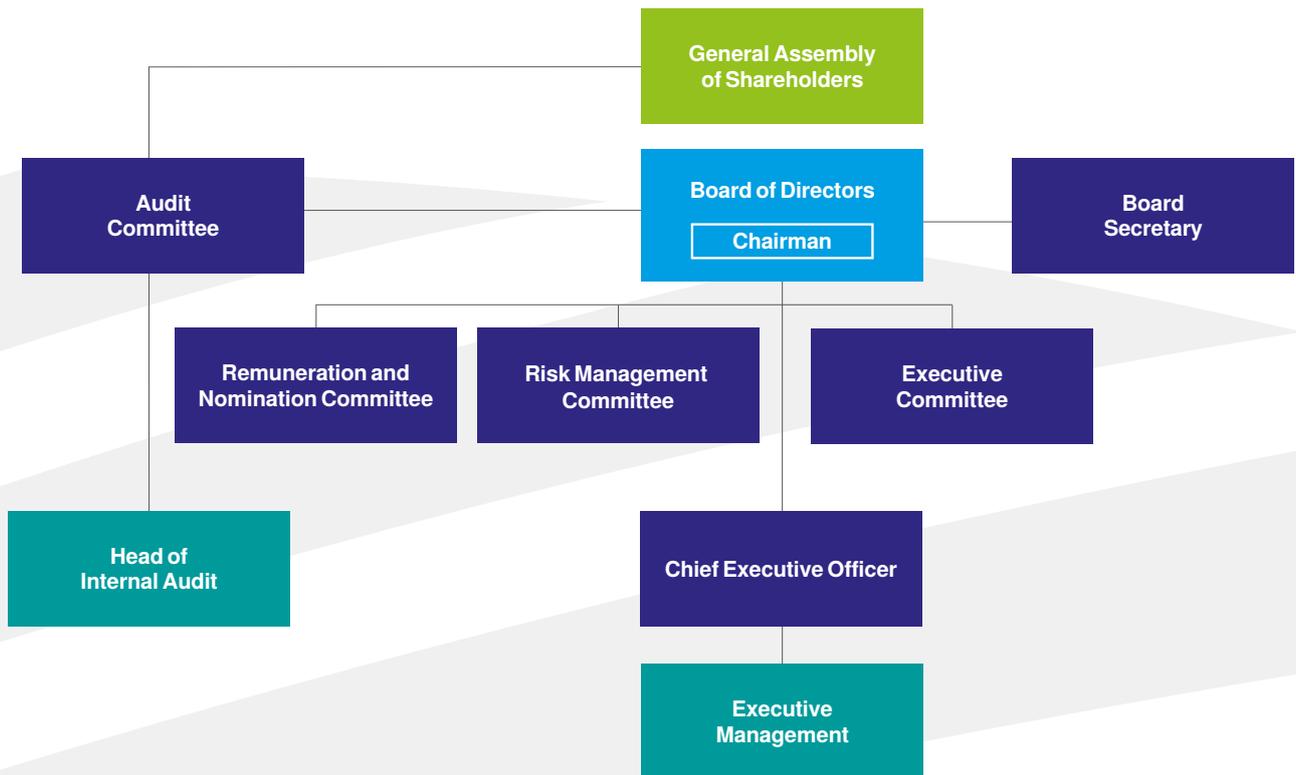
# Rights of Shareholders and the General Assembly

Almarai's Articles of Association / 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 Articles of Association / 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 Articles of Association / 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 Articles of Association / 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 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 2018, 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 2018.

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 Unlisted	Yamamah Cement Company, Arabian Shield Cooperative Insurance Company
Mr. Suliman bin Abdulkader Al Muhaideb (a representative of Savola Group)	Vice Chairman	Non-Executive	Listed Unlisted	The Saudi British Bank, National Industrialization Company (TASNEE), Savola Group Al Muhaideb Group, Rafal Real Estate Company
Mr. Abdulrahman bin Abdulaziz Al Muhanna	Board Member	Non-Executive	Listed Unlisted	- 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 Unlisted	Red Sea Housing Services Company, Fitaihi Holding Group
HH Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer	Board Member	Non-Executive	Listed Unlisted	Yamamah Cement Company, Mobile Telecommunication Company Saudi Arabia (Zain KSA) Faraby Al Khaleef Petrochemical Company, Kuwaiti Chinese Holding Company, Tarabot for Investment and Development Company
Engr. Mosa bin Omran Al Omran	Board Member	Independent	Listed Unlisted	Banque Saudi Fransi
Dr. Abdulrahman bin Suliman Al Turaigi*	Board Member	Independent	Listed Unlisted	- Gulf Industrial Development Company
Mr. Bader bin Abdullah Al Issa (a representative of Savola Group)	Board Member	Non-Executive	Listed Unlisted	Savola Group, Banque Saudi Fransi, Dur Hospitality Company Assila Investment Company, Afia International Company, Panda Retail Company, United Sugar Company
Engr. Rayan bin Mohammed Fayez** (a representative of Savola Group)	Board Member	Non-Executive	Listed Unlisted	Knowledge Economic City, Herfy Food Services Co. Saudi Stock Exchange (Tadawul), J. P. Morgan Saudi Arabia, Hassana Investment Company, Panda Retail Company, Savola Foods Company, Kinan Company
Engr. Anees bin Ahmed Moumina (a representative of Savola Group)	Board Member	Non-Executive	Listed Unlisted	The National Commercial Bank (NCB), Herfy Foods Company, Knowledge Economic City Company (KEC) Savola Food Company, Panda Retail Company, Kinan International for Real Estate Development

\*Dr. Turaigi has been appointed as Board Secretary since 7 August 2016.

\*\* Membership ended on 4 March 2018.

# Regular Meetings of the Board of Directors during 2018

Member Name	Meetings					Attendance Rate
	First	Second	Third	Fourth	Fifth	
	5-Feb	9-Apr	23-May	1-Oct	10-Dec	
HH Prince Sultan bin Mohammed bin Saud Al Kabeer	Attended	x	Attended	Attended	Attended	80%
HH Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer	x	Attended	Attended	Attended	Attended	80%
Mr. Abdulrahman bin Abdulaziz Al Muhanna	Attended	Attended	Attended	Attended	Attended	100%
Mr. Suliman bin Abdulkader Al Muhaideb (a representative of Savola Group)	Attended	Attended	Attended	Attended	Attended	100%
Engr. Mosa bin Omran Al Omran	Attended	Attended	Attended	Attended	Attended	100%
Dr. Ibrahim bin Hassan Al Madhoun	Attended	Attended	Attended	Attended	Attended	100%
Mr. Bader bin Abdullah Al Issa (a representative of Savola Group)	Attended	Attended	Attended	Attended	Attended	100%
Dr. Abdulrahman bin Suliman Al Turaigi	Attended	Attended	Attended	Attended	Attended	100%
Engr. Rayan bin Mohammed Fayez* (a representative of Savola Group)	Attended	x	x	x	x	100%
Engr. Anees bin Ahmed Moumina** (a representative of Savola Group)	x	Attended	Attended	Attended	Attended	100%

\* Membership ended on 4 March 2018

\*\* Appointment effective from 4 March 2018, confirmed by the General Assembly Resolution on 9 April 2018.

## Shareholders General Assembly meetings during 2018

Name	Attendance Records	
	Extraordinary General Assembly on 09 April 2019	
1 HH Prince Sultan bin Mohammed bin Saud Al Kabeer	Absent	
2 HH Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer	Attended	
3 Mr. Abdulrahman bin Abdulaziz Al Muhanna	Attended	
4 Mr. Suliman bin Abdulkader Al Muhaideb (a representative of Savola Group)	Attended	
5 Engr. Mosa bin Omran Al Omran	Absent	
6 Dr. Ibrahim bin Hassan Al Madhoun	Attended	
7 Mr. Bader bin Abdullah Al Issa (a representative of Savola Group)	Attended	
8 Dr. Abdulrahman bin Suliman Al Turaigi	Attended	
9 Engr. Rayan bin Mohammed Fayez* (a representative of Savola Group)	-	
10 Engr. Anees bin Ahmed Moumina** (a representative of Savola Group)	Attended	

\* Resigned prior to the General Assembly Meeting

\*\* Appointed at the General Assembly Meeting

During 2018, in addition to its regular meetings, listed above, the Board of Directors met on two occasions, on May 12 and 22 May, to interview the incoming candidates for the CEO position.

# Ownership of Board Members, Spouses & Minors

The following tables illustrate shares held by Members of the Board of Directors, their spouses and minors, and any changes that occurred during 2018. None of them have any interest in debt instruments issued by Almarai

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 (January 2018)	Closing Balance (December 2018)	Percentage Change
HH Prince Sultan bin Mohammed bin Saud Al Kabeer	Personal ownership	236,956,536	236,956,536	0.0%
HH Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer	Personal ownership	8,695,651	8,695,651	0.0%
Mr. Abdulrahman bin Abdulaziz Al Muhanna	Personal ownership	1,001,250	1,000	-99.9%
Mr. Suliman Abdulkader Al Muhaideb (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%
Engr. Anees bin Ahmed Mourmina* (a representative of the Savola Group)	Personal ownership	-	-	-
	Savola Group ownership	345,218,236	345,218,236	0.0%
Mr. Bader bin Abdullah Al Issa (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%
Engr. Mosa bin Omran Al Omran	Personal ownership	1,490,320	1,490,320	0.0%
Dr. Ibrahim bin Hassan Al Madhoun	Personal ownership	10,000	10,000	0.0%
Dr. Abdulrahman bin Suliman Al Turaigi	Personal ownership	1,291	1,291	0.0%
Engr. Rayan bin Mohammed Fayez** (a representative of the Savola Group)	Personal ownership	0	0	0.0%
	Savola Group ownership	0	0	0.0%

\* Appointment effective from 4 March 2018, confirmed by the General Assembly Resolution on 9 April 2018.

\*\* Membership ended on 4 March 2018.

## Ownership of Spouses and Minors

Name	Shares Ownership		
	Opening Balance (January 2018)	Closing Balance (December 2018)	Percentage Change
Wife of HH Prince Sultan bin Mohammed bin Saud Al Kabeer	6,086,955	6,086,955	0.0%

# 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 2018. 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 (January 2018)	Closing Balance (December 2018)	Percentage Change
Georges P. Schorderet	75,000	158,334	111.1%
Abdullah Mohammed Abdulaziz Abdulkarim	0	0	-
Abdullah Nasser Bader Al Bader	260	260	-
Andrew Mackie	24,000	24,000	-
Faisal Marzouk Al Fahadi	0	0	-
Fawaz Aljasser	0	0	-
Hussam Abdulqader	0	0	-
Jack Castelein*	0	0	-
Larus Asgeirsson	0	5,802	n/a
Majed Nofal	0	0	-
Malcolm Jordan	0	0	-
Niall Mackay	0	0	-
Omar Mohammed Salem	0	0	-
Paul-Louis Gay	0	0	-
Polys Partelides	0	0	-
Richard Salisbury	0	0	-
Sjur Fitje	0	0	-
Thamer Almuheid*	0	0	-
Thomas Trimble	0	0	-

\*Resigned during 2018.

# Details of Paid Compensation & 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

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.

	Fixed remuneration (SAR)					Total
	Specific amount	Allowance for attending Board meetings	Allowance for attending committee meetings	In-kind benefits	Remunerations for technical managerial and consultative work	
Non-Executive and Independent Directors						
HH Prince Sultan bin Mohammed bin Saud Al Kabeer		18,000	0			518,000
HH Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer		15,000	6,000			21,000
Mr. Abdulrahman bin Abdulaziz Al Muhanna		21,000	12,000		2,000,000	2,033,000
Mr. Suliman bin Abdulkader Al Muhaideb (a representative of Savola Group)		21,000	0			21,000
Mr. Bader bin Abdullah Al Issa (a representative of Savola Group)		21,000	3000			24,000
Dr. Abdulrahman bin Suliman Al Turaigi		41,000	37,000			178,000
Engr. Rayan bin Mohammed Fayez (a representative of Savola Group)		7,000	7000			14,000
Engr. Anees bin Ahmed Mومina (a representative of Savola Group)		31,000	9000			40,000
Engr. Mosa bin Omran Mohammed Al Omran		38,000	16,000			54,000
Dr. Ibrahim bin Hassan Al Madhoun		38,000	28,000			66,000
Executive Directors						
None	-	-	-	-	-	-
<b>Total</b>	-	251,000	118,000	-	2,000,000	2,969,000

## Paid to five top Senior Executives 2018\* (including CEO and CFO)

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

	Fixed remuneration (SAR)			Total
	Basic salary	Allowances	In-Kind benefits	
2018	7,003,009	1,208,000	942,722	9,153,731
2017	7,746,087	528,000	1,531,206	9,805,293

## Variable remuneration (SAR)

Percentage of the profits	Periodic remunerations (as per the prior approval of 2016 General Assembly Meeting)	Short term incentive plans	Long term incentive plans	Granted shares	Total	End-of-service award	Aggregate amount
	200,000				200,000		718,000
	200,000				200,000		221,000
	200,000				200,000		2,233,000
	200,000				200,000		221,000
	200,000				200,000		224,000
	200,000				-		-
	200,000				200,000		378,000
	200,000				200,000		214,000
	-				-		40,000
	200,000				200,000		254,000
	200,000				200,000		266,000
-	-	-	-	-	-	-	-
-	1,800,000	-	-	-	1,800,000	-	4,769,000

## Variable remuneration (SAR)

Periodic remunerations	Profits	STI	LTI	Granted shares	Total	End of Service Benefits	Board remuneration	Aggregate amount
0	0	11,784,345	0	659,200	12,443,545	8,690,455	272,000	30,559,731
0	0	12,215,100	0	3,009,112	15,224,212	591,012	275,000	25,895,517

**Committees****Executive Committee**

	Fixed remuneration (except for the allowance for attending Board meetings) (SAR)	Allowance for attending the meetings (SAR)	Total (SAR)
HH Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer	200,000	6,000	206,000
Prince Saud bin Sultan bin Mohammed bin Saud Al Kabeer	200,000	6,000	206,000
Mr. Abdulrahman bin Abdulaziz Al Muhanna (chairman)	200,000	12,000	212,000
Engr. Rayan bin Mohammed Fayez	200,000	7,000	207,000
Engr. Anees bin Ahmed Moumina	0	9,000	9,000
Engr. Mosa bin Omran Al Omran	200,000	16,000	216,000
Dr. Ibrahim bin Hassan Al Madhoun	200,000	16,000	216,000
Chris Ledwidge	200,000	112,000	312,000
Georges P. Schorderet	200,000	12,000	212,000
<b>Total</b>	<b>1,600,000</b>	<b>196,000</b>	<b>1,796,000</b>

**Remuneration and Compensation Committee**

	Fixed remuneration (except for the allowance for attending Board meetings) (SAR)	Allowance for attending the meetings (SAR)	Total (SAR)
HH Prince Sultan bin Mohammed bin Saud Al Kabeer	60,000	0	60,000
Engr. Mosa bin Omran Al Omran (chairman)	60,000	0	60,000
Mr. Abdulrahman bin Abdulaziz Al Muhanna	60,000	0	60,000
Mr. Bader bin Abdullah Al Issa	60,000	0	60,000
Georges P. Schorederet(secretary)	60,000	0	60,000
<b>Total</b>	<b>300,000</b>	<b>0</b>	<b>300,000</b>

## Risk Committee

	Fixed remuneration (except for the allowance for attending Board meetings) (SAR)	Allowance for attending the meetings (SAR)	Total (SAR)
Mr. Bader bin Abdullah Al Issa	37,500	3,000	40,500
Jason Day	37,500	9,000	46,500
Vanessa Eastham Fisk	37,500	9,000	46,500
Paul-Louis Gay (secretary)	25,000	1,000	26,000
Total	137,500	22,000	159,500

## Audit Committee

	Fixed remuneration (except for the allowance for attending Board meetings) (SAR)	Allowance for attending the meetings (SAR)	Total (SAR)
Dr. Abdulrahman bin Suliman Al Turaigi (chairman)	150,000	37,000	187,000
Dr. Muhammad bin Hassan Ikhwan	150,000	35,000	185,000
Dr. Ibraqhim bin Hassan Al Madhoun	150,000	12,000	162,000
Farraj bin Mansour Abo Thenian	150,000	21,000	171,000
Sulaiman bin Nasser Alhatlan	150,000	21,000	171,000
Talha Sidameh (secretary)	100,000	7,000	107,000
Total	850,000	133,000	983,000

# 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 / form 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. HH joined Almarai in a role within the marketing department following two years of working at Banque Saudi Fransi. HH graduated from the Business Administration College at King Fahad University of Petroleum and Minerals.

