Almarai Company announces its Consolidated Interim Financial Results for the period ended on 30th June 2018 (Six Months).

Almarai Company ("the Company") is pleased to announce its Consolidated Interim Financial Results for the period ended 30th June 2018 as below:

Second Quarter Analysis

1. The Revenue for the second quarter amounted to SAR 3,731.1 million, a decrease by -0.8% as compared to the corresponding quarter of the last year (SAR 3,760.4 million).

2. The Gross Profit for the second quarter amounted to SAR 1,505.6 million, a decrease of -3.2% as compared to the corresponding quarter of the last year (SAR 1,554.9 million).

3. The Operating Profit for the second quarter amounted to SAR 759.7 million, a decrease of -3.6% as compared to the corresponding quarter of the last year (SAR 788.2 million).

4. The Consolidated Profit attributable to Shareholders of the Company for the second quarter amounted to SAR 660.6 million, a decrease of -2.0% as compared to the corresponding quarter of the last year (SAR 674.1 million) and an increase of 91.9% as compared to the previous quarter (SAR 344.2 million).

5. The Comprehensive Income attributable to Shareholders of the Company for the second quarter amounted to SAR 562.9 million, a decrease of -12.7% as compared to the corresponding quarter of the last year (SAR 645.0 million) and an increase of 59.2% as compared to the previous quarter (SAR 353.5 million).

Six Months ended 30 June 2018 (the Period) Analysis

6. The Revenue for the six months ended 30th June 2018 amounted to SAR 6,963.3 million, a decrease by -2.5% as compared to the corresponding period of last year (SAR 7,143.9 million)

7. The Gross Profit for the six months ended 30th June 2018 amounted to SAR 2,758.4 million, an increase of 1.0% as compared to the corresponding period of last year (SAR 2,732.4 million).

8. The Operating Profit for the six months ended 30th June 2018 amounted to SAR 1,240.4 million, an increase of 2.6% as compared to the corresponding period of last year (SAR 1,209.3 million).

9. The Consolidated Profit attributable to Shareholders of the Company for the six months ended 30th June 2018 amounted to SAR 1,004.8 million, an increase of 0.2% as compared to the corresponding period of last year (SAR 1,002.4 million).

10. The Comprehensive Income attributable to Shareholders of the Company for six months ended 30th June 2018 amounted to SAR 916.3 million, a decrease of -14.4% as compared to the corresponding period of last year (SAR 1,071.1 million).

11. The Earnings per Share (EPS) based on the Profit attributable to Shareholders of the Company for six months ended 30th June 2018 and the corresponding period of last year, reached SAR 0.98 and SAR 0.97 respectively. Diluted EPS for the six months ended 30th June 2018 and the corresponding period of last year are 0.97 and 0.97, respectively.[1]

12. Total Equity Attributable to Shareholders as of 30th June 2018 amounted to SAR 12,866.3 million as compared to the corresponding date of last year (SAR 11,660.2 million), an increase of 10.5%. The book value of one share as of 30th June 2018 reached SAR 12.9

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

13. The decrease of -2.0% in the Consolidated Profit Attributable to Shareholders of the Company as compared to the corresponding quarter of the last year is due to:

- *Revenues:* Reduction in topline growth of -0.8% is due to a decline in export sales, changes in demographics, a general contraction in the market coupled with an increase in product promotions and general changes in the product portfolio mix.
- *Gross Profit*: Decreased by -3.2% is due to higher cost of sales which is primarily driven by higher alfalfa cost and an increase in labor costs. This has been partially offset by better cost management, stable commodity costs and enhanced production efficiencies.
- *Selling and Distribution Expenses (S&D):* were higher by SAR 10.8 million. This is due higher general marketing expenses and trade support offset by better efficiencies in route to market and trade operations.
- *General and Administration Expenses (G&A):* were lower by SAR 14.4 million. This is due to the reduction in cost in various back office functions, efficiency programs and reduced labor costs as result of lower headcount.

[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 30 June 2018). Diluted EPS takes into account the Profit attributable to Perpetual Sukukholders.

