20th January 2019

Almarai Company Announces Its Annual Consolidated Financial Results for The Year Ended in 31st December 2018 (12 Months)

Almarai Company ("the Company") is pleased to announce its annual Consolidated Financial Results for the year ended in 31st December 2018 as below:

Fourth Quarter 2018 Highlights

1. The Revenue for the fourth quarter 2018 amounted to SAR 3,388.7 million, a decrease by -0.9% as compared to the corresponding quarter of the last year (SAR 3,418.7 million).

2. The Gross Profit for the fourth quarter 2018 amounted to SAR 1,234.7 million, a decrease of -7.5% as compared to the corresponding quarter of the last year (SAR 1,335.3 million).

3. The Operating Profit for the fourth quarter 2018 amounted to SAR 465.9 million, a decrease of -22.2% as compared to the corresponding quarter of the last year (SAR 598.5 million).

4. The Consolidated Profit Attributable to Shareholders of the Company for the fourth quarter 2018 amounted to SAR 369.6 million, a decrease of -27.9% as compared to the corresponding quarter of the last year (SAR 512.9 million) and a decrease of -41.7% as compared to the previous quarter (SAR 634.5 million).

5. The Comprehensive Income Attributable to Shareholders of the Company for the fourth quarter 2018 amounted to SAR 581.0 million, an increase of 15.1% as compared to the corresponding quarter of the last year (SAR 504.7 million) and a decrease of -2.0% as compared to the previous quarter (SAR 592.6 million).

Twelve Months ended 31st December 2018 (the Period) Highlights

6. The Revenue for the Period ended in 31st December 2018 amounted to SAR 13,722.8 million, a decrease by -1.5% as compared to the corresponding period of last year (SAR 13,935.5 million).

7. The Gross Profit for the Period ended in 31st December 2018 amounted to SAR 5,445.4 million, a decrease of –2.5% as compared to the corresponding period of last year (SAR 5,583.6 million).

8. The Operating Profit for the Period ended in 31st December 2018 amounted to SAR 2,461.4 million, a decrease of -4.7% as compared to the corresponding period of last year (SAR 2,583.4 million).

9. The Consolidated Profit Attributable to Shareholders of the Company for the Period ended in 31st December 2018 amounted to SAR 2,008.9 million, a decrease of -7.9% as compared to the corresponding period of last year (SAR 2,182.3 million).

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10. The Comprehensive Income Attributable to Shareholders of the Company for the Period ended in 31st December 2018 amounted to SAR 2,090.0 million, a decrease of -7.4% as compared to the corresponding period of last year (SAR 2,256.8 million).

11. The Earnings per Share (EPS) based on the Consolidated Profit Attributable to Shareholders of the Company for Period ended in 31st December 2018 and the corresponding period of last year, reached SAR 1.97 and SAR 2.13, respectively. Diluted EPS for the Period ended in 31st December 2018 and the corresponding period of last year are 1.95 and 2.11, respectively.[1]

12. Total Equity Attributable to Shareholders as of 31st December 2018 amounted to SAR 13,926.8 million as compared to the corresponding date of last year (SAR 12,784.4 million), an increase of 8.9%. The book value of one share, as of 31st December 2018, reached SAR 13.9.

Reasons of increase / (decrease) for fourth quarter 2018 compared with corresponding quarter of the last year

13. The decrease of -27.9% in the Consolidated Profit Attributable to Shareholders of the Company as compared to the corresponding quarter of the last year is due to:

- **Revenues:** The decrease in topline growth of -0.9% is because of the general contraction in the market, mainly in Dairy and Juice categories, and the Traditional Trade channel despite a strong performance in the Poultry category.
- **Gross Profit:** The decrease by -7.5% is due higher alfalfa importation cost, increased promotions, labor and depreciation costs. These unfavorable trends have been partially offset by better cost management, and enhanced production efficiencies
- **Selling and Distribution Expenses (S&D):** decreased by SAR 14.7 million, -2.8%. This is due to better efficiencies in route to market and trade operations aligned with lower sales volume. These strong operational efficiencies have outweighed the increase in Marketing expenses
- **General and Administration Expenses (G&A):** increased by SAR 8.3 million, 8.9% mainly due to a one-off catch up for group insurance
- **Other Expenses:** increased by SAR 88.7 million, mainly due to one off provision for discontinuation of local alfalfa operations.

[1] Diluted EPS is calculated by dividing the Profit for the period attributable to Shareholders of the Company for the period by the number of issued Shares (1,000 million issued Shares as of 31ST of December 2018. Diluted EPS takes into account the Profit attributable to Perpetual Sukuk holders.