### **Chris 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 Ledwidge has worked continuously in Saudi Arabia for the past thirty five years.

He held executive positions with Almarai Company as CFO from 1984 to 1986 and as CEO from 1987 to 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 Vice President of Internal Audit, Risk Management and Compliance with Abu Dhabi National Oil Company (ADNOC). His responsibility is 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. Prior to his current position, Jason was the Director of Risk and Compliance with S&P Global based in London, UK, where he provided enterprise

risk management and compliance services. Jason is attended university in the UK, achieving a Bachelor's degree in Computer Science 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 & 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 & 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. Prior to joining Maalem Financing and Maharah Human Resources Company, Sulaiman was the 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.

##### **Talha Sidahmed,** Audit Committee Secretary

Talha Sidahmed currently serves as Senior Legal Counsel of Almarai Co providing legal advice to the Board of Directors and Executive Management on a variety of business matters. Prior to joining Almarai, Talha was the Legal Advisor at Saudi Basic Industries Corporation (SABIC), a diversified manufacturing company active in petrochemicals. 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 graduated with a Bachelor of Arts degree in English Language & Literature from Um Durman Islamic University Sudan, and, completed a Bachelor of Law degree and a Master of Law degree from Al- Neelain University.

# 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 2018

During 2018, 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
		First	Second	Third	Fourth	
		2-Feb	23-May	30-Sep	9-Dec	
HH Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer	Member	x	Attended	Attended	x	50%
Mr. Abdulrahman bin Abdulaziz Al Muhanna	Chairman	Attended	Attended	Attended	Attended	100%
HH Prince Saud bin Sultan bin Mohammed bin Saud Al Kabeer	Member	x	x	Attended	Attended	50%
Dr. Ibrahim bin Hassan Al Madhoun	Member	Attended	Attended	Attended	Attended	100%
Engr. Mosa bin Omran Al Omran	Member	Attended	Attended	Attended	Attended	100%
Engr. Rayan bin Mohammed Fayez**	Member	Attended	x	x	x	100%
Engr. Anees bin Ahmed Moumina*	Member	x	Attended	Attended	Attended	100%
Mr. Christopher Ledwidge	Member	Attended	Attended	Attended	Attended	100%
Georges P. Schorederet	Member	Attended	Attended	Attended	Attended	100%

\* Appointment effective from 4 March 2018, confirmed by the General Assembly Resolution on 9 April 2018.

\*\* Membership ended on 4 March 2018.

# Remuneration & Nomination Committee

The Board formed this committee for a period of three years starting from 7 August 2016. 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 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 2018

During 2018, the Remuneration and Nomination Committee held four meetings. The following table illustrates the names, positions and attendance of Committee members.

Member Name	Position	Meetings					Attendance Rate
		First 5 February	Second 9 April	Third 23 May	Fourth 1 October	Fifth 10 December	
HH Prince Sultan bin Mohammed bin Saud Al Kabeer	Member	Attended	X	Attended	Attended	Attended	80%
Mr. Abdulrahman bin Abdulaziz Al Muhanna	Member	Attended	Attended	Attended	Attended	Attended	100%
Engr. Mosa bin Omran Al Omran*	Chairman	Attended	Attended	Attended	Attended	Attended	100%
Georges P. Schorederet**	Member	Attended	Attended	Attended	Attended	Attended	100%
Mr. Bader bin Abdullah Al Issa	Member	Attended	Attended	Attended	Attended	Attended	100%

\*Appointed as Remuneration and Nomination Committee Chairman with effect from 9 October 2017.

\*\* Appointed as Remuneration and Nomination Committee Secretary with effect from 9 October 2017.

# 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 are 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 2018, the Audit Committee held seven meetings. The following table illustrates the names, positions and attendance of the Committee members.

#### Audit Committee Meetings during 2018

Member Name	Position	Meetings							Attendance Rate
		First 4 Feb	Second 8 Apr	Third 23 May	Fourth 5 Jul	Fifth 30 Sep	Sixth 4-Oct	Seventh 9-Dec	
Dr. Abdulrahman bin Suliman Al Turaigi	Chairman	Attended	Attended	Attended	Attended	Attended	Attended	Attended	100%
Muhammad bin Hassan Ikhwan	Member	Attended	Attended	Attended	Attended	Attended	Attended	Attended	100%
Dr. Ibrahim bin Hassan Al Madhoun	Member	Attended	Attended	X	X	Attended	Attended	Attended	71%
Farraj bin Mansour Abo Thenian	Member	Attended	Attended	Attended	Attended	Attended	Attended	Attended	100%
Sulaiman bin Nasser Alhatlan (specialist in accounting and auditing)	Member	Attended	Attended	Attended	Attended	Attended	Attended	Attended	100%

\*Talha Sidahmed has been appointed secretary as of 5 October 2016.

# 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 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. Such 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 their 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 2018:

- 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 Board formed this committee on 1 October 2018.

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 2018

During 2018, the Risk Management Committee held one meeting. The following table illustrates the names, positions and attendance of Committee members.

Member Name	Position	Meetings		Attendance Rate
		First	6-Dec	
Mr. Bader bin Abdullah Al Issa	Chairman	Attended		100%
Vanessa Fisk	Member	Attended		100%
Jason Day	Member	Attended		100%

\* Paul-Louis Gay has been appointed secretary as of 6 December 2018.

# 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 2018, Almarai carried out the following significant transactions with related parties on an arm's-length basis.

Nature of Transaction	Transaction Amount		Balance at 31 December	
	2018 SAR '000	2017 SAR '000	2018 SAR '000	2017 SAR '000
<b>Sales To</b>				
Panda Retail Company	701,888	640,247	141,855	182,733
Herfy Food Services	6,095	5,894	558	534
	<b>707,983</b>	<b>646,141</b>	<b>142,413</b>	<b>183,267</b>
<b>Services To:</b>				
Al Kabeer Farms	864	864	-	-
United Farmers Holding Company	116	-	-	1,735
	<b>980</b>	<b>864</b>	<b>-</b>	<b>1,735</b>
<b>Subtotal</b>	<b>708,963</b>	<b>647,005</b>	<b>142,413</b>	<b>185,002</b>
<b>Purchases From:</b>				
United Sugar Company	79,315	106,313	(5,773)	(6,633)
Afia International Company	-	8	-	-
Al Nafoura Catering	325	393	(78)	(28)
Al Kabeer Farms – Forage	63,739	55,626	(36,828)	(19,416)
Arab Company for Agricultural Services (ARASCO)	2,327	4,228	(512)	(573)
	<b>145,706</b>	<b>166,568</b>	<b>(43,191)</b>	<b>(26,650)</b>
<b>Services From:</b>				
Arabian Shield Cooperative Insurance Company	120,498	115,181	(62,003)	(92)
Todhia Farm	813	813	-	-
Abdulrahman bin Abdulaziz Al Muhanna (Land Rent)	173	173	-	-
Mobile Telecommunication Company Saudi Arabia	1,418	839	-	-
Al Jazirah Corporation for Press, Printing and Publishing	59	139	-	-
	<b>122,961</b>	<b>117,145</b>	<b>(62,003)</b>	<b>(92)</b>
<b>Subtotal</b>	<b>268,667</b>	<b>283,713</b>	<b>(105,194)</b>	<b>(26,742)</b>
<b>Payment of Sukuk Finance Charges</b>				
Yamama Cement Company	365	1,581	-	(373)
Saudi British Bank	14,688	14,940	(4,683)	(3,825)
Banque Saudi Fransi	5,280	14,855	(1,656)	(3,764)
Arabian Shield Cooperative Insurance Company	101	98	(36)	(29)
National Commercial Bank	11,267	16,510	(3,821)	(4,548)
	<b>31,701</b>	<b>47,984</b>	<b>(10,196)</b>	<b>(12,539)</b>
<b>Bank Financing</b>				
Saudi British Bank	48,581	35,935	1,346,621	1,242,095
J.P. Morgan Saudi Arabia Limited	2,484	5,398	-	-
Banque Saudi Fransi	8,940	9,873	393,000	210,000
National Commercial Bank	15,993	19,553	446,429	507,142
	<b>75,998</b>	<b>70,759</b>	<b>2,186,050</b>	<b>1,452,095</b>

## Dealings during the year 2018

The following significant related party transactions during 2018 require approval from the General Assembly.

Member	Nature of Dealing	Amount SAR '000	Period	Conditions
<b>Chairman / HH Prince Sultan bin Mohammed bin Saud Al Kabeer</b>				
Al Kabeer Farms	Management contract	864	One year	Commercial condition prevailing in the market
Al Kabeer Farms – Forage	Procurement feed	63,739	One year	Commercial condition prevailing in the market
Rental Thodhia farm – Dairy	Lease contract	813	One year	Commercial condition prevailing in the market
Al Nafoura Catering	Catering services	325	One year	Commercial condition prevailing in the market
Arabian Shield Cooperative Insurance Company	Insurance	120,498	2018	Commercial condition prevailing in the market
Arabian Shield Cooperative Insurance Company*	Invest in instruments	3,000	2012-2019	Commercial condition prevailing in the market
Arabian Shield Cooperative Insurance Company	Payment of sukuk finance charges	101	2018	Commercial condition prevailing in the market
<b>Chairman / HH Prince Sultan bin Mohammed bin Saud Al Kabeer and HH Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer</b>				
Yamama Cement Company	Payment of sukuk finance charges	365	2018	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	1,418	2018	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	59	One year	Commercial condition prevailing in the market
Arab Company for Agricultural Services (ARASCO)	Procurement feed	2,327	One year	Commercial condition prevailing in the market
<b>Savola Group</b>				
Panda Retail Company	Product sales	701,888	One year	Commercial condition prevailing in the market
United Sugar Company	Sugar purchasing	79,315	One year	Commercial condition prevailing in the market
<b>Engr. Anees bin Ahmed Moumina</b>				
National Commercial Bank	Financial services	15,993	One year	Commercial condition prevailing in the market
National Commercial Bank*	Bank financing	446,429	2018-2024	Commercial condition prevailing in the market
Herfy Food Services	Product sales	6,095	One year	Commercial condition prevailing in the market
National Commercial Bank*	Invest in instruments	125,000	2012-2019	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
National Commercial Bank	Payment of sukuk finance charges	11,267	2018	Commercial condition prevailing in the market
<b>Engr. Rayan bin Mohammed Fayez</b>				
J.P. Morgan Saudi Arabia Limited	Financial services	2,484	2018	Commercial condition prevailing in the market
J.P. Morgan Saudi Arabia Limited	Bank financing	-		Commercial condition prevailing in the market
<b>Mr. Suliman bin Abdulkader Al Muhaideb</b>				
Saudi British Bank	Bank services	48,581	One year	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	110,000	2015-2022	Commercial condition prevailing in the market
Saudi British Bank*	Invest in instruments	148,000	2012-2019	Commercial condition prevailing in the market
Saudi British Bank*	Bank financing	1,346,621	2016-2027	Commercial condition prevailing in the market
Saudi British Bank	Payment of sukuk finance charges	14,688	2018	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 services	8,940	One year	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
Banque Saudi Fransi *	Bank financing	393,000	2016-2019	Commercial condition prevailing in the market
Banque Saudi Fransi	Payment of sukuk finance charges	5,280	2018	Commercial condition prevailing in the market

\* As of 31 December 2018.

# Disclosure & 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 world 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 2018 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 2018, 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 2018
- 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 2018
- 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 2018 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 2018, we are pleased to attach the Consolidated Financial Statements with the Auditors' Report. We recommend that the General Assembly approve the Directors' Report, the Consolidated Financial Statements and the Auditors' Report. The place and time of the General Assembly Meeting and any other items on the agenda will be announced at a later date.

# A Resilient Financial Performance for 2018

## Financial performance

Consolidated Profit Attributable to Shareholders amounted to SAR 2,009 million, decreasing by 7.9% compared to 2017. Excluding the 2018 one-off items, the decrease in profit attributable to Shareholders would have been limited to 1.6% compared to 2017. A decrease in top-line growth of 1.5% was driven primarily by a decline in export sales, demographic pressures impacting consumer spending, a wider contraction in the market and an increase in product promotions. This stimulated sales volumes accounting for the year-on-year decrease in profit. Free Cash Flow decreased by 6.6% to reach SAR 1,217 million for the year, as compared with SAR 1,304 million in 2017. EBITDA for 2018 stood at SAR 3,869 million, at a margin of 28.2%, compared with SAR 3,921 million at a margin of 28.1% in the previous year.

Gross Profit of SAR 5,445 million decreased by 2.5%, attributable mainly to a decline in revenue despite lower cost of sales, improved cost management, stable commodity prices and improved production efficiencies – which were achieved in spite of higher alfalfa costs. Selling and Distribution Expenses decreased by SAR 12 million or 0.5%, despite higher general marketing expenses and trade support, which were offset by improved efficiencies in logistics and distribution. General and Administration Expenses decreased by 5.2% to reach SAR 376 million, as a result of ongoing efficiency programmes.

Financing Costs increased by SAR 6 million, reflecting deteriorating market conditions and the stability of a relative high net debt level, as well as the Q4 2018 reported refinancing costs of the Perpetual Sukuk. The Exchange Gain was SAR 22 million higher than in 2017, due to favorable foreign exchange (FX) hedge rates and favorable currency movements, particularly the Euro.

## Segmental results

The Fresh Dairy and Juice product categories have been affected the most during the year by this disappointing environment. In this challenging situation, Long Life Dairy has benefited from ample supply and active promotion activities to grow during 2018, at the expense of the Company margin. The Bakery category also grew during the year but its profit performance has been affected by

significant marketing efforts to support new products launches.

2018 was a year of strong profitable growth in the Poultry category and the year where the Infant Nutrition category achieved break-even at operating profit level.

## Geographic sales

Saudi Arabia, at 67% value share of Almarai sales at country level, still accounts for the majority of the sales of the Company. The UAE remained the second-largest market for Almarai representing 10% of its total sales. During 2018, the only growing markets have been Egypt up 19.5%, where the business recovery after the previous year devaluations is taking place, Bahrain with a strong growth of 6.1% and Oman with 1.3%, mainly driven by the re-entry into the bakery segment in this market. All the other markets saw a decline in top line sales during 2018, as a result of the difficult GCC market environment, with a decline of 0.5% in KSA mainly in the Fresh Dairy, Juice and Bakery categories.

## Cash flow and Balance Sheet

The Company delivered a Net Cash Generated from Operating Activities of SAR 3,558 million, a decrease of 22.9% from 2017, mainly because of the increase in forage inventory resulting from the change in sourcing.

The Net Cash used in Investing Activities reached SAR 2,340 million for 2018, a decrease of SAR 970 million from 2017 mostly because of the reduction in CAPEX investments reflecting the end of the current investment cycle.

The positive Free Cash Flow for 2018 amounted to SAR 1,217 million, which was SAR 86 million below 2017 level as the cash savings from reduced CAPEX for the year were offset by higher investment in farming alfalfa inventory. However, the continued positive Free Cash Flow for the second year in a row greatly assisted in repayment of an ordinary Sukuk tranche in the amount of SAR 513 million in Q1 2018 and a Perpetual Sukuk of SAR 1,700 million in Q3 2018. The repayment of these Sukuk tranches were partly funded from Almarai Free Cash Flow as well as from drawing down an additional SAR 477 million from available banking lines.

### Managing risk

In the course of the year, the maturity profile of the existing debt facilities reduced from 4.4 years to 4.2 years, mostly because of the repayments made during the year. The Company continued to benefit from favorable long term interest rate curves. In anticipation of an interest rate increase, interest exposure was actively managed to deliver strong and positive results. During 2018, Almarai continued to monitor closely high inflation countries such as Argentina through a close and constructive collaboration between local and corporate finance teams to mitigate the impact of currency devaluation on its cash flow.

