

Board of Directors' Report

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Board of Directors' Report

Introduction

Shareholders of Emaar, The Economic City – may the peace and blessing of Allah be upon you.

The Board of Directors of Emaar, The Economic City is pleased to present the Board's annual report for the financial year ending December 31, 2019, for discussion and then approval by the Annual General Meeting. This report reviews the performance and achievements of the Company during the past year, in addition to the financial statements and auditor's report for the period.

The report also contains a brief summary of the Company's governance mechanisms and disclosures related to the Board of Directors, its committees, senior executives, contracts and transactions with related parties.

Based on the Board's dedication to transparency and continuous disclosure, in accordance with the regulations issued by the concerned authorities and local and international practices in this regard, the report complies with the disclosure requirements stipulated in the Companies Law. These which are contained in the regulatory controls and procedures issued in implementation of the Companies Law concerning listed stock companies, as well as fulfillment of Articles 90 and 93 of the Corporate Governance Regulations issued by the Capital Market Authority (CMA) on February 13, 2017, and Article 65 of the Securities Offering Rules and the continuous commitments issued by the Board of the CMA dated December 27, 2017, and amended by decision of the Board of the Capital Market Authority No. 1-104-2019 dated 01/02/1441 H corresponding to September 30, 2019.

The annual report also demonstrates how Emaar, The Economic City's plans and strategies have effectively contributed to the achievement of the objectives of the Kingdom's Vision 2030. These strategies are to make KAEC a pioneer in the entertainment industry and an ideal environment for living and business. The strategy also seeks to take advantage of KAEC's geographic location, which makes it a major logistics center on the Red Sea.

Overview of the Company and its Activities

Emaar, The Economic City is a Saudi public Joint Stock Company, established by Ministerial Decision No 2533 issued on September 26, 2006 and listed on the Saudi Stock Exchange on October 7, 2006.

The Company's registered capital is SR 8.5 billion, distributed over 850 million shares, each with a nominal value of SR 10. The Company offered 30% of its total shares for public subscription and registered a record number of subscribers, exceeding 10 million.

The Company is active in the development of land and property in specialized economic zones or other areas, including the development of infrastructure; promoting, marketing and selling of land for development by other parties; renting and development of buildings and housing units; construction of property on lands for others and the development of economic zones, maritime ports, and any other activities necessary to achieve its objectives.

The Company is involved in the development of King Abdullah Economic City (KAEC), which is located 90 km north of Jeddah on the Red Sea coast. The Economic Cities Authority, established by Royal Decree No 19 issued on February 23, 2010, is responsible for economic cities to achieve its objectives in relation to developing national capital, attracting foreign investments, and achieving the objectives of the Kingdom's economic plans.

King Abdullah Economic City (KAEC) is one of the world's largest private sector economic projects. In 2010, shareholders approved the relocation of the Company's headquarters from Jeddah to KAEC.

Achievements in 2019

During the first 10 years of its establishment, the Company was able to build a strong economic base represented in infrastructure, the port, and the industrial valley, attracting companies and residents and providing suitable services to them. That also included establishing the financial model to develop KAEC, strengthen the Company's financial solvency, and develop its cash inflow.

It was also able to prove its role as one of the development and economic drivers in the country in accordance with the Kingdom's Vision 2030 in stimulating the government's drive towards the privatization of developmental projects and partnerships with the private sector in many vital sectors.

The year 2019 has witnessed growth and development at all the different levels, whether infrastructure, service or entertainment facilities, as well as the population growth. King Abdullah Economic City reached a population of 7,388 by the end of the year a 39% annual increase. Moreover, occupancy of delivered residential units has reached 68.6%, while developed land in the first phase is 100% complete, compared to 87% at the end of 2018.

As for infrastructure, 333.3 km of fiber-optic cable had been laid, compared to 227.7 km at the end of 2018. A further 44 cell towers were built and commissioned, 94.1 km of the sewerage system, 127 km of the water supply network, and 425.8 km of the electrical grid.

The number of hotel, suite, and resort rooms reached 472 with 37% occupancy throughout the year. The number of students in Prince Mohammad Bin Salman College of Business and Entrepreneurship increased from 166 by the to 230 students by the end of 2019.

In Industrial Valley, 36 factories were operating, while King Abdullah Port realized a growth rate of 59% with a production capacity of 3.4 million containers compared to 2.3 million at the end of 2018.

Emaar, The Economic City continues to develop KAEC with a strategic plan to create a prosperous environment and sustainable development. The Company depended heavily on the necessary infrastructure and services, including the port and industrial zone, to attract investment in companies, factories and commercial and retail facilities to the City, thus stimulating the population's move to KAEC through demand growth for the various real estate services and products of the Company.