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A Saudi Joint Stock Company - Share Capital: SR. 10,000,000,000, C.R. No. 1010084223, Chamber of Commerce Membership No. 23077

- *Other expenses:* were SAR 8.0 million lower due to better selling prices and volumes of both bulls and cows.
- *Exchange Gain or Loss and Finance Cost*: there was a marked Foreign Exchange gain of SAR 26.2 million due to strengthening in the USD relative to other currencies particularly the Euro. Funding costs are lower due to lower debt levels and better funding cost management, especially for overseas entities.
- *Contribution of various category segments towards the decline in Profit Attributable to Shareholders of -2.0% is as follows:*
    - Dairy & Juice Category: The Category Profit decreased by -8.1% due to adverse market conditions, higher Alfalfa cost, and reduction in export sales coupled with discounting particularly in long life products.
    - Bakery Category: The Category Profit decreased by -44.9% as a result of heavy competition, the reduction in sales of the discretionary part of the bakery portfolio, and general changes in the product portfolio mix.
    - Poultry Category: The Category Profit increased to SAR 66.6 million which represents 10% of profit attributable to shareholders. This is due to higher sales, greater operational efficiencies, strong growth within the food service channel and persistent low mortality.

Reasons of increase (decrease) for quarter compared with previous quarter

14. The increase of 91.9% in the Consolidated Profit attributable to Shareholders of the Company for the second quarter (SAR 660.6 million) as compared to the previous quarter (SAR 344.2 million) is due to:
    - An increase in the Revenue of the quarter by 15.4% is because of the seasonal effect of the Holy month of Ramadan which is accounted for in second quarter of this year
    - 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 period compared with same period of last year

15. The increase of 0.2% in the Consolidated Profit attributable to Shareholders of the Company for the six months ended 30th June 2018 as compared to the corresponding period of the last year is due to:
    - *Revenues:* Reduction in topline growth of nearly -2.5% is due to a decline in export sales, changes in demographics, a general contraction in the market and an increase in product promotions.
    - *Gross Profit:* Cost of Sales was lower by 4.7% as a result of greater cost management and stable commodity costs and enhanced production efficiencies despite the increased alfalfa costs.

- *Selling and Distribution Expenses (S&D):* increased by SAR 7.3 million. This is due higher general marketing expenses and trade support offset by better efficiencies logistics and distribution.
- *General and Administration Expenses (G&A)*: decreased by SAR 27.2 million. This is due to efficiency programs, consolidation in Head office activities and reduced labor costs as result of lower headcount.
- *Other expenses:* were SAR 4.2 million lower due to better selling prices of both bulls and cows.
- *Exchange Gain or Loss and Finance Cost:* The exchange gain was lower by SAR 4.4 million due to lower favorable currencies movement particularly Euro. Funding costs decreased by SAR 8.9 million is due to lower debt levels and better funding cost management, especially for overseas entities.
- *Contribution of various category segments towards the increase in Profit Attributable to Shareholders of 0.2% is as follows:*
    - Dairy & Juice Category: The Category Profit decreased by 11.8% due to adverse market conditions, higher Alfalfa cost, and a reduction in export sales coupled with product promotions in certain SKUs.
    - Bakery Category: The Category Profit decreased by 42.9% principally as a result of a slowdown in sales within discretionary part of the bakery portfolio and general changes in the product portfolio mix.
    - Poultry Category: The Category Profit increased to a record SAR 92.0 million which represents 9% of profit attributable to shareholders as compared to losses of SAR (35) million for the six months ended 30th June 2017. This is due to higher sales, better operational efficiency, and lower costs due to lower mortality rates.

16. 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 (Effect of IFRS standards adoption) in the Interim Consolidated Financial Statements for the period ended in 30th June 2018.