The Company continued to develop 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 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 2018 the overall leverage of the Company reached 3.0x Net Debt to EBITDA, within the strategic limit set by the Board of Directors. The Net Debt to Equity Ratio reached 87% at the end of 2018, below the 100% target. The strategic direction remains to de-lever the company

towards a Net Debt to EBITDA ratio of 2.5. This objective should be achieved thanks to reducing capital investment requirements and securing long term, reliable, diversified and efficient sources of funding.

### Existing financing

Almarai continued to enjoy a good credit standing with various government and nongovernment financial and lending institutions, as well as fixed-income investors. This favorable position results from Almarai's predictable positive operating cash flows and its clear strategy for sustainable growth.

Existing financing amounted to SAR 13,662 million at the end of 2018, 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 2,316 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.

### Financing at end of year 2018 (SAR million)

Source of Financing	Amount of Core Funding	Financing Period	Payment Method	Start of Year	Additions During the Year	Paid During the Year	End of Year	Maturity Date
Banks and Financial Institutions (Islamic Banking Facilities)	12,708	1 to 10 years	Quarterly, semi-annual and annual	5,839	9,148	(7,789)	7,198	2019 to 2027
Banking Facilities of Foreign Subsidiaries	789	1 to 7 years	Quarterly, semi-annual and annual	462	-	(124)	339	2019 to 2023
Banking facility of GCC Subsidiaries	150	1 Year	Annual	150	-	-	150	2019
Saudi Industrial Development Fund	2,339	1 to 11 years	Semi-annual	1,734	716	(303)	2,147	2019 to 2028
IFC (Member of World Bank)	557	1 to 9 Years	Semi-annual	278	-	(3)	275	2019 to 2026
Agricultural Development Fund	169	12 years	Annual	188	-	(19)	169	2019 to 2027
Sukuk - First Tranche	1,000	7 years	Lump sum	1,000	-	-	1,000	2019 to 2019
Sukuk - Second Tranche - 1	787	7 years	Lump sum	787	-	-	787	2019 to 2020
Sukuk - Second Tranche - 2	-	5 years	Lump sum	513	-	(513)	-	2018
Sukuk - Third Tranche	1,597	7 years	Lump sum	1,595	-	2	1,597	2019 to 2022
<b>Total</b>	<b>20,096</b>			<b>12,547</b>	<b>9,864</b>	<b>(8,748)</b>	<b>13,662</b>	

**Classification of funding (SAR million)**

Classification	2018 (SAR million)	2017 (SAR million)
Short Term Loans	26	183
Current Portion of Long-Term Loans	1,985	1,821
Loans - Current Liabilities	2,010	2,003
Loans - Non-Current Liabilities	11,652	10,543
<b>Total</b>	<b>13,662</b>	<b>12,547</b>

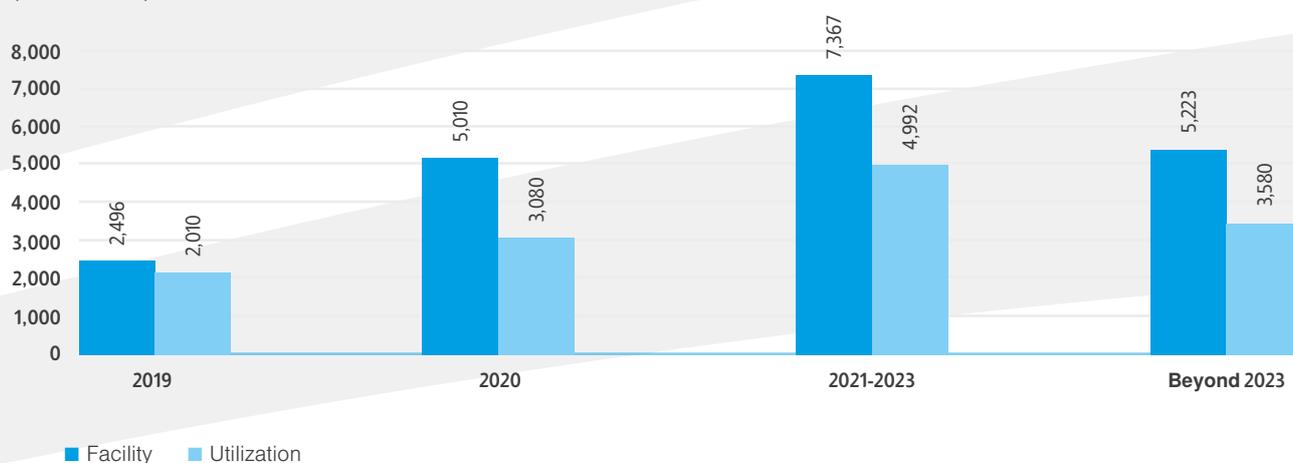
**Maturity of Funding (SAR million)**

Maturity	2018 (SAR million)	2017 (SAR million)
Less than one year	2,010	2,003
One to two years	3,080	2,332
Two to five years	4,992	5,578
Greater than five years	3,580	2,633
<b>Total</b>	<b>13,662</b>	<b>12,547</b>

**Potential financing**

Due to the continuing need to finance Almarai's 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 6,434 million at the end of 2018.

**Facilities and Utilization**  
(SAR million)



A man wearing a white thobe and ghutra is seated at a desk in an office, focused on his work. He is using a laptop and has a calculator open in front of him. The background shows other office workers and a modern office environment with wooden paneling and blue accents. The text 'FINANCIAL STATEMENTS' is overlaid in large, bold, blue letters across the center of the image.

# FINANCIAL STATEMENTS

# Independent auditors' 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 2018, 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 2018;
- 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 15 "Revenue from contracts with customers"
- Implementation of IFRS 9 "Financial instruments"

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.

### 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
<h4>Carrying value of goodwill</h4> <p>At 31 December 2018, the Group had goodwill which arose on past business combinations amounting to Saudi Riyals 934 million (2017: Saudi Riyals 935 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 the CGU by determining a recoverable amount based on value-in-use of each CGU based on a discounted cash flow model, which utilized the most recent five-year business plan prepared by the Group's management. The outcome of this exercise did not result in any impairment loss to be recognized.</p>	<p>We assessed 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 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 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>Engaged our valuation experts to assist in the review of the methodology of the value-in-use calculations and use of certain assumptions including discount rates and long term growth rates; and</li> <li>Performed sensitivity analyses over key assumptions, principally sales growth rate, terminal value multiple and discount rates, in order to assess the potential impact of a range of possible outcomes.</li> </ul>

# Independent auditors' report to the shareholders of Almarai Company continued

## Report on the audit of the consolidated financial statements

### Key audit matter

We considered impairment testing of goodwill performed by management as 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 were:

- (a) assumptions concerning the expected economic conditions, especially growth in the markets in which the Group primarily operates;
- (b) assumptions of the impact of the actions of the Group's main competitors on expected revenue and gross margin assumptions; and
- (c) discount rate used in the value-in-use cash flow model.

[Refer to Note 5.9 for the accounting policy and Note 8 for the related disclosure in the accompanying consolidated financial statements.](#)

### How our audit addressed the key audit matter

We also reviewed the adequacy of the Group's disclosure included in Note 8 to the accompanying consolidated financial statements in relation to testing goodwill impairment.

### Key audit matter

#### Carrying value of biological assets

As indicated in Note 9 to the consolidated financial statements, the carrying value of biological assets at 31 December 2018 amounted to Saudi Riyals 1,465 million (2017: Saudi Riyals 1,371 million). This includes Saudi Riyals 1,290 million (2017: Saudi Riyals 1,229 million) relating to the dairy herd.

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.

### How our audit addressed the key audit matter

We performed the following procedures in relation to the carrying value of the dairy herd:

- 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
- Assessed management's assertion that Level I and Level 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

## Key audit matter

We considered this a key audit matter as the determination that fair values can not 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 2018.

[Refer to Note 5.8 for the accounting policy and Note 9 for the related disclosure in the accompanying consolidated financial statements.](#)

## How our audit addressed the key audit matter

- Considered management's assertion that a Level III approach would result in a fair value that was clearly unreliable by reviewing the support for such an assertion and comparing it to our understanding of the business.

We also reviewed the adequacy of the Group's disclosures included in Note 6.1 and Note 9 to the accompanying consolidated financial statements in relation to biological assets.

## Key audit matter

### Implementation of IFRS 15 "Revenue from contracts with customers"

The Group adopted IFRS 15 "Revenue from contracts with customers" with effect from 1 January 2018 and this new standard supersedes the requirements of IAS 18 "Revenue".

Management performed a detailed analysis of each type of revenue 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 process and controls required particularly in connection with the separation of different performance obligations that there may be within a given contract.

Management also assessed the additional disclosures required to be made by the new standard in the consolidated financial statements.

We considered this a key audit matter as revenue is a key financial statement item and performance metric and the application of IFRS 15 can require judgment by management and the use of significant assumptions.

## How our audit addressed the key audit matter

We performed the following procedures in relation to the implementation of IFRS 15:

- Reviewed management's detailed analysis of its various revenue streams and how the new accounting standard impacts the Group;
- Gained an understanding of management's approach to the implementation of any changes to the accounting policy;
- Obtained an understanding of the nature of revenue contracts used by the Group for each significant revenue stream, tested a sample of representative sales contracts to confirm our understanding and assess whether or not management's application of IFRS 15 requirements was in accordance with the accounting standard;
- Tested relevant processes and controls established by management to ensure appropriate recognition of revenue;
- Consulted with our accounting technical specialists on certain judgmental positions taken by management. In respect of the accounting for the separation of different performance obligations, we considered generally accepted accounting practise outside the Kingdom of Saudi Arabia.

# Independent auditors' report to the shareholders of Almarai Company continued

## Report on the audit of the consolidated financial statements

### Key audit matter

Refer to Note 5.1.1 which explains the impact of the adoption of the new standard and Note 31 for the related disclosure in the accompanying consolidated financial statements.

### How our audit addressed the key audit matter

We also reviewed the adequacy of the Group's disclosures included in Note 5.1.1 and Note 31 to the accompanying consolidated financial statements in relation to the implementation of the new accounting standard.

### Key audit matter

#### Implementation of IFRS 9 "Financial instruments"

The Group adopted IFRS 9 "Financial instruments" with effect from 1 January 2018 and this new standard supersedes the requirements of IAS 39 "Financial instruments – recognition and measurement".

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. Management has determined that the most significant impact of the new standard on the Group's financial statements relates to the calculation of the allowance for the impairment of trade receivables.

As at 31 December 2018 the carrying value of trade receivables amounted to Saudi Riyals 1,180.5 million (2017: Saudi Riyals 1,132.7 million) and the allowance for impairment of trade receivables amounted to Saudi Riyals 57.3 million (2017: Saudi Riyals 76.8 million).

The Group assesses at each reporting date whether the financial assets carried at amortised cost are credit-impaired. The Group's management has applied a simplified expected credit loss ("ECL") model to determine the allowance for impairment of trade receivables. The ECL model involves the use of various assumptions, macroeconomic factors and study of historical trends relating to the Group's trade receivables collections experience.

### How our audit addressed the key audit matter

We performed the following procedures in relation to the implementation of IFRS 9:

- Reviewed management's assessment of the impact of IFRS 9 in terms of the classification and measurement of its financial assets and liabilities, and understood the approach taken towards implementation. We specifically considered the validity of management's conclusion that the main area of impact was in respect of trade receivables impairment, using our experience and knowledge of similar entities;
- Compared the ECL model developed by management to that required by IFRS 9 and reviewed the reasonableness of the methodology in comparison to accepted best practice. We also tested the arithmetical accuracy of the model;
- Tested key assumptions, such as those used to calculate the likelihood of default and the subsequent loss on default, by comparing to historical data. We also considered the incorporation of forward-looking factors (predominantly economic) to reflect the impact of future events on expected credit losses;
- Involved our accounting subject matter specialists to review the methodology used in the ECL model; and compared this against accepted best practice.

## Key audit matter

We considered this a key audit matter due to the judgements and estimates involved in the application of the expected credit loss model.

Refer to Note 5.1.2 which explains the impact of the adoption of the new accounting standard, Note 5.1.3 for the accounting policy and Note 36.2 for the related disclosure in the accompanying consolidated financial statements.

## How our audit addressed the key audit matter

We also reviewed the adequacy of the Group's disclosures included in Note 5.1.2 and Note 36 to the accompanying 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 auditors' report thereon), which is expected to be made available to us after the date of this auditors' 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.

# Independent auditors' report to the shareholders of Almarai Company continued

## Report on the audit of the consolidated financial statements

### 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 auditors' 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:

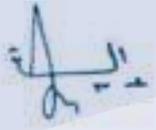
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of 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 auditors' 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 auditors' 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 auditors' 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



20 January 2019

## Consolidated Statement of Financial Position as at 31 December 2018

	Notes	As at 31 December	
		2018 SAR '000	2017 SAR '000
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, Plant and Equipment	7	22,606,542	22,401,692
Intangible Assets and Goodwill	8	1,038,371	1,046,607
Biological Assets	9	1,366,566	1,283,342
Investments in Associates and joint venture	10	204	129,429
Equity Investment	10	102,624	90,711
Prepayments	13	67,059	74,558
Deferred Tax Assets	22	11,488	39,926
Derivative Financial Instruments	35	19,747	16,808
		<b>25,212,601</b>	<b>25,083,073</b>
<b>Current Assets</b>			
Inventories	12	3,874,193	3,121,903
Biological Assets	9	98,439	87,321
Trade Receivables, Prepayments and Other Receivables	13	1,929,949	1,702,375
Derivative Financial Instruments	35	20,336	9,480
Cash and Bank Balances	14	1,182,902	1,891,697
		<b>7,105,819</b>	<b>6,812,776</b>
<b>TOTAL ASSETS</b>		<b>32,318,420</b>	<b>31,895,849</b>
<b>EQUITY</b>			
Share Capital	15	10,000,000	10,000,000
Statutory Reserve		2,049,304	1,848,418
Treasury Shares	16	(593,567)	(453,156)
Other Reserves	17	(520,500)	(609,135)
Retained Earnings		2,991,559	1,998,246
<b>Equity Attributable to Shareholders</b>		<b>13,926,796</b>	<b>12,784,373</b>
Perpetual Sukuk	18	-	1,700,000
<b>Equity Attributable to Equity Holders of the Company</b>		<b>13,926,796</b>	<b>14,484,373</b>
Non-Controlling Interests	19	589,194	396,867
<b>TOTAL EQUITY</b>		<b>14,515,990</b>	<b>14,881,240</b>
<b>Non-Current Liabilities</b>			
Long-Term Loans	20	11,651,970	10,543,125
Employee Retirement Benefits	21	699,325	621,536
Derivative Financial Instruments	35	7,101	30,779
Deferred Tax Liabilities	22	37,967	48,060
		<b>12,396,363</b>	<b>11,243,500</b>
<b>Current Liabilities</b>			
Bank Overdrafts	32	179,321	255,585
Short-Term Loans	20	2,010,294	2,003,403
Zakat and Income Tax Payable	23	316,064	272,906
Trade and Other Payables	24	2,874,066	3,227,490
Derivative Financial Instruments	35	26,322	11,725
		<b>5,406,067</b>	<b>5,771,109</b>
<b>TOTAL LIABILITIES</b>		<b>17,802,430</b>	<b>17,014,609</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>32,318,420</b>	<b>31,895,849</b>

The accompanying notes 1 to 40 form an integral part of these Consolidated Financial Statements. These Consolidated Financial Statements were authorised for issue by the Board of Directors, on behalf of the Shareholders, on 14 Jumada-Al-Awwal 1440 A.H. (20 January 2019) and signed on its behalf by:

**Paul-Louis Gay**  
Chief Financial Officer

**Georges P. Schorderet**  
Chief Executive Officer

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

## Consolidated Statement of Profit or Loss for the year ended 31 December 2018

	Notes	For the year ended 31 December	
		2018 SAR '000	2017 SAR '000
Revenue	31	13,722,797	13,935,532
Cost of Sales	25	(8,277,435)	(8,351,893)
<b>Gross Profit</b>		<b>5,445,362</b>	<b>5,583,639</b>
Selling and Distribution Expenses	26	(2,330,916)	(2,343,046)
General and Administration Expenses	27	(376,475)	(397,339)
Other Expenses, net	28	(301,299)	(211,071)
Impairment Reversal / (Loss) on Financial Assets		24,684	(48,833)
<b>Operating Profit</b>		<b>2,461,356</b>	<b>2,583,350</b>
Exchange Gain, net		29,524	7,094
Finance Cost, net	29	(407,747)	(401,254)
Share of Results of Associates and joint venture	10	(5,413)	13,018
<b>Profit before Zakat and Income Tax</b>		<b>2,077,720</b>	<b>2,202,208</b>
Zakat and Foreign Income Tax	22, 23	(70,498)	(42,245)
<b>Profit for the year</b>		<b>2,007,222</b>	<b>2,159,963</b>
<b>Profit / (Loss) for the year attributable to:</b>			
Shareholders of the Company		2,008,869	2,182,286
Non-Controlling Interests		(1,647)	(22,323)
		<b>2,007,222</b>	<b>2,159,963</b>
Earnings per Share (SAR), based on Profit for the year attributable to Shareholders of the Company			
- Basic	30	1.97	2.13
- Diluted	30	1.95	2.11

The accompanying notes 1 to 40 form an integral part of these Consolidated Financial Statements. These Consolidated Financial Statements were authorised for issue by the Board of Directors, on behalf of the Shareholders, on 14 Jumada-Al-Awwal 1440 A.H. (20 January 2019) and signed on its behalf by:

**Paul-Louis Gay**  
Chief Financial Officer

**Georges P. Schorderet**  
Chief Executive Officer

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

## Consolidated Statement of Comprehensive Income for the year ended 31 December 2018

	Notes	For the year ended 31 December	
		2018 SAR '000	2017 SAR '000
<b>Profit for the year</b>		<b>2,007,222</b>	2,159,963
<b>Items that will not be reclassified to profit or loss:</b>			
Actuarial (Loss) / Gain on End of Service Benefits	21	(18,686)	10,151
Change in the Fair Value of Equity Investment through FVOCI	10	11,913	-
Settlement of Cash Flow Hedges transferred to Inventory / PPE		(20,529)	(13,728)
<b>Items that are or may be reclassified subsequently to profit or loss:</b>			
Foreign Currency Translation Differences		(1,885)	(21,391)
Foreign Currency Translation Difference Due to Reclassification on Disposal of Investment in Associate		64,474	-
Movement in Fair Value on Cash Flow Hedges		39,652	128,475
Settlement of Cash Flow Hedges transferred to Profit or Loss		3,753	(2,590)
Change in Fair Value of Available for Sale Investment		-	(12,161)
Share of Other Comprehensive Income / (Loss) of Associates	10	567	(5,201)
Other Comprehensive Income for the year, net of Income Tax		79,259	83,555
<b>Total Comprehensive Income for the year</b>		<b>2,086,481</b>	2,243,518
<b>Total Comprehensive Income / (Loss) for the year attributable to:</b>			
Shareholders of the Company		2,089,978	2,256,849
Non-Controlling Interests		(3,497)	(13,331)
		<b>2,086,481</b>	2,243,518

The accompanying notes 1 to 40 form an integral part of these Consolidated Financial Statements. These Consolidated Financial Statements were authorised for issue by the Board of Directors, on behalf of the Shareholders, on 14 Jumada-Al-Awwal 1440 A.H. (20 January 2019) and signed on its behalf by:

**Paul-Louis Gay**  
Chief Financial Officer

**Georges P. Schorderet**  
Chief Executive Officer

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

## Consolidated Statement of Changes in Equity for the year ended 31 December 2018

	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 2017</b>	8,000,000	1,630,190	(378,994)	(711,996)	2,818,019	11,357,219	1,700,000	13,057,219	421,250	13,478,469
Profit / (Loss) for the year	-	-	-	-	2,182,286	2,182,286	-	2,182,286	(22,323)	2,159,963
Other Comprehensive Income for the year	-	-	-	64,412	10,151	74,563	-	74,563	8,992	83,555
Total Comprehensive Income / (Loss)	-	-	-	64,412	2,192,437	2,256,849	-	2,256,849	(13,331)	2,243,518
Transfer during the year	-	218,228	-	-	(218,228)	-	-	-	-	-
Directors' Remuneration	-	-	-	-	(2,840)	(2,840)	-	(2,840)	-	(2,840)
<b>Transactions with Owners in their Capacity as Owners</b>										
Dividend Declared SAR 0.90 per Share	-	-	-	-	(720,000)	(720,000)	-	(720,000)	-	(720,000)
Bonus Shares Issued 1 for 4 shares	2,000,000	-	-	-	(2,000,000)	-	-	-	-	-
Share-Based Payment Transactions	-	-	-	39,394	-	39,394	-	39,394	-	39,394
Settlement of Treasury Shares	-	-	1,371	-	-	1,371	-	1,371	-	1,371
Purchase of Treasury Shares	-	-	(75,533)	-	-	(75,533)	-	(75,533)	-	(75,533)
Profit on Perpetual Sukuk SAR 48,148 per Sukuk	-	-	-	71,142	(71,142)	-	-	-	-	-
Payment of Profit on Perpetual Sukuk	-	-	-	(72,087)	-	(72,087)	-	(72,087)	-	(72,087)
Transactions with Non-Controlling Interests	-	-	-	-	-	-	-	-	(11,052)	(11,052)
<b>Balance at 31 December 2017</b>	10,000,000	1,848,418	(453,156)	(609,135)	1,998,246	12,784,373	1,700,000	14,484,373	396,867	14,881,240
<b>Balance at 1 January 2018</b>	10,000,000	1,848,418	(453,156)	(609,135)	1,998,246	12,784,373	1,700,000	14,484,373	396,867	14,881,240
Profit / (Loss) for the year	-	-	-	-	2,008,869	2,008,869	-	2,008,869	(1,647)	2,007,222
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	1,990,183	2,089,978	-	2,089,978	(3,497)	2,086,481
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</b>	10,000,000	2,049,304	(593,567)	(520,500)	2,991,559	13,926,796	-	13,926,796	589,194	14,515,990

The accompanying notes 1 to 40 form an integral part of these Consolidated Financial Statements. These Consolidated Financial Statements were authorised for issue by the Board of Directors, on behalf of the Shareholders, on 14 Jumada-Al-Awwal 1440 A.H. (20 January 2019) and signed on its behalf by:

**Paul-Louis Gay**  
Chief Financial Officer

**Georges P. Schorderet**  
Chief Executive Officer

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

## Consolidated Statement of Cash Flows for the year ended 31 December 2018

	Notes	For the year ended 31 December	
		2018 SAR '000	2017 SAR '000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit for the year		2,007,222	2,159,963
Adjustments for:			
Depreciation of Property, Plant and Equipment	7	1,684,106	1,573,671
Amortisation of Intangible Assets	8	47,451	50,017
Depreciation of Biological Assets	9	313,838	295,927
Loss / (Gain) Arising from Changes in Fair Value less Cost to Sell of Crops	9	1,214	(977)
Provision for Employee Retirement Benefits		108,660	128,262
Share-Based Payment Expense		29,211	39,394
Exchange Gain, net		(29,524)	(7,094)
Finance Cost, net	29	407,747	401,254
Other Expenses, net	28	301,524	212,181
Share of Results of Associates and joint venture	10	5,413	(13,018)
Zakat and Foreign Income Tax	23	70,498	42,245
		4,947,360	4,881,825
Changes in:			
Inventories		858,754	1,083,062
Biological Assets		(1,614,754)	(1,197,326)
Trade Receivables, Prepayments and Other Receivables		(239,893)	(106,170)
Trade and Other Payables		(314,422)	35,566
Cash Used in Operating Activities		(1,310,315)	(184,868)
Employee Retirement Benefits Paid	21	(56,355)	(70,888)
Zakat and Foreign Income Tax Paid	23	(22,964)	(11,922)
<b>Net Cash Generated from Operating Activities</b>		<b>3,557,726</b>	<b>4,614,147</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment in Associates	10	-	(25,000)
Acquisition of Subsidiary, net of Cash Acquired	11	(3,872)	-
Proceeds from Sale of Investment in Associate	10	105,000	-
Dividend from Equity Investment	28	225	1,110
Additions to Property, Plant and Equipment		(1,918,833)	(2,797,282)
Proceeds from the Disposal of Property, Plant and Equipment		35,740	30,790
Additions to Intangible Assets	8	(39,797)	(52,927)
Additions to Biological Assets	9	(97,818)	(81,536)
Appreciation of Biological Assets		(639,089)	(582,895)
Proceeds from the Disposal of Biological Assets		200,239	197,274
Repayment of Loan – Associate	10	17,861	-
<b>Net Cash Used in Investing Activities</b>		<b>(2,340,344)</b>	<b>(3,310,466)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Increase in Loans, net		1,114,449	1,105,031
Finance Cost Paid		(420,625)	(467,977)
Dividend Paid		(747,846)	(717,905)
Purchase of Treasury Shares	16	(222,707)	(75,533)
Settlement of Treasury Shares		75,112	1,371
Transactions with Non-Controlling Interests		130,253	(11,052)
Payment of Profit on Perpetual Sukuk		(73,531)	(72,087)
Repayment of Perpetual Sukuk	18	(1,700,000)	-
Directors' Remuneration		(5,640)	(2,840)
<b>Net Cash Used in Financing Activities</b>		<b>(1,850,535)</b>	<b>(240,992)</b>
<b>Net Change in Cash and Cash Equivalents</b>		<b>(633,153)</b>	<b>1,062,689</b>
Cash and Cash Equivalents at 1 January		1,636,112	564,080
<b>Effect of Movements in Exchange Rates on Cash and Cash Equivalents</b>		<b>622</b>	<b>9,343</b>
<b>Cash and Cash Equivalents at 31 December</b>	32	<b>1,003,581</b>	<b>1,636,112</b>

The accompanying notes 1 to 40 form an integral part of these Consolidated Financial Statements. These Consolidated Financial Statements were authorised for issue by the Board of Directors, on behalf of the Shareholders, on 14 Jumada-Al-Awwal 1440 A.H. (20 January 2019) and signed on its behalf by:

Paul-Louis Gay  
Chief Financial Officer

Georges P. Schorderet  
Chief Executive Officer

Sultan bin Mohammed  
bin Saud Al Kabeer  
Chairman

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2018

### 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 shares in Saudi Arabia. It also operates in other Gulf Cooperation Council (GCC) countries, Egypt and Jordan.

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 joint venture with Chipita, in which the Company holds a controlling interest, under the brand names "L'usine" and "7DAYS", 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 centers by the Group's long haul distribution fleet. The distribution centres in Gulf Cooperation Council (GCC) countries are managed through subsidiaries (UAE, Oman and Bahrain) and Agency Agreement (Kuwait) as follows:

## Notes to the Consolidated Financial Statements continued for the year ended 31 December 2018

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

Almarai Emirates Company L.L.C.

#### **Oman**

Arabian Planets for Trading and Marketing L.L.C.

#### **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.

With effect from 31 December 2018, the Group terminated its agency agreement with Khalid Foodstuff and Trading Company in Qatar.

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

### **The United States of America**

Fondomonte Holdings North America L.L.C.

### **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 17 Rajab 1439 A.H. (2 April 2018) the Group, through its subsidiary Hail Agricultural Development Company (HADCO), increased its shareholding in Pure Breed Poultry Company (Pure Breed) from 41.9% to 55.9%. Pure Breed’s main operations are focused on poultry grandparent farming and its acquisition will add to the Group’s ongoing efforts to further streamline, integrate and strengthen its poultry supply chain.

After obtaining control on 17 Rajab 1439 A.H. (2 April 2018), HADCO further acquired 6.5% equity interest in Pure Breed on 20 Sha’aban 1439 (6 May 2018), thus resulting in increase in existing controlling interest from 55.9% to 62.4% (Refer note 11).

## Notes to the Consolidated Financial Statements continued for the year ended 31 December 2018

### 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	Saudi Arabia	Dormant
Almarai Construction Company	Saudi Arabia	Dormant
Almarai for Maintenance and Operation Company	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	Saudi Arabia	Dormant
International Baking Services Company Limited	Saudi Arabia	Dormant
International Pediatric Nutrition Company	Saudi Arabia	Dormant
Modern Food Industries Company Limited (MFI)	Saudi Arabia	Bakery Company
Nourlac Company	Saudi Arabia	Dormant
Western Bakeries Company Limited	Saudi Arabia	Bakery Company
Pure Breed Poultry Company (Refer note 11)	Saudi Arabia	Poultry 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 (IDJ Bermuda)	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 Namouthija 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

(a) Direct ownership means directly owned by the Company or any of its subsidiaries.

## Ownership Interest

2018		2017		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
62%	62%	42%	42%	SAR 46,500,000	465,000
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 2,893,750,000	289,375,000
100%	52%	100%	52%	EGP 3,238,500,000	323,850,000
100%	100%	100%	100%	GBP 5,769,822	5,769,822
100%	52%	100%	52%	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 49,675,352	49,675,352
90%	90%	90%	90%	OMR 150,000	150,000
100%	100%	100%	100%	OMR 20,000	20,000
100%	100%	100%	100%	EUR 138,429,563	138,429,563
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%	Nil	Nil	-	-

## Notes to the Consolidated Financial Statements continued for the year ended 31 December 2018

### 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").

As required by the Capital Market Authority (CMA) through its circular dated 16 October 2016 the Group needs to apply the cost model to measure the property, plant and equipment, investment property and intangible assets upon adopting the IFRS for three years period starting from the IFRS adoption date.

#### 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)

### 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 recognised in 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, as appropriate, the following new and amended IASB Standards, effective 1 January 2018.

#### 5.1.1. IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The Group recognizes revenue when a customer obtains controls of the goods at a point in time – i.e. on delivery and acknowledgement of goods, which is in line with the requirements of IFRS 15. Accordingly, there is no material effect of adopting 'IFRS 15 Revenue from Contracts with Customers' on the recognition of Revenue of the Group.

The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's sale of goods are set out below.

Type of Product	Nature, timing of satisfaction of performance obligations, significant payment terms	Nature of change in accounting policy
Consumer Products of Dairy, Poultry, Bakery, Baby Foods and other segments	<p>Customers obtain control of products when the goods are delivered to and have been accepted at their premises. Invoices are generated and revenue is recognised at that point in time. Credit invoices are usually payable within 30-60 days. Invoice is generated and recognised as revenue net off applicable discounts which relate to the items sold. No customer loyalty points are offered to customers and therefore there is no deferred revenue to be recognised for the items sold.</p> <p>For contracts that permit the customer to return an item, under IFRS 15 revenue is recognised to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Therefore, the amount of revenue recognised is adjusted for expected returns, which are estimated based on the historical data. Returned goods are not useable and scrapped by the Group and related liability is recorded in 'Other Payables' for cash sales and adjusted against 'Trade Receivables' in respect of credit sales.</p>	<p>Under IAS 18, revenue from contracts with customers was also recognised when the goods were delivered to and were accepted by the customers at their premises and a reasonable estimate of sales return could be made. However, estimated sales return was recognised under Cost of Sales, instead of netting off against Revenue, with a corresponding liability in 'Other Payables' for cash sales and a provision for sales return against 'Trade Receivables' for credit sales. The impact of this change is that revenue is decreased with the amount of expected sales return.</p>

## Notes to the Consolidated Financial Statements continued for the year ended 31 December 2018

### 5. SIGNIFICANT ACCOUNTING POLICIES continued

The Group has adopted IFRS 15 using the cumulative effect method, with the effect of applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for the previous year has not been restated, as previously reported, under IAS 18 and related interpretations.

The following table summarises the impact of adopting IFRS 15 on the Group's Consolidated Statement of Profit or Loss for the year ended 31 December 2018, for the relevant Financial Statement line items affected.