- **Exchange Gain or Loss and Finance Cost:** Funding costs are higher by SAR 18.5 million mainly due to funding higher bank borrowings used to repay perpetual sukuk at the end of Q3 2018. Exchange gain was higher by SAR 30.6 million due to favourable movement in currencies, particularly the Euro.

- **Contribution of various Business Categories towards the decline in the Consolidated Profit Attributable to Shareholders of -27.9% is as follows:**
  - **Dairy & Juice Category:** The Category Profit decreased by -23.5% due to adverse market conditions, and higher Alfalfa cost coupled with discounting and promotions specifically in long life milk. The bottom line was further impacted by additional investment in marketing and branding activities in the current quarter. In addition, one-off assets write-off for Teeba, Jordan of SAR 23.0 million and other assets write off of SAR 27.0 million affected the category. On a normalized basis the decrease compared to Q4 2017 would have reached only -13.5% in line with the previous quarters trend.
  - **Bakery Category:** The Category Profit decreased by -35.4% as a result of heavy marketing investments to sustain the launch of new products.
  - **Poultry Category:** The Category Profit increased by 194.3%. This is due to higher sales, driven by greater operational efficiencies, strong growth within the food service channel, and persistently low mortality.

Reasons of increase / (decrease) for fourth quarter 2018 compared with previous quarter

14. The decrease of -41.7% in the Consolidated Profit Attributable to Shareholders of the Company for the fourth quarter 2018 (SAR 369.6 million) as compared to the previous quarter (SAR 634.5 million) reflects the persistent weakness of consumers’ demand particularly in the Dairy and Juice categories and seasonal effect.[2]

[2] We would like to draw the attention that the seasonality of product mix consumption makes seasonal results not an accurate indicator for the results of the whole year, especially the comparison of a quarter's results to the previous quarter's results.

Reasons of increase / (decrease) for the year of 2018 compared with last year

15. The decrease of -7.9% in the Consolidated Profit Attributable to Shareholders of the Company for the year ended in 31st December 2018 as compared to last year is due to:

- **Revenues**: The decrease in topline growth of -1.5% is due to decline in export sales, changes in demographics, a general contraction in the market particularly in the Traditional Trade and an increase in product promotions.
- **Gross Profit**: The decrease by -2.5% is mainly attributed to the decline in revenue, increased alfalfa costs, higher personnel, energy and depreciation costs despite stable commodity costs and enhanced production efficiencies.
- **Selling and Distribution Expenses (S&D)**: decreased by SAR 12.1 million, 0.5%. Despite higher general marketing expenses and trade support the Selling and Distribution expenses were offset by better efficiencies in logistics and distribution.
- **General and Administration Expenses (G&A)**: decreased by SAR 20.9 million, 5.3%. This is due to efficiency programs, consolidation in Head office activities and reduced labor costs as result of lower headcount.
- **Other expenses**: increased by SAR 90.2 million, 42.7% mainly due to the one-off discontinuation of arable operations in KSA for SAR 77.0 million, and assets write-off's in Teeba, Jordan and other countries for SAR 23.0 million and SAR 27.0 million respectively.
- **Exchange Gain or Loss and Finance Cost**: Funding costs are higher by SAR 6.5 million because of the increase in basic interest rate and the Q4 interest cost linked to the Perpetual Sukuk refinancing. The Exchange Gain was higher by SAR 22.4 million due to changes in FX hedge rates and the favorable currency movements, particularly the Euro.
- **Contribution of various Business Categories towards the decline in Consolidated Profit Attributable to Shareholders of -7.9% is as follows:**

    - **Dairy & Juice Category**: The Category Profit decreased by -15.4% due to adverse market conditions particularly in the Traditional Trade, driven by VAT implementation at beginning of the year, expatriate exodus, higher Alfalfa cost, and reduction in export sales coupled with discounting and promotions. In addition, one-off assets write-off in Q4 affected the category, on a normalized basis for the year the decrease compared to 2017 would have reached only -13.0%

- **Bakery Category:** The Category Profit decreased by -34.3% as a result of heavy marketing investments to sustain the launch of new products, the reduction in sales of the discretionary part of the bakery portfolio, and general changes in the product portfolio mix.
- **Poultry Category:** The Category reported a Profit of 182.8 million compared to a loss of SAR -29.2 million for the year of 2017. This is due to higher sales, greater operational efficiencies, strong growth within the food service channel and frozen products, and persistent low mortality.

16. **Auditors' Opinion:** (Unmodified Opinion).

17. Items, elements and notes of the comparatives Consolidated Interim Financial Statements have been redisplayed, regrouped and reclassified to meet with the applied accounting policies for the current period which have been prepared according to the International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia. For more information, please see the note 2.1 (Statement of Compliance) in the Consolidated Financial Statements for the year ended in 31st December 2018.