17. Other Notes:

- For second quarter of 2018 as compared to the corresponding quarter of last year, the Revenue increased in Saudi Arabia and other countries by 3.2%, and 31.3%, respectively, whilst it decreased in other GCC countries by -19.7%. And for the six months ended 2018 as compared to the corresponding period of last year, the Revenue increased in Saudi Arabia and other countries by 1.3% and 23.1% respectively, whilst it has decreased in GCC countries by -18.9%

- For second quarter of 2018 Earnings before Interest, Taxes and Zakat, Depreciation and Amortization (EBITDA) reached SAR 1,145.0 million, an increase of 2.8% as compared to the corresponding quarter of last year (SAR 1,113.3 million). And for the six month ended in 30th June 2018 is SAR 1,954.8 million, which is an increase of 6.3% as compared to the corresponding period of last year, (SAR 1,838.2.0 million).
- For second quarter of 2018, The Gross Profit, Operating Profit and Profit for the period attributable to Shareholders of the Company are representing 40.4%, 20.4% and 17.7% of Revenue as compared to the corresponding quarter of last year of to 41.4%, 21.0% and 17.9% respectively. And for the six month ended 30th June 2018, for the Gross profit, Operating Profit and Profit for the period attributable to Shareholders of the Company are representing 39.6%, 17.8% and 14.4% of Revenue, as compared to the corresponding period of last year to 38.2%, 16.9% and 14.0% respectively.
- A summary of the Statement of Cash Flows for the six months ended 30th June 2018 is as follows:
  - For the six months ended 30th June 2018, The Cash Generated from Operating Activities (OCF) reached SAR 1,555.4 million; a decrease of -23.0%, as compared in the corresponding period of last year (SAR 2,020.1 million). The OCF represents 22.3% of Revenue as compared to 28.3% for the corresponding period last year
  - For the six months ended 30th June 2018, The Cash used in Investing Activities reached SAR 1,129.8 million as compared in the corresponding period of last year (SAR 1,833.0 million), a decrease of -38.4% . This is principally due to the reduction in CAPEX Program in line with Almarai 5 years plan. Investing Activities represent 16.2% of revenue as compared to 25.6% for the corresponding period of last year.
  - For the six months ended 30th June 2018, the free cash flow (FCF) reached SAR 425.5 million as compared to the corresponding period of last year (SAR 187.1 million), an increase of 127.4%. The FCF represent 6.1% of revenue as compared to 2.6% for the corresponding period of last year.

General Comments:

18. The GCC market environment remained challenging this quarter with overall negative consumer's trends continuing from 2017. As such, Almarai is reporting a slightly negative top line growth (-1%) for the quarter against the backdrop of an overall market. Macroeconomic challenges include: structural economic changes driving higher costs in energy and transportation, changes in the retail landscape leading to the closure of more than 3,000 shops, the introduction of VAT, the introduction of the expatriate levy, lower export sales combined with a general slowdown in the GCC markets. This general contraction in the market has particularly impacted our discretionary categories.

The segments performance for Q2 2018 followed the same pattern of Q1 2018;

- The Dairy & Juice and Bakery segments have seen the most marked slowdown and have shown the greatest sensitivity to the changes in market dynamics. We have achieved moderate volume led growth, but the increase in operating costs, mainly due to input cost of feed, expatriate levy costs and energy and transportation costs together with a high level of promotions and discounting activities led to significant margin erosion. Despite the emphasis on cost rationalization, efficiency efforts, product innovation and geographic expansion the performance of the two segments, combined with a reduction in export sales led to a decline in the profit attributable to shareholders for the Q2 2018 as compared to Q2 2018.
- On the other hand, the poultry segment once again has achieved a record sale and profit this quarter, we anticipate that the positive momentum for this segment will continue in the medium and long term. The Infant nutrition segment continues to make progress towards an EBIT positive performance for the full year.

The cash flow generation for the period remained strong mainly attributed to a reduction in Capital Investments.

After 6 months, the reduction in top line growth reached -3%, the majority coming from the first quarter negative performance. The Profit attributable to shareholders at the end of June 2018 increased by SAR 2 million, the increase of the first quarter was lost by the low profitability level of the second quarter.

Overall for the remaining part of the year, we anticipate the same underlying trends to continue within our core categories. Our focus will continue to be on delivering quality products.

19. We would like to draw the attention to the Shareholders that the consolidated interim financial statements for the period ended 30th June 2018 will be available through the following link on Almarai Website and Almarai IR App.

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

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