#### Impact on the Consolidated Statement of Profit or Loss

	As reported SAR '000	Adjustment SAR '000	Amounts without adoption of IFRS 15 SAR '000
Revenue	13,722,797	(18,260)	13,704,537
Cost of Sales	(8,277,435)	18,260	(8,259,175)
<b>Gross Profit</b>	<b>5,445,362</b>	-	<b>5,445,362</b>

#### 5.1.2. IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below.

##### a) Classification and measurement of financial assets and financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities and derivative financial instruments (for derivatives that are used as hedging instruments, see (c) below). The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at amortised cost; FVOCI – debt investment; FVOCI – equity investment; or fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model under which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an instrument-by-instrument basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss. See (c) below for derivatives designated as hedging instruments.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses (see (b) below). Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income is calculated using the effective interest method. Foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements, as described further below.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for the class of the Group's financial assets as at 1 January 2018.

	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 SAR '000	New carrying amount under IFRS 9 SAR '000
<b>Financial Assets</b>					
Equity Investment	i	Available for Sale	FVOCI - Equity Instrument	90,711	90,711
Trade Receivables	ii	Loans and Receivables	Amortized Cost	1,042,023	1,042,023
Cash and Bank Balances		Loans and Receivables	Amortized Cost	1,891,697	1,891,697
<b>Total</b>				<b>3,024,431</b>	<b>3,024,431</b>

## Notes to the Consolidated Financial Statements continued for the year ended 31 December 2018

### 5. SIGNIFICANT ACCOUNTING POLICIES continued

- i. These equity securities represent investments that the Group intends to hold for the long term for strategic purposes. As permitted by IFRS 9, the Group has designated these investments at the date of initial application as measured at FVOCI. Unlike IAS 39, the accumulated fair value reserve related to these investments will never be reclassified to profit or loss.
- ii. Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortised cost. An increase of SAR 12.6 million in the allowance for impairment over these receivables was not recognised in the opening Retained Earnings at 1 January 2018 on transition to IFRS 9 as the amount was not considered material.

#### b) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost and debt instruments measured at FVOCI but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

#### Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

#### Presentation of impairment

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Impairment losses related to trade receivables are presented separately in the Consolidated Statement of Profit or Loss. As a result, the Group reclassified impairment losses amounting to SAR 48.8 million, recognised under IAS 39, from 'Selling and Distribution Expense' to impairment loss on financial assets in the Consolidated Statement of Profit or Loss for the year ended 31 December 2017.

#### c) Hedge Accounting

IFRS 9 requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

All hedging relationships designated under IAS 39 at 31 December 2017 met the criteria for hedge accounting under IFRS 9 at 1 January 2018 and are therefore regarded as continuing hedging relationships.

Under IAS 39, for all cash flow hedges, the amounts accumulated in the cash flow hedge reserve were reclassified to profit or loss as a reclassification adjustment in the same period as the hedged expected cash flows affected profit or loss. However, under IFRS 9, for cash flow hedges of foreign currency risk associated with forecast inventory purchases, the amounts accumulated in the cash flow hedge reserve are instead included directly in the initial cost of the inventory item when it is recognised. The Group is already following the treatment recommended under IFRS 9 for cash flow hedges.

#### d) Transition

The Group has taken an exemption not to restate corresponding information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are not recognised in Retained Earnings as at 1 January 2018 as amount was not material. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

- The determination of the business model within which a financial asset is held
- The designation and revocation of previous designations of certain financial assets
- The designation of certain investments in equity instruments not held for trading as at FVOCI

## 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 2019 and earlier application is permitted; however, the Group has not early-adopted them in preparing these Consolidated Financial Statements.

### 5.2.1. 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 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes 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 recognition 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.

The Group will recognise new assets and liabilities for its operating leases of various types of contracts including warehouse and depot facilities, accommodation / office rental premises, etc. The nature of expenses related to those leases will now change because the Group will recognize a depreciation charge for right-of-use assets and interest expense on lease liabilities. Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

The Group is required to adopt IFRS 16 Leases from 1 January 2019. The Group has performed initial assessment during the year and assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as described below. The actual impacts of adopting the standard on 1 January 2019 may change at the time of final assessment.

The Group plans to apply IFRS 16 initially on 1 January 2018, using the full retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of Retained Earnings at 1 January 2018, with a restatement of comparative information.

## Notes to the Consolidated Financial Statements continued for the year ended 31 December 2018

### 5. SIGNIFICANT ACCOUNTING POLICIES continued

Adoption of full retrospective transition approach is expected to result in an increase in assets amounting to SAR 452 million, a corresponding increase in liabilities amounting to SAR 471 million as at 1 January 2018 with a total decrease in equity amounting to SAR 57 million. Adoption will also result in a reduction of operating expenses for the year ended 31 December 2018 of SAR 28 million and an increase in finance costs amounting to SAR 15 million.

No significant impact is expected for the Group's finance leases.

The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the Consolidated Financial Statements.

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2018 and identified as leases in accordance with IAS 17 and IFRIC 4.

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

- 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 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. The amendments are effective from 1 January 2019, with early application permitted, subject to EU endorsement

#### 5.4. Cash and Cash Equivalents

For the purposes of the 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.

#### 5.5. Inventories

Inventories are measured at the lower of cost and net realizable 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 realizable 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 recognised 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.

#### 5.6. 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 recognised 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 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 recognised 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 recognised.

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 recognised 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 recognised 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 recognised 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.

### 5.7. 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 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 recognised in the Consolidated Statement of Profit or Loss.

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group and the 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:

Buildings	5-35 years
Plant, Machinery and Equipment	1-20 years
Motor Vehicles	6-10 years
Bearer Plants	2-70 years

## Notes to the Consolidated Financial Statements continued for the year ended 31 December 2018

### 5. SIGNIFICANT ACCOUNTING POLICIES continued

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.

#### 5.8. 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

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

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 5.14 (b)). Any impairment loss for goodwill is recognised directly in the Consolidated Statement of Profit or Loss. An impairment loss recognised 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.

#### **5.10. Provisions**

A provision is recognised 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.

#### **5.11. 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.

#### **5.12. Deferred Tax**

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in Consolidated Financial Statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised 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 recognised 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 recognised if the temporary difference arises from the initial recognition of goodwill.

## Notes to the Consolidated Financial Statements continued for the year ended 31 December 2018

### 5. SIGNIFICANT ACCOUNTING POLICIES continued

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint venture, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised 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 realised, 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.

#### 5.13. Financial Instruments

##### 5.13.1. Non-Derivative Financial Instruments

###### a) Non-Derivative Financial Assets

From 1 January 2018, 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 recognised 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 recognised as a separate asset or liability.

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 realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets.

#### **Financial Assets at Amortized 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 recognised in the Consolidated Statement of Income when the asset is derecognised 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 recognised in the Consolidated Statement of Income. 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 derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to the Consolidated Statement of Income and recognised 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 recognised 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 realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised 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 comprises bank borrowings and trade and other payables.

#### **5.13.2. Derivative Financial Instruments and Hedge Accounting**

Derivatives are measured at fair value; any related transaction costs are recognised in the Consolidated Statement of Profit or Loss as incurred. Subsequent to initial recognition, any change in fair value is generally recognised in the Consolidated Statement of Profit or Loss.

## Notes to the Consolidated Financial Statements continued for the year ended 31 December 2018

### 5. SIGNIFICANT ACCOUNTING POLICIES continued

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in the Consolidated Statement of Other Comprehensive Income and accumulated in the hedging reserve shown within Other Reserves under equity.

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.

Hedge effectiveness is determined at the inception of the hedge relationship and periodically to ensure that an economic relationship exists between the hedged item and hedging instrument. The Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item. The Group performs a qualitative and quantitative assessment of effectiveness at each reporting date. The ineffective portion, if material, is recognized in Statement of Profit or Loss, within other gains / (losses).

At inception of the hedge relationship, the Group documents the economic relationship between hedging instruments and hedged items including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking its hedge transactions.

The fair values of derivative financial instruments designated in hedge relationships, including the movements in the hedging reserve in shareholders' equity, are disclosed in note 35. 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.

#### 5.14. 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 recognised 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 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 and 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 recognised 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 recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the Consolidated Statement of Profit or Loss.

**5.15. Employee Retirement Benefits**

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

The Group's obligation in respect of the 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.

The 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.

Remeasurement of defined benefit liability, which comprises actuarial gains and losses, are recognised immediately in the Consolidated Statement of Other Comprehensive Income. The Group determines interest expense on the

## Notes to the Consolidated Financial Statements continued for the year ended 31 December 2018

### 5. SIGNIFICANT ACCOUNTING POLICIES continued

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 recognised in the Consolidated Statement of Profit or Loss.

#### 5.16. Statutory Reserve

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

#### 5.17. 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. Sukuk having no fixed maturity date (Perpetual Sukuk) and no fixed date for payment of profit distribution is classified as equity. Distributions thereon are recognised in equity.

#### 5.18. Treasury Shares

Own equity instruments that are reacquired (Treasury Shares), for discharging obligations under the Employee Stock Option Programme (ESOP), are recognised 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 recognised 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 recognised in Retained Earnings.

#### 5.19. 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 a fixed number of Company shares (Option) at a predetermined price.

The cost of ESOP is recognised 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 service 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 recognised 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 recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised 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.

When the ESOP is terminated, it is treated as if the Options vested on the date of termination, and any expense not yet recognised for the award, is recognised 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.

### 5.20. 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 other comprehensive income as a separate component of equity.

### 5.21. 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 recognizes revenue when a customer obtains control 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 12-months period. Revenue from these sales is recognised 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 and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability (included in trade and other payables) is recognised 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 terms consistent with market practice.

### 5.22. Government Grants

The Group receives government grants on import of feeds for its biological assets. 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.

## Notes to the Consolidated Financial Statements continued for the year ended 31 December 2018

### 5. SIGNIFICANT ACCOUNTING POLICIES continued

#### 5.23. 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. The Group charges the payments, other than those related to volume-based rebates, made in respect of long term agreements with customers and distributors to Selling and Distribution Expenses.

#### 5.24. Leases

Assets held under leases that transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Group's Consolidated Statement of Financial Position. Rentals in respect of operating leases are charged to the Consolidated Statement of Profit or Loss over the term of the leases.

#### 5.25. Borrowings

Borrowings are initially recognised 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 recognised 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.

#### 5.26. 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 capitalized 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 recognised 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 capitalized 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 recognised in the Consolidated Statement of Profit or Loss in the period in which they are incurred.

### 5.27. 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 head, 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.

## 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 recognised 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, 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

## Notes to the Consolidated Financial Statements continued for the year ended 31 December 2018

### 6. USE OF JUDGEMENTS AND ESTIMATES continued

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 newborn 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 newborn 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 the following notes:

- Note 8: Goodwill – Annual impairment testing of goodwill
- Note 13: Trade receivables – Allowance for impairment of trade receivables
- Note 21: Measurement of employee retirement benefits obligations - key actuarial assumptions
- Note 12: Inventories – Allowance for slow moving inventories

## 7. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings SAR '000	Plant, Machinery and Equipment SAR '000	Motor Vehicles SAR '000	Capital Work in Progress SAR '000	Mature Plantations SAR '000	Immature Plantations SAR '000	Total SAR '000
<b>Cost</b>							
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)
<b>At 31 December 2018</b>	<b>13,112,184</b>	<b>14,156,377</b>	<b>2,701,397</b>	<b>3,349,095</b>	<b>223,727</b>	<b>26,448</b>	<b>33,569,228</b>
<b>Accumulated Depreciation and Impairment</b>							
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 28.1)	43,772	34,117	19,447	-	-	-	97,336
Currency Translation Difference	(115)	(1,157)	(127)	-	(1,806)	-	(3,205)
<b>At 31 December 2018</b>	<b>2,383,101</b>	<b>6,859,219</b>	<b>1,525,740</b>	<b>-</b>	<b>194,626</b>	<b>-</b>	<b>10,962,686</b>
<b>Net Book Value</b>							
<b>At 31 December 2018</b>	<b>10,729,083</b>	<b>7,297,158</b>	<b>1,175,657</b>	<b>3,349,095</b>	<b>29,101</b>	<b>26,448</b>	<b>22,606,542</b>

	Land and Buildings SAR '000	Plant, Machinery and Equipment SAR '000	Motor Vehicles SAR '000	Capital Work-in-Progress SAR '000	Mature Plantations SAR '000	Immature Plantations SAR '000	Total SAR '000
<b>Cost</b>							
At 1 January 2017	10,131,683	11,297,763	2,547,348	5,167,775	101,072	67,690	29,313,331
Additions during the year	-	-	-	2,855,388	1,370	68,658	2,925,416
Transfers during the year	1,884,556	1,738,248	145,378	(3,768,182)	84,780	(84,780)	-
Disposals during the year	(37,175)	(162,938)	(89,688)	-	(10,257)	-	(300,058)
Reclassification	27,645	(25,081)	(2,564)	-	-	-	-
Currency Translation Difference	(14,935)	(16,859)	(340)	7,334	(1,035)	(5)	(25,840)
<b>At 31 December 2017</b>	<b>11,991,774</b>	<b>12,831,133</b>	<b>2,600,134</b>	<b>4,262,315</b>	<b>175,930</b>	<b>51,563</b>	<b>31,912,849</b>
<b>Accumulated Depreciation and Impairment</b>							
At 1 January 2017	1,669,108	5,270,102	1,176,362	-	53,166	-	8,168,738
Depreciation for the year	329,002	917,429	255,704	-	71,536	-	1,573,671
Disposals during the year	(21,859)	(150,356)	(72,353)	-	(10,257)	-	(254,825)
Reclassification	619	(167)	(452)	-	-	-	-
Impairment of Assets (Ref 28.1)	28,158	9,053	-	-	-	-	37,211
Currency Translation Difference	(6,594)	(5,476)	(1,188)	-	(380)	-	(13,638)
<b>At 31 December 2017</b>	<b>1,998,434</b>	<b>6,040,585</b>	<b>1,358,073</b>	<b>-</b>	<b>114,065</b>	<b>-</b>	<b>9,511,157</b>
<b>Net Book Value</b>							
<b>At 31 December 2017</b>	<b>9,993,340</b>	<b>6,790,548</b>	<b>1,242,061</b>	<b>4,262,315</b>	<b>61,865</b>	<b>51,563</b>	<b>22,401,692</b>

## Notes to the Consolidated Financial Statements continued for the year ended 31 December 2018

### 7. PROPERTY, PLANT AND EQUIPMENT continued

7.1 Capital Work in Progress includes SAR 42.4 million of borrowing costs capitalized during the year (2017: SAR 73.8 million).

7.2 Refer note 20 for information on property, plant and equipment pledged as security by the Group.

### 8. INTANGIBLE ASSETS AND GOODWILL

	2018 SAR '000	2017 SAR '000
Software Licenses (Refer 8.1)	104,036	111,719
Goodwill (Refer 8.2)	934,335	934,888
	<b>1,038,371</b>	<b>1,046,607</b>

#### 8.1 Software Licenses

	Software Licenses SAR '000	Software Licenses in Progress* SAR '000	Total SAR '000
<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>			
As 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>
<b>Cost</b>			
At 1 January 2017	170,020	34,753	204,773
Additions during the year	-	52,927	52,927
Transfers during the year	58,400	(58,400)	-
Disposals during the year	(30,930)	-	(30,930)
Currency Translation Difference	301	(570)	(269)
<b>At 31 December 2017</b>	<b>197,791</b>	<b>28,710</b>	<b>226,501</b>
<b>Accumulated Amortisation</b>			
At 1 January 2017	95,399	-	95,399
Amortisation for the year	50,017	-	50,017
Disposals during the year	(30,930)	-	(30,930)
Currency Translation Difference	296	-	296
<b>At 31 December 2017</b>	<b>114,782</b>	<b>-</b>	<b>114,782</b>
<b>Net Book Value</b>			
<b>At 31 December 2017</b>	<b>83,009</b>	<b>28,710</b>	<b>111,719</b>

\*Software licenses in progress include certain software under installation.