The current phase of the strategic plan is to:

1. Continue the development and construction works at KAEC with a focus on the port and Industrial Valley as the most important attracting elements for investors in and the key drivers of construction activities.
2. Continue to attract companies, factories, and commercial establishments, which in turn lead to creating new job opportunities, thus increasing the demand for property products and services.
3. Offer a number of housing products that satisfy all social segments and all income groups, including medium and limited income earners, through direct development by the Company or by real estate investors.
4. Develop the tourism and entertainment sectors in line with the needs of the different groups within the Kingdom to increase recurring revenues and operational profits and increase the number of visitors to KAEC, which in turn plays a role in increasing the demand for different housing products.
5. Embrace and organize international and local events and activities, including government-related cultural, educational, and entertainment events, in addition to meetings of the private sector, which in turn enriches the cultural and social scene in KAEC and increases the demand for its different products.
6. Embrace and attract business entrepreneurs, both small and medium enterprises, and encourage their growth. This in turn makes the growth cycle faster within KAEC and increases the number of residents and visitors, leading to increased services.
7. Develop plans and strategies to expand within education and healthcare and attract specialized entities to invest in these sectors.
8. Maximize the benefit from the geographical location of KAEC and its location between Makkah and Medina, and being connected to both cities by the Haramain High Speed Railway, in addition to its location on the Red Sea coast.
9. Diversify the real estate product base provided by the Company by offering industrial and housing land for sale and rent, specifically to stimulate a faster development cycle and provide additional liquidity needed to develop KAEC.
10. Continue entering into strategic partnerships with the private and public sectors in some necessary mega projects to support and speed up the development of KAEC.
11. Follow best practices in managing and operating KAEC and offering services to investors and residents at affordable prices.

Board of Directors' Report continued

Achievements in 2019 continued

As a result of our strategy, we have continued to accelerate development of the City, which is the only geographical area of the Company's activities. The City now includes a 24-hour global port, one of the fastest growing in the world and at full capacity. It is home to international businesses in many sectors that contribute to KAEC being one of the world's leading shipping and logistics centers.

KAEC also boasts residential projects that serve all segments of society, distinguished projects for education, Prince Mohammad Bin Salman College of Business and Entrepreneurship (MBSC), integrated infrastructure, and hospitality and leisure services serving residents and visitors. During the year, the Company continued to deliver completed housing units in Al-Waha, Al-Shurooq and Al-Murooj Beach Community, in addition to residential lands in Al Talah Gardens.

The Company also signed contracts for industrial lands with several leading companies in the industrial and logistics sector. The Company hosted many celebrations and entertainment events in cooperation with the General Authority for Entertainment and the Ministry of Culture.

Other Decisions and Developments

Several important Company decisions were made during 2019:

- A. Emaar The Economic City held its extraordinary general meeting on Wednesday, 03 Ramadan 1440 AH (corresponding to 08 May 2019) and passed the following resolutions:
1. Voting for the Board of Directors' (BoD) Report for the financial year ended on 31/12/2018.
 2. Voting for the consolidated financial statements for the financial year ended on 31/12/2018.
 3. Voting for the auditor's report for the financial year ended on 31/12/2018.
 4. Voting for the appointment of the external auditor of the company, according to the recommendation of the Audit Committee, to examine, review, and audit the financial statements for the second and third quarters and the annual statements for the financial year 2019, and the first quarter of 2020, and for the remuneration of the external auditor.
 5. Voting for amending Article 30 of the Company's Articles of Association related to the convening the general meeting (attached).
 6. Voting for amending Article 41 of the Company's Articles of Association related to the committee reports. (attached).
 7. Voting for amending Article 46 of the Company's Articles of Association related to the financial documents (attached).
 8. Voting for the BoD recommendation to appoint BoD member Eng. Khaled Al Melhem as a member in the Audit Committee in place of the BoD member resigning from the committee, Mr. Saud Al Saleh, as of 13/11/2018 till the end of the committee session on 23/04/2020 as per the Audit Committee work rules (attached).
 9. Voting for appointing Mr. Abdullah Al Huwaish as a fourth member in the Audit Committee (BoD non-member) from 08/05/2019 till the end of the committee session on 23/04/2020 (attached).
 10. Voting for the remunerations and rewards paid to the BoD members in consideration of their membership as stated in the BoD report for the period from 01 January 2018 to 31 December 2018.
 11. Voting for discharging BoD members for the financial year ended 31 December 2018.