18. **Other Notes:**

- **Revenue by Region:** For fourth quarter of 2018 as compared to the corresponding quarter of last year, the Revenue decreased in Saudi Arabia, other GCC countries by -3.39%, -0.47% respectively, and increased in other countries 17.12%. And for the Year ended in 31st December 2018 as compared to the last year, Revenue decreased in Saudi Arabia and other GCC countries by -0.67%, and -9.53% respectively, and increased in other countries by 15.70%.

- **EBITDA:** for fourth quarter 2018 Earnings Before Interest, Taxes and Zakat, Depreciation and Amortization (EBITDA) reached SAR 797.6 million, a decrease of -16.4% as compared to the corresponding quarter of last year (SAR 953.8 million). And for the Year ended in 31st December 2018 SAR 3,868.9 million, a decrease of -1.3% as compared to the last year (SAR 3,919.1 million).

- **Profit Margins:** for fourth quarter 2018, The Gross Profit, Operating Profit and Consolidated Profit Attributable to Shareholders of the Company are representing 36.4%, 13.7%, and 10.9% of Revenue as compared to the corresponding quarter of last year of 39.1%, 17.5%, and 15.0%, respectively. And for the Year ended in 31st December 2018, for the Gross profit, Operating Profit and Profit for the period Attributable to Shareholders of the Company are representing 39.7%, 17.9%, and 14.6% of Revenue, as compared to last year of 40.1%, 18.5%, and 15.7%, respectively.
- A summary of the Statement of Cash Flows for the Year ended in 31st December 2018 is as follows:

    - The Cash Generated from Operating Activities (OCF) reached SAR 3,557.7 million a decrease of -22.9%, as compared in the last year (SAR 4,614.1 million) mainly due to a quasi-flat cash from operating activities of SAR 65.5 million combined with increases in biological assets including alfalfa stock on hand and higher prepayments related to government charges. The OCF represents 25.9% of Revenue as compared to 33.1% for the last year.
    - The Cash used in Investing Activities reached SAR 2,340.3 million as compared to the last year (SAR 3,310.5 million), a decrease of -29.3%. This is principally due to the reduction in CAPEX Program in line with Almarai 5 years' plan and cash received from UHFC investment disposal. Investing Activities represent 17.1% of revenue as compared to 23.8% for the last year.
    - The free cash flow (FCF) reached SAR 1,217.4 million as compared to the last year (SAR 1,303.7 million), a decrease of -6.6%. The FCF represent 8.9% of revenue as compared to 9.4% for the last year. FCF has decreased by 6.6% as the reduction in capital investment of SAR 970.2 million was offset by lower operational cash flow of SAR 1,056.4 million mainly due to additional alfalfa investment stock.

19. **General Comments:**

Despite the number of exceptional regulatory and demographic changes, for the financial year ended 31st December 2018, Almarai sales reached SAR 13,722.8 million a decrease of 1.5% for YOY and 0.9% for the quarter. The profit attributable to shareholders of SAR 0*. . 6.9 million showed a decline of -7.9% YOY and -27.9% for the quarter, mainly due to a few one-time write off items. On a normalized basis the profit attributable to shareholders would have reached SAR 2,143.9 a decline of -1.7% YOY.

During 2018 Almarai's performance has been impacted by the adverse macro-economic conditions mainly originated from the VAT introduction triggering a conservative consumer's behavior and a significant disruption in the large Traditional Trade channel, increases in labor and energy costs and the large reduction of the consumer basis resulting from the expatriate exodus. In addition to these external factors, the full compliance to the importation of grain forage has had a direct effect in the alfalfa importation costs and generated a one-off charge related to the closure of its arable activities in KSA of SAR 77.0 million. Also in its effort to resize its operation in Jordan, the Company had to recognize a one-off asset write-off of SAR 23.0 million. Finally, Almarai had to record assets write-down for SAR 27.0 million in other GCC countries.

The Fresh Dairy and Juice product categories have been affected the most during the year. In this challenging environment, the 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 the significant marketing efforts to support new products launches.

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

During the entire year the Company has continued its effort in efficiency and cost management which lead to a good control on direct controllable costs.

Barring any major unforeseen events, with the investments and efforts realized in 2018, both in product portfolio and pricing rationalization, channel diversification, with the significant entry in the Foodservice area, the improvement perceived in late 2018 should continue during next year.

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20. The Consolidated Annual Financial statements for the Year of 2018 will be available through the following link on Almarai Website, and Almarai IR App.

https://www.almarai.com/en/investors/financial-information

21. Conference call for analysts and investors will be on **22nd January 2019** at **4:00 p.m.** KSA time.

The presentation accompanying the conference call will be available on Almarai website within the Investors section under Earning presentations at:

https://www.almarai.com/en/corporate/investors/earning-presentations/