## 8.2 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 SAR '000	HADCO SAR '000	IDJ SAR '000	Total SAR '000
<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>
<b>Cost</b>				
At 1 January 2017	548,636	244,832	465,440	1,258,908
Currency Translation Difference	-	-	4,162	4,162
<b>At 31 December 2017</b>	<b>548,636</b>	<b>244,832</b>	<b>469,602</b>	<b>1,263,070</b>
<b>Accumulated Impairment</b>				
At 1 January 2017	-	-	328,182	328,182
<b>At 31 December 2017</b>	<b>-</b>	<b>-</b>	<b>328,182</b>	<b>328,182</b>
<b>Net Carrying Value</b>				
<b>At 31 December 2017</b>	<b>548,636</b>	<b>244,832</b>	<b>141,420</b>	<b>934,888</b>

Western Bakeries Company Limited forms part of the Bakery Products reporting segment, HADCO represents part of both the Arable and Horticulture reporting segment and the Poultry reporting segment while IDJ falls under the Dairy and Juice reporting segment.

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 7.4% and 21.7% as relevant for each CGU and the residual value at the end of the forecast period has been calculated by applying an earnings multiple to the Net Income for the final year in the forecast period.

The calculation of value in use is most sensitive to the assumptions on sales growth rate and cost of sales used to extrapolate cash flows beyond the budget period of five years, as well as the factors used in computing terminal value. Terminal value is calculated using earnings multiple / Gordon Growth Model for the final year of the forecast period.

### 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 2018

### 8. 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 5.5%. If all other assumptions kept the same, a reduction of this growth rate by 84.2% would give a value in use equal to the current carrying amount.

#### (b) Cost of Sales

The Cost of Sales in the forecast period has been estimated at an average of 57.5% of sales. If all other assumptions kept the same, an increase in the rate by an average of 36.0% each year would give a value in use equal to the current carrying amount.

#### (c) Terminal Value Multiple

The implied EBITDA multiple of terminal value to final year EBITDA is 16.9. If all other assumptions kept the same, a reduction of this multiple to 3.7 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 6.1%. If all other assumptions kept the same, a reduction of this growth rate by 42.3% would give a value in use equal to the current carrying amount.

#### (b) Cost of Sales

The cost of sales in the forecast period has been estimated at an average of 68.5% of sales. If all other assumptions kept the same, an increase in the rate by an average of 17.3% each year would give a value in use equal to the current carrying amount.

#### (c) Terminal Value Multiple

The implied EBITDA multiple of terminal value to final year EBITDA is 14.8. If all other assumptions kept the same, a reduction of this multiple to 6.8 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 15.7%. If all other assumptions kept the same, a reduction of this growth rate by 25.9% would give a value in use equal to the current carrying amount.

#### (b) Cost of Sales

The cost of sales in the forecast period has been estimated at an average of 68.0% of sales. If all other assumptions

kept the same, an increase in the rate by an average of 9.1% each year would give a value in use equal to the current carrying amount.

**(c) Terminal Value Multiple**

The implied EBITDA multiple of terminal value to final year EBITDA is 11.9. If all other assumptions kept the same, a reduction of this multiple to 2.0 would give a value in use equal to the current carrying amount.

## Notes to the Consolidated Financial Statements continued for the year ended 31 December 2018

### 9. 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: At fair value based on adjusted market prices of standing crops according to the growth stage of the crops

	Dairy Herd SAR '000	Parent Poultry Birds SAR '000	Other Poultry SAR '000	Crops SAR '000	Total 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)
<b>At 31 December 2018</b>	<b>1,821,796</b>	<b>131,328</b>	<b>65,273</b>	<b>-</b>	<b>2,018,397</b>
<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)
Gain arising from changes in fair values 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 SAR '000	Parent Poultry Birds SAR '000	Other Poultry SAR '000	Crops SAR '000	Total SAR '000
<b>Cost</b>					
At 1 January 2017	1,726,766	82,494	55,598	-	1,864,858
Additions during the year*	582,992	81,439	974,063	-	1,638,494
Transfers to inventories	-	-	(979,929)	-	(979,929)
Disposals during the year	(554,476)	(80,399)	-	-	(634,875)
Currency Translation Difference	(14)	-	-	-	(14)
At 31 December 2017	1,755,268	83,534	49,732	-	1,888,534
<b>Accumulated Depreciation</b>					
At 1 January 2017	510,903	26,932	-	-	537,835
Depreciation for the year	216,724	79,203	-	-	295,927
Disposals during the year	(200,986)	(77,316)	-	-	(278,302)
At 31 December 2017	526,641	28,819	-	-	555,460
<b>Net Book Value</b>					
At 31 December 2017	1,228,627	54,715	49,732	-	1,333,074
<b>Measured at Fair Value</b>					
At 1 January 2017	-	-	-	40,844	40,844
Additions during the year	-	-	-	223,262	223,262
Transfers to inventories	-	-	-	(221,448)	(221,448)
Disposals during the year	-	-	-	(1,228)	(1,228)
Gain arising from changes in fair values less cost to sell	-	-	-	977	977
Currency Translation Difference	-	-	-	(4,818)	(4,818)
At 31 December 2017	-	-	-	37,589	37,589
<b>Carrying Amount</b>					
At 31 December 2017	-	-	-	37,589	37,589
<b>Biological Assets Classification</b>					
<b>At 31 December 2017</b>					
Biological assets classified as Non-Current Assets	1,228,627	54,715	-	-	1,283,342
Biological assets classified as Current Assets	-	-	49,732	37,589	87,321
	1,228,627	54,715	49,732	37,589	1,370,663

\*Additions include Biological Assets appreciation amounting to SAR 582.9 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.

## Notes to the Consolidated Financial Statements continued for the year ended 31 December 2018

### 9. BIOLOGICAL ASSETS continued

#### 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 North and South America, covering both own and sourced fodder production, to ensure continuous supply of fodder for its dairy herd.

##### b) Large-scale loss of biological assets due to disease/pandemic

Strong bio-security procedures, disease control and vaccination program in place along with screening and quarantine of incoming animals.

##### c) Severe operational disruption (fire, flood etc.)

An approved corporate Business Continuity Management Policy is in the place. Notification & escalation procedures for incidents are integrated within the business unit standard operating procedures. Corporate crisis management structure has been defined to coordinate response to major incidents. A comprehensive power supply strategy, fire safety strategy and equipment is in place. Trained fire marshals are appointed in majority of the locations. Weekly checks and monthly inspections of fire detection and suppression systems are carried out by fire marshals and fleet/ fire technicians. Fire drills are conducted every 6 months.

### 10. Investments

The investments comprise the following

	Nature	Principal Activity	Place of Incorporation	2018 %	2017 %	2018 SAR '000	2017 SAR '000
<b>Investments in Associates and joint venture (Refer note 10.1)</b>							
United Farmers Holding Company (Refer note 10.2)	Associate	Investments in Agricultural sector	Saudi Arabia	-	33.0%	-	63,588
Pure Breed Company (Refer note 10.3)	Associate	Poultry	Saudi Arabia	-	41.9%	-	65,637
Almarai Company W.L.L.	joint venture	Dormant	Qatar	50.0%	50.0%	204	204
						204	129,429
				2018 %	2017 %	2018 SAR '000	2017 SAR '000
<b>Equity Investment (Refer note 10.4)</b>							
Mobile Telecommunications Company Saudi Arabia ("Zain")				2.1%	2.1%	102,624	90,711

**10.1** The investments in associates and joint venture comprise the following:

	2018 SAR '000	2017 SAR '000
<b>United Farmers Holding Company</b>		
Opening balance	63,588	58,296
Repayment of loan	(17,861)	-
Share of Other Comprehensive Income / (Loss)	567	(5,201)
Share of results for the year	(714)	10,493
Disposal during the year (Refer note 10.2)	(45,580)	-
Closing balance	-	63,588
	2018 SAR '000	2017 SAR '000
<b>Pure Breed Company</b>		
Opening balance	65,637	38,112
Additions	-	25,000
Share of results for the year	(4,699)	2,525
Transfer to consolidated subsidiary, at fair value (Refer note 10.3)	(60,938)	-
Closing balance	-	65,637
	2018 SAR '000	2017 SAR '000
<b>Almarai Company W.L.L.</b>		
Opening balance	204	204
Closing balance	204	204

**10.2** On 31 December 2018, the Group completed the sale of its entire shareholding in United Farmers Holding Company (UFHC), to Saudi Agricultural and Livestock Investment Company (SALIC), one of the founding partners of UFHC, for an aggregate amount of USD 28 million equivalent to SAR 105 million, after obtaining all the necessary regulatory and legal approvals. The loss on disposal, after reclassifying the foreign currency translation reserve amounting to SAR 64.5 million, is presented in note 28.

**10.3** On 17 Rajab 1439 A.H. (2 April 2018), the Group, through its subsidiary Hail Agricultural Development Company, increased its shareholding in Pure Breed Poultry Company from 41.9% to 55.9%, resulting in the Group taking control of Pure Breed Poultry Company. The difference between carrying value and fair value of the associate was recognised in the Consolidated Statement of Profit or Loss. Accordingly, the Group has recognised a loss of SAR 3.4 million, which has been included in Share of Results of Associates and joint venture (Refer note 11).

**10.4** 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). As permitted by IFRS 9 and fully explained in note 5.1.2 a, the Group has designated this investment at initial application of IFRS 9 as equity investment at FVOCI and measured it at fair value. The fair valuation resulted in unrealized gain of SAR 11.9 million for the year ended 31 December 2018, which is presented within other comprehensive income.

The Company has pledged Zain shares to Banque Saudi Fransi (BSF) to secure the BSF loan to Zain KSA.

## Notes to the Consolidated Financial Statements continued for the year ended 31 December 2018

### 11. BUSINESS COMBINATION

As explained in note 10, the Group obtained control of Pure Breed on 17 Rajab 1439 A.H. (2 April 2018). Pure Breed's main operations are focused on poultry grand-parent farming and its acquisition will add to the Group's ongoing efforts to further streamline, integrate and strengthen its poultry supply chain.

These Consolidated Financial Statements include the results of Pure Breed from the date the control transferred to the Group. The acquired business contributed revenues of SAR 52.0 million and net loss of SAR 6.2 million to the Group from the period from 2 April 2018 to 31 December 2018. If the combination had taken place at the beginning of the year, the consolidated revenue for the year ended 31 December 2018 would have been increased by SAR 65.5 million and profit for the year ended 31 December 2018 would have been decreased by SAR 12.3 million.

The fair value of acquired trade receivables is SAR 20.8 million. The gross contractual amount for trade receivables due is SAR 28.4 million, of which SAR 7.7 million is expected to be uncollectible.

The Group has recognised non-controlling interest in Pure Breed at its proportionate share of the acquired net identifiable assets.

The Group is currently in the process of allocating the purchase consideration to the identifiable assets, liabilities and contingent liabilities acquired. However, the Group has provisionally accounted for the transaction based on the carrying values of the assets and liabilities (with the exception of the previously held equity interest) as of the acquisition date, which are summarized below.

	<b>Fair Value on Acquisition (Provisional)</b> <b>SAR '000</b>
<b>Assets Acquired</b>	
Non-Current Assets	
Property, Plant and Equipment	100,885
Biological Assets	25,276
	<b>126,161</b>
Current Assets	
Cash and Cash Equivalents	16,441
Trade Receivables and Prepayments	20,766
Inventories	6,574
	<b>43,781</b>
<b>Total Assets</b>	<b>169,942</b>
<b>Liabilities Assumed</b>	
Non-Current Liabilities	
Long-Term Loan	2,883
Employee Retirement Benefits	6,798
	<b>9,681</b>
Current Liabilities	
Short-Term Loan	360
Trade and Other Payables	14,588
	<b>14,948</b>
<b>Total Liabilities</b>	<b>24,629</b>

	Fair Value on Acquisition (Provisional) SAR '000
Total Identifiable Net Assets	145,313
Total Acquisition Cost	145,313
	-
Total Acquisition Cost	
Cash Consideration	20,313
Fair Value of Previously Held Equity Interest	60,938
NCI	64,062
<b>Total</b>	<b>145,313</b>
Cash Outflow on Acquisition	
Net Cash Acquired with the Subsidiary	16,441
Cash Paid	(20,313)
<b>Net Cash Outflow</b>	<b>(3,872)</b>

## 12. INVENTORIES

	2018 SAR '000	2017 SAR '000
Raw Materials	3,036,534	2,419,313
Finished Goods	518,166	519,297
Spares	518,697	491,342
Work in Process	209,489	151,149
Total Inventories	4,282,886	3,581,101
Allowance for Slow Moving Inventories (Refer note 12.1)	(408,693)	(459,198)
Total	3,874,193	3,121,903

12.1. Movement in the allowance for slow moving inventories is as follows:

	2018 SAR '000	2017 SAR '000
Opening balance	459,198	388,230
(Reversal) / Charge for the year	(34,574)	82,580
Written off during the year	(15,931)	(11,612)
Closing balance	408,693	459,198

12.2. 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 2018

### 13. TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

	2018 SAR '000	2017 SAR '000
Trade Receivables – Third Parties	1,038,088	947,673
– Related Parties (Refer note 34)	142,413	185,002
	1,180,501	1,132,675
Less: Allowance for impairment of trade receivables (Refer note 35)	(57,333)	(76,824)
Less: Allowance for sales returns (Refer note 13.4)	(18,121)	(13,828)
Net Trade Receivables	1,105,047	1,042,023
Prepayments	476,181	293,145
Government Grants	183,210	213,208
Other Receivables	165,511	153,999
	1,929,949	1,702,375
<b>Aging of Trade Receivables</b>		
Up to 2 months	919,415	930,793
2-3 months	87,535	101,767
More than 3 months	173,551	100,115
	1,180,501	1,132,675
Prepayments - Non-Current Assets (Refer note 13.5)	67,059	74,558

#### 13.1. Movement in allowance for impairment of trade receivables

	2018 SAR '000	2017 SAR '000
At the beginning of the year	76,824	32,340
Allowance (reversed) / made during the year	(19,491)	44,484
At the end of the year	57,333	76,824

13.2. Trade receivables disclosed above are classified as financial assets at amortised cost.

13.3. The average credit period on sales of goods is 28 days (2017: 25 days).

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

13.5. Prepayments under Non-Current Assets relate to operating lease agreements for agricultural land for periods ranging from 4 to 40 years for the operations in Argentina and the USA.

## 14. CASH AND BANK BALANCES

	2018 SAR '000	2017 SAR '000
Cash and Cash Equivalents		
Cash at Bank - Current Accounts	850,650	382,964
Cash at Bank - Deposits (Refer note 14.1)	192,644	1,385,000
Cash in Hand	139,608	123,733
	<b>1,182,902</b>	<b>1,891,697</b>

**14.1** The average rate on bank deposits is 2.6% (2017: 1.7 % per annum) with an average maturity of two months.

## 15. SHARE CAPITAL

The Company's share capital at 31 December 2018 amounted to SAR 10,000 million (2017: SAR 10,000 million), consisting of 1,000 million (2017: 1,000 million) fully paid and issued shares of SAR 10 each.

## 16. EMPLOYEE STOCK OPTION PROGRAM (ESOP)

The Company has offered certain employees (the "Eligible Employees") the option (the "Option") for equity ownership ("Restricted Shares" – i.e. 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 set by the Company. The exercise of the Option is contingent upon the shares of the Company continuing to be listed on the Saudi Stock Exchange (Tadawul).

Restricted 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 restricted 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 restricted 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 Restricted Shares shall not exceed 2,933,333 shares.

The ESOP 2017 was granted in Muharram 1439 A.H. (February 2017). The number of Restricted Shares shall not exceed 4,125,000 shares.

The ESOP 2018 was granted in Muharram 1440 A.H. (September 2018). The number of Restricted Shares shall not exceed 4,000,000 shares.

The following table sets out the number of, and movements in the, share options during the year.

## Notes to the Consolidated Financial Statements continued for the year ended 31 December 2018

### 16. EMPLOYEE STOCK OPTION PROGRAM (ESOP) continued

	2018 SAR '000	2017 SAR '000
At the beginning of the year	7,726,000	4,807,000
Granted during the year	4,000,000	3,230,000
Settled during the year	(1,024,951)	-
Forfeited during the year	(707,081)	(311,000)
At the end of the year	9,993,968	7,726,000

The fair value per Option is estimated at the grant date using the Black Scholes pricing model, taking into account the terms and conditions upon which the share options were granted.