The company used the electronic voting system for the shareholders through the services offered by the Saudi Stock Exchange (Tadawul). Voting began five days before the meeting date.

- B. On 31 July 2019, the Audit Committee member, Dr. Faisal Al Mubarak, submitted his resignation for personal reasons. This was accepted by the BoD on 06 August 2019, effective as of 06 August 2019.

Business Outlook

The next phase focuses on expansion and recording further achievements. The Company is developing new strategies and plans based on the expansion of sectors that have been prioritized by the National Development Plan, in line with Vision 2030. The Company has expertise in port, logistics, land, industrial services and residential projects, and is developing new sectors in which the government aims to engage the private sector to facilitate funding (including tourism, health, education and city management), and to consider other sectors that benefit from the economic activity within the City (such as building management, catering, security, etc).

Financial Results 2019

A. Annual income statements for the years 2015 to 2019

	2015 SR '000	2016 SR '000	2017 SR '000 (as per IFRS)	2018 SR '000 (as per IFRS)	2019 SR '000 (as per IFRS)
Revenue	1,022,957	2,267,771	1,437,976	1,008,234	986,888
Cost of revenue	(456,184)	(1,093,607)	(621,933)	(669,827)	(684,468)
Gross profit	566,773	1,174,164	816,043	338,407	302,420
Marketing, general and administrative expenses	(332,664)	(598,266)	(522,565)	(594,118)	(640,024)
Commission realized from bank deposits and murabaha based deposits	21,868	18,150	15,953	7,737	791
Financial charges, net	(46,417)	(48,784)	(54,889)	(59,653)	(236,993)
Other income	120,326	198,769	102,858	209,909	102,015
Zakat	(28,584)	(20,000)	(138,038)	(66,000)	(45,000)
Net profit/(loss) prior to non-controlling interests	301,302	722,050	250,824	(137,588)	(508,808)
Other comprehensive income/(loss)	–	(3,076)	(28,057)	7,744	(13,811)
Total comprehensive income/(loss) for the year	301,302	718,974	222,721	(129,661)	(522,619)
Non-controlling interests share	1,415	(2,367)	(9,799)	(2,503)	0
Net income due to equity holders of the parent company	302,717	716,607	212,721	(129,661)	(522,619)
Earnings/(loss) per share (SR)	0.36	0.85	0.28	(0.16)	(0.60)

2016, 2017, 2018 and 2019 are calculated in accordance with the International Financial Reporting Standards (IFRS).

The net loss recorded in 2019 is mainly due to:

- Increase in the volume of sale contracts adversely affected by the rise in the financial expenses as a result of the increase of loan balances and the decrease in the capitalized value of the loan fees due to the slow development progress and the prevalent macroeconomic circumstances.
- Decrease in other revenues throughout the current year due to the fall in sales of investment properties.
- Commissioning a number of new operating assets in the hospitality and entertainment sectors to reinforce the development in King Abdullah Economic City led to preliminary operating losses for such assets in the first operating period.
- Decrease in the Group's share in the revenues of the Ports Development Company, mainly due to the loss caused by re-evaluating the interest rate protection measures taken by the Company.
- Increase in consumption value and general and administrative expenses throughout the year in comparison to the previous year.
- Increase in losses from provisions made for current trade receivables.

Although the Company realized a bigger sale contract volume in 2019 – SAR 658 million against SAR 354 million in 2018 – the general trend in the real estate market remained low, affecting pricing and payment conditions, in turn affecting the earnings and profitability of this sector.

Board of Directors' Report continued

Financial Results 2019 continued

We believe that the current situation, along with the effects of the COVID-19 crisis, will prevail in the short term. However, we are optimistic regarding the long-term in light of the Government initiatives which aim to encourage the development of the economic cities, in particular the royal approval of the special economic zones inside the economic cities that will accelerate attraction of new business sectors. The new tourist visa regulations will also increase demand in the hospitality and entertainment sectors. The Company has recently worked with a real estate finance company to facilitate its customers' purchase of residential units. Further, the low SIBOR rates will significantly help the Company to reduce its main expenses.

As well as the real estate market challenges faced by the Company, Emaar The Economic City is an economic city developer and therefore required to invest larger amounts in infrastructure development such as roads, bridges, and sub-stations. The Company also invests in basic services such as education, healthcare, hospitality, and entertainment to fulfill residents' increasing needs. As a result, the depreciation costs are increasing and the preliminary operation related to these assets sustain losses and affect short-term profitability.