	ESOP 2015	ESOP 2016	ESOP 2017	ESOP 2018
Input to the Model				
Dividend Yield (%)	1.1%	2.2%	1.8%	1.4%
Expected Volatility (%)	25.0%	33.2%	15.0%	19.1%
Risk Free Interest Rate (%)	5.0%	5.0%	5.0%	3.0%
Contractual Life of Share Options (years)	2.5	2.8	3.0	2.4
Share Price (SAR) at Grant Date	90.5	52.5	55.6	49.2
Exercise Price (SAR) at Grant Date	73.5	45.0	46.0	55.0
Model Used	Black Scholes model			
Fair Value per Option	26.7	15.7	13.9	4.1
Exercise Price (SAR) after bonus split	44.1	36.0	46.0	55.0
Remaining Contractual Life (years)	-	0.1	1.1	2.4
Weighted Average Share Price during the year	51.4	44.4	58.8	53.2

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.

	2018 SAR '000	2017 SAR '000
<b>Treasury Shares</b>		
At the beginning of the year	453,156	378,994
Acquired during the year	222,707	75,533
Disposed off on exercise of options	(82,296)	(1,371)
At the end of the year	593,567	453,156

## 17. OTHER RESERVES

	2018 SAR '000	2017 SAR '000
Hedging Reserve	(6,660)	16,216
Currency Translation Reserve	611,585	611,580
Others (Refer note 17.1)	(84,425)	(18,661)
	<b>520,500</b>	<b>609,135</b>

**17.1.** It includes foreign currency translation difference amounting to SAR 64.5 million due to reclassification on disposal of investment in associate.

## 18. PERPETUAL SUKUK

	2018 SAR '000	2017 SAR '000
Perpetual Sukuk	-	1,700,000

On 27 Muharram 1440 A.H. (30 September 2018), the Group redeemed at its discretion its Perpetual Sukuk amounting to SAR 1,700.0 million at a par value of SAR 1 million each.

## 19. NON-CONTROLLING INTERESTS

Summarized aggregate financial information of the Group's subsidiaries that has material non-controlling interests (Refer note 1) is set out below. The summarized financial information below represents amounts before intragroup eliminations.

	2018 SAR '000	2017 SAR '000
Non-current assets	1,568,082	1,353,463
Current assets	677,028	598,534
Non-current liabilities	376,897	384,036
Current liabilities	616,003	753,359
Equity attributable to owners of the Company	1,252,210	814,602
Non-Controlling Interests	589,194	396,867
Revenue	2,425,943	2,267,060
Expenses	(2,407,638)	(2,304,920)
Net Profit / (Loss) for the year	18,305	(37,860)
Net Profit / (Loss) attributable to:		
Owners of the Company	19,952	(15,537)
Non-Controlling Interests	(1,647)	(22,323)
Total Comprehensive Income attributable to:		
Owners of the Company	(12,046)	(45,920)
Non-Controlling Interests	(3,497)	(13,331)
Total Comprehensive Income for the year	(15,543)	(59,251)

## Notes to the Consolidated Financial Statements continued for the year ended 31 December 2018

### 20. LOANS AND BORROWINGS

	Notes	2018 SAR '000	2017 SAR '000
Islamic Banking Facilities (Murabaha)	20.1	7,197,964	5,839,187
Saudi Industrial Development Fund	20.2	2,146,926	1,733,511
Banking Facilities of Non-GCC Subsidiaries	20.3	338,557	462,248
International Finance Corporation	20.4	275,423	278,190
Agricultural Development Fund	20.5	169,166	187,912
Banking Facilities of GCC Subsidiaries	20.6	150,201	150,134
		10,278,237	8,651,182
Sukuk	20.7	3,384,027	3,895,346
		13,662,264	12,546,528
Short Term Loans		25,521	182,455
Current Portion of Long Term Loans		1,984,773	1,820,948
<b>Loans - Current Liabilities</b>		<b>2,010,294</b>	<b>2,003,403</b>
<b>Loans - Non-Current Liabilities</b>		<b>11,651,970</b>	<b>10,543,125</b>
		13,662,264	12,546,528

**20.1.** 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. As at 31 December 2018, SAR 5,510.3 million Islamic banking facilities (Murabaha) were unutilized and available for drawdown with maturities predominantly greater than five years (2017: SAR 6,462.9 million).

**20.2.** The borrowings of the Group from the Saudi Industrial Development Fund (SIDF) are secured by a mortgage on specific assets equivalent to the outstanding borrowings. As at 31 December 2018, the Group had SAR 192.2 million of unutilized SIDF facilities available for drawdown with maturities predominantly greater than five years (2017: SAR 267.1 million). Assets held as collateral are subject to restriction of disposal until the loan is settled or the disposal is approved by SIDF.

**20.3.** These banking facilities of non-GCC subsidiaries represent borrowings from foreign banking and developing institutions. As at 31 December 2018, SAR equivalent 449.9 million (2017: SAR 248.3 million) facilities were unutilized and available for drawdown.

**20.4.** The borrowings granted by International Finance Corporation ("IFC" – Member of World Bank Group) are secured by promissory notes given by the Group. As at 31 December 2018, the Group had SAR 281.4 million of unutilized facility available for drawdown (2017: SAR Nil).

**20.5.** The borrowing from Agriculture Development Fund (ADF) is secured by a mortgage on specific assets equivalent to the outstanding borrowings. As at 31 December 2018, the Group had no unutilized ADF facilities available (2017: SAR Nil). Assets mortgaged are subject to the restriction of disposal until the loan is settled or the disposal is approved by ADF.

**20.6.** The borrowings under GCC subsidiaries are secured by corporate guarantee given by the Parent Company. As at 31 December 2018, the Group had no unutilized facility (2017: SAR Nil).

**20.7.** 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 predetermined margin payable semi-annually in arrears. The Sukuk will be 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 predetermined 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 also 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 predetermined 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 predetermined 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.

**20.8.** 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, and actions are taken by management to ensure compliance. During 2018, there has been no non-compliance for any of the covenants.

## Notes to the Consolidated Financial Statements continued for the year ended 31 December 2018

### 21. EMPLOYEE RETIREMENT BENEFITS

		2018 SAR '000	2017 SAR '000
Opening Balance		621,536	573,979
On acquisition of subsidiary		6,798	-
<b>Consolidated Statement of Profit or Loss</b>			
Current Service Cost		89,844	108,253
Interest Cost		19,558	20,343
Past Service Cost		(742)	-
<b>Consolidated Statement of Comprehensive Income</b>			
Actuarial Loss / (Gain)		18,686	(10,151)
<b>Cash Movements</b>			
Benefits Paid		(56,355)	(70,888)
Closing Balance		699,325	621,536
<b>Sensitivity in Defined Benefit Obligation</b>			
Salary Inflation	1% Decrease	623,243	570,995
	Base	699,325	621,536
	1% Increase	779,209	678,247
Discount Rate	1% Decrease	779,277	678,721
	Base	699,325	621,536
	1% Increase	624,665	571,618

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 recognised in the Consolidated Statement of Financial Position.

### Demographic Assumptions

	2018	2017
<b>Membership Data (GCC employees)</b>		
Number of Employees	38,035	37,967
Average age of employees (years)	34.4	34.2
Average years of past service	5.1	4.7

Weighted average duration of the defined benefit obligation is 11.5 years.

Country	Net Discount Rate		Salary Growth Rate	
	2018	2017	2018	2017
Saudi Arabia	1.8%	1.3%	2.1%	2.0%
United Arab Emirates	1.6%	1.0%	1.9%	1.9%
Oman	3.2%	2.5%	3.0%	3.1%
Kuwait	1.6%	1.0%	2.7%	2.7%
Bahrain	5.2%	4.5%	1.5%	1.6%
Qatar	1.7%	1.0%	2.0%	2.3%

## 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.

## 22. DEFERRED TAX

Following are the major deferred tax assets and liabilities recognised by the Group.

### 22.1. Deferred Tax Assets

	2018 SAR '000	2017 SAR '000
Opening Balance	39,926	13,875
(Charge) / Credit for the Year	(4,376)	25,485
Currency Translation Difference	(24,062)	566
Closing Balance	11,488	39,926

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 realised.

### 22.2. Deferred Tax Liabilities

	2018 SAR '000	2017 SAR '000
Opening Balance	48,060	56,492
Reversed during the year	-	(2,196)
Currency Translation Difference	(10,093)	(6,236)
Closing Balance	37,967	48,060

## Notes to the Consolidated Financial Statements continued for the year ended 31 December 2018

### 22. DEFERRED TAX continued

Deferred tax liability of SAR 38.0 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.

	2018 SAR '000	2017 SAR '000
Liability for deferred taxation comprising temporary differences related to:		
Accelerated tax depreciation	14,141	24,234
Fair valuation adjustment of land	23,826	23,826
	<b>37,967</b>	<b>48,060</b>

### 23. ZAKAT AND FOREIGN INCOME TAX

	2018 SAR '000	2017 SAR '000
Zakat Provision (Refer note 23.1)	302,911	256,235
Foreign Income Tax Provision (Refer note 23.2)	13,153	16,671
	<b>316,064</b>	<b>272,906</b>

#### 23.1. 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.

	2018 SAR '000	2017 SAR '000
Opening Balance	256,235	195,624
Charge for the Year	49,352	65,659
Payments	(2,676)	(5,048)
Closing Balance	<b>302,911</b>	<b>256,235</b>

The Company has filed its consolidated Zakat returns for all the years up to 2017 and settled its Zakat liabilities accordingly. The Zakat assessments have been agreed with the GAZT for all the years up to 2006. During the year, the Group received assessment orders for Almarai Company and MFI for the years 2007-2014 and 2009-2013 respectively. The Group has formally submitted appeals to the Preliminary Objection Committee (POC) against both assessment orders. Management believes that the settlement of 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 2002 while the 2003-2008 Zakat returns are 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.

### 23.2. Foreign Income Tax Provision

	2018 SAR '000	2017 SAR '000
Opening Balance	16,671	19,278
Charge for the Year	16,770	4,267
Payments	(20,288)	(6,874)
Closing Balance	13,153	16,671

Foreign subsidiaries have filed their tax returns for all years up to 2017, 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 2011, and the latest year assessed is 2013.

### 24. TRADE AND OTHER PAYABLES

	2018 SAR '000	2017 SAR '000
Trade Payable –Third Parties	1,326,865	1,566,133
–Related Parties (Refer note 34)	105,194	26,742
Accrued Expenses	1,057,949	1,333,533
Payments	384,058	301,082
Closing Balance	2,874,066	3,227,490

Management considers that the carrying amount of trade payables approximates to their fair value. The average credit period taken for trade purchases is 66 days (2017: 73 days). Accrued expenses include leaves obligation amounting to SAR 120.3 million (2017: SAR 113.8 million). Other payables include unrecognised portion of government grants related to inventories held at the reporting date.

### 25. COST OF SALES

	2018 SAR '000	2017 SAR '000
Material Consumed	4,812,066	4,874,274
Government Grants	(438,659)	(280,991)
Employee Costs	1,422,995	1,319,658
Depreciation of Property, Plant and Equipment	1,403,779	1,267,648
Repairs and Maintenance	492,159	492,850
Depreciation of Biological Assets	313,838	295,927
Telephone and Electricity	311,325	281,909
Vaccines and Drugs	129,689	121,101
Crates and Pallets Consumed	30,779	40,503
Rent	68,486	58,088
Amortisation of Software Licenses	12,371	13,025
Shared-Based Payment Expense	8,891	15,436
Gain Arising from Changes in fair values less cost to sell of Crops	(1,695)	(977)
Other Expenses	350,500	436,337
Less:		
Appreciation of Biological Assets	(639,089)	(582,895)
	8,277,435	8,351,893

## Notes to the Consolidated Financial Statements continued for the year ended 31 December 2018

### 26. SELLING AND DISTRIBUTION EXPENSES

	2018 SAR '000	2017 SAR '000
Employee Costs	1,283,179	1,287,384
Marketing Expenses	464,337	434,339
Depreciation of Property, Plant and Equipment	262,376	272,746
Repairs and Maintenance	141,843	134,400
Rent	39,977	39,195
Telephone and Electricity	24,649	24,989
Share-Based Payment Expense	9,302	10,886
Amortisation of Software Licenses	7,576	7,403
Crates and Pallets Consumed	(330)	1,103
Other Expenses	98,007	130,601
	<b>2,330,916</b>	<b>2,343,046</b>

### 27. GENERAL AND ADMINISTRATION EXPENSES

	2018 SAR '000	2017 SAR '000
Employee Costs	218,608	225,116
Insurance	56,281	54,949
Repairs and Maintenance	32,405	22,029
Amortisation of Software Licenses	27,504	29,589
Depreciation of Property, Plant and Equipment	17,951	33,277
Share-Based Payment Expense	11,018	13,071
Telephone and Electricity	5,152	8,235
Rent	4,576	8,623
Other Expenses	2,980	2,450
	<b>376,475</b>	<b>397,339</b>

### 28. OTHER EXPENSES, NET

	2018 SAR '000	2017 SAR '000
Loss on Disposal of Property, Plant and Equipment	4,375	14,443
Loss on Disposal of Biological Assets (Refer note 28.1)	164,875	160,527
Dividend on Equity Investment	(225)	(1,110)
Impairment of Assets	127,336	37,211
Loss on Disposal of Investment (Refer note 10.2)	4,938	-
	<b>301,299</b>	<b>211,071</b>

**28.1.** Depressed market conditions in secondary dairy herd market and internal dairy herd rationalization resulted in a loss of SAR 164.9 million in 2018 (2017: SAR 160.5 million).

**28.2.** It includes:

- In accordance with the terms of the Ministerial Council Resolution (66) dated 25 Safer 1440H (corresponding to 7 December 2015) to completely halt the local production of green forage for areas above 50 hectares, the Group has stopped the production of alfalfa and green forage in the Kingdom of Saudi Arabia. The Group has planned to relocate its arable assets that can be used in its farming entities outside KSA and has written off certain assets for which there is no future use. This has resulted in impairment of these assets amounting to SAR 47.7 million
- Expenses related to the closure of farming operations, 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 (2017: SAR 30.6 million)

## 29. FINANCE COST, NET

	2018 SAR '000	2017 SAR '000
Interest and Finance Charges	462,653	476,018
Interest Income on Other Deposits	(8,751)	(3,538)
Interest Capitalisation	(42,402)	(73,816)
Net Loss on Settlement of Interest Rate Swap Instrument	(3,753)	2,590
	<b>407,747</b>	<b>401,254</b>

## 30. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data.

	2018 SAR '000	2017 SAR '000
Profit for the year attributable to the shareholders of the Company	2,008,869	2,182,286
Less: Profit attributable to Sukukholders	(55,591)	(71,142)
Earnings for the purposes of basic earnings per share	1,953,278	2,111,144
<b>Number of shares '000'</b>		
Weighted average number of ordinary shares for the purposes of basic earnings	989,468	990,992
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	1.97	2.13
- Diluted	1.95	2.11

## Notes to the Consolidated Financial Statements continued for the year ended 31 December 2018

### 30. EARNINGS PER SHARE continued

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.

### 31. 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 7DAYS brands and Poultry products under ALYOUM and Albashayer brands. Other activities include Arable, Horticulture and Infant Nutrition. Selected financial information as at 31 December 2018 and 31 December 2017, and for the years then ended, categorised by these business segments, is as follows:

Dairy and Juice	Milk production, dairy and fruit juice product processing and distribution
Bakery	Bakery products manufacturing and distribution
Poultry	Poultry products manufacturing and distribution
Other Activities	Arable, Horticulture and Infant Nutrition

	Dairy and Juice SAR '000	Bakery SAR '000	Poultry SAR '000	Other Activities SAR '000	Total SAR '000
<b>2018</b>					
Revenue	10,045,689	1,736,903	1,808,088	1,317,303	14,907,983
Third Party Revenue	9,975,597	1,736,903	1,808,088	202,209	13,722,797
Depreciation and Amortisation	(1,232,054)	(249,722)	(370,475)	(193,144)	(2,045,395)
Share of Results of Associates And Joint Venture	-	-	(4,699)	(714)	(5,413)
Profit / (Loss) Attributable To Shareholders of The Company	1,732,757	192,374	182,786	(99,048)	2,008,869
Share of Other Comprehensive Income of Associates and joint venture	-	-	-	567	567
Profit / (Loss)	1,713,136	212,662	180,472	(99,048)	2,007,222
Impairment Recognised During the Year	(49,627)			(77,709)	(127,336)
Total Assets	19,119,558	2,351,769	5,316,037	5,531,056	32,318,420
Total Liabilities	11,216,600	47,116	5,239,350	1,299,364	17,802,430

	Dairy and Juice SAR '000	Bakery SAR '000	Poultry SAR '000	Other Activities SAR '000	Total SAR '000
<b>2017</b>					
Revenue	10,585,108	1,807,090	1,463,626	1,121,666	14,977,490
Third Party Revenue	10,510,471	1,807,090	1,463,626	154,345	13,935,532
Depreciation and Amortisation	(1,221,657)	(228,245)	(308,990)	(160,723)	(1,919,615)
Share of Results of Associates And Joint Venture	-	-	2,525	10,493	13,018
Profit / (Loss) Attributable To Shareholders of the Company	2,049,004	292,637	(29,161)	(130,194)	2,182,286
Share of Other Comprehensive Loss of Associates and joint venture	-	-	-	(5,201)	(5,201)
Profit / (Loss)	2,007,276	312,042	(29,161)	(130,194)	2,159,963
Impairment Recognised During the Year	(37,211)	-	-	-	(37,211)
Total Assets	20,468,751	2,463,528	5,708,497	3,255,073	31,895,849
Total Liabilities	10,130,758	460,862	5,151,908	1,271,081	17,014,609

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.

The nature and effect of initially applying IFRS 15 on the Group's Consolidated Financial Statements is disclosed in note 5.11.

	Dairy and Juice SAR '000	Bakery SAR '000	Poultry SAR '000	Other Activities SAR '000	Total SAR '000
<b>For the year ended 31 December 2018</b>					
Saudi Arabia	6,074,603	1,425,382	1,637,156	100,463	9,237,604
Other GCC Countries	2,717,167	302,303	127,870	1,674	3,149,014
Other Countries	1,183,827	9,218	43,062	100,072	1,336,179
Total	9,975,597	1,736,903	1,808,088	202,209	13,722,797

	Dairy and Juice SAR '000	Bakery SAR '000	Poultry SAR '000	Other Activities SAR '000	Total SAR '000
<b>For the year ended 31 December 2018</b>					
Saudi Arabia	6,485,295	1,482,382	1,233,185	99,153	9,300,015
Other GCC Countries	2,965,457	321,831	191,171	2,195	3,480,654
Other Countries	1,059,719	2,877	39,270	52,997	1,154,863
Total	10,510,471	1,807,090	1,463,626	154,345	13,935,532

## Notes to the Consolidated Financial Statements continued for the year ended 31 December 2018

### 32. CASH AND CASH EQUIVALENTS

	2018 SAR '000	2017 SAR '000
Cash at Bank – Current Accounts	850,650	382,964
Cash at Bank – Deposits	192,644	1,385,000
Cash in Hand	139,608	123,733
Cash and Bank Balances	1,182,902	1,891,697
Bank Overdrafts	(179,321)	(255,585)
Total	1,003,581	1,636,112

### 33. COMMITMENT AND CONTINGENCIES

**33.1.** The contingent liabilities against letters of credit are SAR 312.5 million at 31 December 2018 (2017: SAR 364.7 million).

**33.2.** The contingent liabilities against letters of guarantee are SAR 825.6 million at 31 December 2018 (2017: SAR 805.8 million). Contingent liabilities against letter of guarantee expire as follows

	2018 SAR '000	2017 SAR '000
Within one year	143,746	144,956
Two to five years	501,498	353,863
After five years	180,356	306,972
Total	825,600	805,791

**33.3.** The Group had capital commitments amounting to SAR 921.6 million at 31 December 2018 in respect of ongoing projects (2017: SAR 1,056.6 million). The majority of the capital commitments are for updating the existing production facilities, sales depot development, distribution fleet, fridges and IT equipment.

**33.4.** Commitments under operating leases expire as follows.

	2018 SAR '000	2017 SAR '000
Within one year	66,539	101,119
Two to five years	33,207	164,782
After five years	9,619	77,813
Total	109,365	343,714

**33.5.** Refer to note 23.1 for Zakat-Related matters.

### 34. 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 2018 along with their balances.

Nature of Transaction	Transaction Amount		Balance at 31 December	
	2018 SAR '000	2017 SAR '000	2018 SAR '000	2017 SAR '000
<b>Sales To</b>				
Panda Retail Company	701,888	640,247	141,855	182,733
Herfy Food Services	6,095	5,894	558	534
	<b>707,983</b>	<b>646,141</b>	<b>142,413</b>	<b>183,267</b>
<b>Services To:</b>				
Al Kabeer Farms	864	864	-	-
United Farmers Holding Company	116	-	-	1,735
	<b>980</b>	<b>864</b>	<b>-</b>	<b>1,735</b>
<b>Subtotal</b>	<b>708,963</b>	<b>647,005</b>	<b>142,413</b>	<b>185,002</b>
<b>Purchases From:</b>				
United Sugar Company	79,315	106,313	(5,773)	(6,633)
Afia International Company	-	8	-	-
Al Nafoura Catering	325	393	(78)	(28)
Al Kabeer Farms – Forage	63,739	55,626	(36,828)	(19,416)
Arab Company for Agricultural Services (ARASCO)	2,327	4,228	(512)	(573)
	<b>145,706</b>	<b>166,568</b>	<b>(43,191)</b>	<b>(26,650)</b>
<b>Services From:</b>				
Arabian Shield Cooperative Insurance Company	120,498	115,181	(62,003)	(92)
Todhia Farm	813	813	-	-
Abdulrahman bin Abdulaziz Al Muhanna (Land Rent)	173	173	-	-
Mobile Telecommunication Company Saudi Arabia	1,418	839	-	-
Al Jazirah Corporation for Press, Printing and Publishing	59	139	-	-
	<b>122,961</b>	<b>117,145</b>	<b>(62,003)</b>	<b>(92)</b>
<b>Subtotal</b>	<b>268,667</b>	<b>283,713</b>	<b>(105,194)</b>	<b>(26,742)</b>
<b>Payment of Sukuk Finance Charges</b>				
Yamama Cement Company	365	1,581	-	(373)
Saudi British Bank	14,688	14,940	(4,683)	(3,825)
Banque Saudi Fransi	5,280	14,855	(1,656)	(3,764)
Arabian Shield Cooperative Insurance Company	101	98	(36)	(29)
National Commercial Bank	11,267	16,510	(3,821)	(4,548)
	<b>31,701</b>	<b>47,984</b>	<b>(10,196)</b>	<b>(12,539)</b>
<b>Bank Financing</b>				
Saudi British Bank	48,581	35,935	1,346,621	1,242,095
J.P. Morgan Saudi Arabia Limited	2,484	5,398	-	-
Banque Saudi Fransi	8,940	9,873	393,000	210,000
National Commercial Bank	15,993	19,553	446,429	507,142
	<b>75,998</b>	<b>70,759</b>	<b>2,186,050</b>	<b>1,452,095</b>

## Notes to the Consolidated Financial Statements continued for the year ended 31 December 2018

### 34. RELATED PARTY TRANSACTIONS continued

34.1. 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
J.P. Morgan Saudi Arabia Limited	Common Directorship
National Commercial Bank	Common Directorship
<b>Individual</b>	
Abdulrahman bin Abdulaziz Al Muhanna	Director

34.2. 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 / Independent Board Members	Key Management Personnel	Total	Non Executive / Independent Board Members	Key Management Personnel	Total
	2018 SAR '000			2017 SAR '000		
Salaries and Compensation	2,600	7,003	9,603	2,060	7,746	9,806
Allowances	1,791	1,208	2,999	1,680	528	2,208
Annual and Periodic Bonuses	-	11,784	11,784	-	12,215	12,215
Termination Benefits	-	8,690	8,690	-	591	591
Shared-Based Payment Transactions	-	659	659	-	3,009	3,009
In-Kind Benefits	-	942	942	-	1,531	1,531
Other Benefits	1,800	272	2,072	1,800	275	2,075
<b>Total</b>	<b>6,191</b>	<b>30,558</b>	<b>36,749</b>	<b>5,540</b>	<b>25,895</b>	<b>31,435</b>

### 35. DERIVATIVE FINANCIAL INSTRUMENTS

At 31 December 2018, 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 2018, the Group had 26 commission rate swap agreements in place with a total notional amount of SAR 5,606.5 million. At 31 December 2017, the Group had 26 commission rate swap agreements in place with a total notional amount of SAR 5,097.0 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 tables detail the notional principal amounts and remaining terms outstanding as at the reporting date.

31 December 2018	Nominal amount of the hedging instruments SAR '000	Carrying amount of the hedging instrument	
		Assets SAR '000	Liabilities SAR '000
Forward Currency Contracts	4,028,592	5,898	22,137
Interest Rate Swaps	5,606,502	26,050	4,546
Commodity Derivatives	303,467	8,135	6,740
	9,938,561	40,083	33,423

31 December 2017	Nominal amount of the hedging instruments SAR '000	Carrying amount of the hedging instrument	
		Assets SAR '000	Liabilities SAR '000
Forward Currency Contracts	3,519,427	6,407	15,591
Interest Rate Swaps	5,097,050	18,594	18,334
Commodity Derivatives	153,487	1,287	8,579
	8,769,964	26,288	42,504

## Notes to the Consolidated Financial Statements continued for the year ended 31 December 2018

### 36. FINANCIAL INSTRUMENTS

#### 36.1. 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.

## 2018 SAR '000

	Carrying Amount				Fair Value			
	Hedging Instruments	FVOCI	Amortized 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	-	-	1,270,558	1,270,558	-	-	-	-
Cash and Bank Balances	-	-	1,182,902	1,182,902	-	-	-	-
	40,083	102,624	2,453,460	2,596,167	102,624	40,083	-	142,707
<b>Financial Liabilities</b>								
Derivative Financial Instruments	33,423	-	-	33,423	-	33,423	-	33,423
Loans and Borrowings	-	-	13,662,264	13,662,264	-	-	-	-
Bank Overdrafts	-	-	179,321	179,321	-	-	-	-
Trade and Other Payables	-	-	2,874,066	2,874,066	-	-	-	-
	33,423	-	16,715,651	16,749,074	-	33,423	-	33,423

## 2017 SAR '000

	Carrying Amount				Fair Value			
	Hedging Instruments	FVOCI	Amortized Cost	Total	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>								
Derivative Financial Instruments	26,288	-	-	26,288	-	26,288	-	26,288
Available for Sale Investment	-	90,711	-	90,711	90,711	-	-	90,711
Trade and Other Receivables	-	-	1,196,022	1,196,022	-	-	-	-
Cash and Bank Balances	-	-	1,891,697	1,891,697	-	-	-	-
	26,288	90,711	3,087,719	3,204,718	90,711	26,288	-	116,999
<b>Financial Liabilities</b>								
Derivative Financial Instruments	42,504	-	-	42,504	-	42,504	-	42,504
Loans and Borrowings	-	-	12,546,528	12,546,528	-	-	-	-
Bank Overdrafts	-	-	255,585	255,585	-	-	-	-
Trade and Other Payables	-	-	3,227,490	3,227,490	-	-	-	-
	42,504	-	16,029,603	16,072,107	-	42,504	-	42,504

## Notes to the Consolidated Financial Statements continued for the year ended 31 December 2018

### 36. 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.

#### 36.2. 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.

	2018 SAR '000	2017 SAR '000
Cash at Bank	1,043,294	1,767,964
Trade Receivables – Third Parties	962,634	857,021
Trade Receivables – Related Parties	142,413	185,002
Derivative Financial Instruments	40,083	26,288
Other Receivables	165,511	153,999
	<b>2,353,935</b>	<b>2,990,274</b>

The carrying amount of financial assets represents the maximum credit exposure.

Credit risk on receivable and bank balances is limited as:

- Cash balances 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 55% in KSA, 32% in GCC (other than KSA) and 13% in other countries. The five largest customers account for approximately for 38% of outstanding trade receivables at 31 December 2018.

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.

	2018 SAR '000			
	Carrying Amount	On Demand or 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	13,662,264	2,041,927	9,706,020	3,875,807
Trade and Other Payables	2,768,872	2,768,872	-	-
Trade Payables to Related Parties	105,194	105,194	-	-
	16,715,651	5,095,314	9,706,020	3,875,807
<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	-	-
	33,423	28,295	5,128	-

	2017 SAR '000			
	Carrying Amount	On Demand or Less than 1 year	1 year to 5 years	More than 5 years
<b>Non-Derivative Financial Liabilities</b>				
Bank Overdrafts	255,585	255,585	-	-
Loans and Borrowings	12,546,528	2,003,403	9,822,256	3,015,623
Trade and Other Payables	3,200,748	3,200,748	-	-
Trade Payables to Related Parties	26,742	26,742	-	-
	16,029,603	5,486,478	9,822,256	3,015,623
<b>Derivative Financial Liabilities</b>				
Forward Currency Contracts	15,591	3,198	12,393	-
Interest Rate Swaps	18,334	-	18,334	-
Commodity Derivatives	8,579	8,579	-	-
	42,504	11,777	30,727	-

## Notes to the Consolidated Financial Statements continued for the year ended 31 December 2018

### 36. 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, and 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 5,030.7 million at 31 December 2018 (2017: SAR 5,162.2 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%-60% of its borrowings at fixed commission. The following table demonstrates the sensitivity of the income to reasonably possible changes in commission rates, with all other variables held constant. There is no direct impact on the Group's equity.

		<b>Increase / decrease in basis points of commission rates</b>	<b>Effect on income for the year SAR '000</b>
2018	SAR	+100	(50,307)
	SAR	-100	50,307
2017	SAR	+100	(51,622)
	SAR	-100	51,622

#### 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 unfavorable 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.

#### 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 recognised assets and liabilities are denominated in currency that is 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's management believes that their exposure to currency risk is limited as the Group's currency, the Bahraini Dinar (BHD) and the JOD are pegged to USD. The fluctuation in exchange rates against ARS, KWD, EGP, Euro 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 SAR '000	KWD SAR '000	EGP SAR '000	EUR SAR '000	GBP SAR '000	Total SAR '000
<b>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)
<b>2017</b>						
Cash at Bank	9,710	29,067	-	8,652	1,288	48,717
Cash in Hand	2,487	2,652	709	94	65	6,007
Trade Receivables	2,254	97,165	64,805	-	-	164,224
Bank Overdrafts	-	-	-	-	-	-
Short-Term Borrowings	(39,462)	-	(163,406)	-	-	(202,868)
Long-Term Borrowings	(28,206)	-	-	(245,931)	-	(274,137)
Trade Payables	(8,388)	(4,171)	-	(206,595)	(8,219)	(227,373)
Net Statement of Financial Position Exposure	(61,605)	124,713	(97,892)	(443,780)	(6,866)	(485,430)

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.

## Notes to the Consolidated Financial Statements continued for the year ended 31 December 2018

### 36. FINANCIAL INSTRUMENTS continued

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.

	2018 SAR '000	2017 SAR '000
ARS	(2,481)	(6,161)
KWD	9,834	12,471
EGP	(20,025)	(9,789)
EUR	(40,533)	(44,378)
GBP	(1,379)	(687)
	<b>(54,584)</b>	<b>(48,544)</b>

#### 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.

### 37. DIVIDEND APPROVED AND PAID

On 23 Rajab 1439 A.H. (9 April 2018) the shareholders in their Extraordinary General Assembly Meeting approved dividends of SAR 750.0 million (SAR 0.75 per share) for the year ended 31 December 2017 out of which SAR 745.1 million was paid on 1 Sha'aban 1439 A.H. (17 April 2018).

### 38. 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 2018.

### 39. 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.

### 40. BOARD OF DIRECTORS APPROVAL

These Consolidated Financial Statements were approved by the Board of Directors on 14 Jumada Al-Awwal 1440 A.H. (20 January 2019).



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