From a financial value perspective, Emaar The Economic City has invested about SAR 18 billion in capital and financing since its establishment, contributing to at least a 9.5 multiple in the value of the invested assets, as shown by the audited financial statements for the financial year ended 31 December 2019. This value will pave the way for new investments, in addition to the strategic projects of the Company and third-party developers, creating job opportunities and increasing the demand so that the city can reach a specific point of healthy growth and to generate the expected revenues for its investors.

The Company managed debt restructuring with the Ministry of Finance and agreed on the guideline conditions for its debts with one of the biggest banks, reflecting the trust of the Company's business associates in its ability to create added value and future development plans.

B, Transitional balance sheet as at December 31 for the years 2015 to 2019

	2015 SR '000	2016 SR '000	2017 SR '000	2018 SR '000	2019 SR '000
Current assets	4,848,119	4,326,601	3,183,752	2,543,013	2,220,534
Non-current assets	13,189,541	12,242,888	14,185,925	14,798,686	15,347,256
Total assets	18,037,660	16,569,489	17,369,677	17,341,699	17,567,790
Current liabilities	889,962	1,164,369	1,871,088	2,252,406	3,383,835
Non-current liabilities	8,631,003	7,620,721	7,491,469	7,211,834	6,829,724
Shareholders' equity	8,516,695	7,784,399	8,007,120	7,877,459	7,354,231
Total liabilities and shareholders' equity	18,037,660	16,569,489	17,369,677	17,341,699	17,567,790

2016, 2017, 2018 and 2019 are calculated in accordance with the International Financial Reporting Standards (IFRS).

C. Operating results for the year ending December 31, 2019 compared to 2018

	2018 SR '000	2019 SR '000	Variation SR '000	Variation ratio %
Revenue	1,008,234	986,888	(21,346)	(2%)
Cost of revenue	(669,827)	(684,468)	14,641	2%
Gross profit	338,407	302,420	(35,987)	(11%)
Marketing, general and administrative expenses	(594,118)	(640,024)	45,906	8%
Profit/(loss) on main operations	(255,711)	(337,604)	81,893	32%

D. Due payments for the 12 months ending on December 31, 2019 compared to 2018

	2018 SR '000	2019 SR '000
Zakat	62,242	79,844
Value Added Tax (VAT)	–	6,981
GOSI	15,687	15,750
Government charges (visas, exits and re-entry, work permits)	1,474	2,963
Economic Cities Authority fees	7,500	7,500
Government fees paid to Economic Cities Authority, including permits	1,670	4,472

Dividend Distribution Policy

The Company's annual net profits are distributed as follows:

- 10% of the net profits shall be set aside towards the formation of the Company's statutory reserve. The Annual General Meeting may stop this when the stated reserve reaches 30% of the paid capital.
- The Annual General Meeting, based on the proposal of the Board, may set aside a percentage not exceeding 10% of net profits towards the formation of agreed-on reserve allocated to specific purpose(s).
- The Annual General Meeting can decide on the formation of other reserves in the amount that achieves the Company's benefits or guarantees the distribution of the most possible stable profits to shareholders. The General Assembly can also deduct from the net profits certain amounts to establish social organizations for the Company's staff or to help what is already established of these organizations.
- The Annual General Meeting, based on the recommendation of the Board of Directors, can distribute from the remaining amount an amount not less than 5% of the Company's paid capital to the shareholders.
- An amount not exceeding 10% of the remaining amount shall be allocated as remuneration to the Board members, on the basis that this remuneration must be in balance with the number of meetings attended by the members.
- The Company can distribute transitional dividends to its shareholders semi-annually or quarterly after abiding by the requirements and regulatory instructions in this regard.

The Company expects to distribute dividends in the coming years, after setting the foundations of KAEC, and the Company's revenues and dividends become clearer.

Loans

- During 2011, the parent company received a loan of SAR 5,000 million from the Ministry of Finance to develop King Abdullah Economic City. The loan is guaranteed against a mortgaged vacant plot of 24.7M m² and an annual commission accrual according to commercial prices. This loan was originally due to the Ministry of Finance that had granted the Company a grace period of three years, provided repayment was made over seven annual instalments as of 1 June 2015. However, on the request the Group before the maturity date, the Ministry rescheduled the loan in September 2015 by extending the grace period by an additional five years. In terms of the discussions held throughout the year, the Ministry rescheduled the first instalment, due in the period from June 2020 to January 2021, and therefore the principal amount of the loan is now payable over seven annual instalments as of June 2021 with a commission to be paid annually.
- During 2014, the parent Company signed an Islamic facility agreement with a commercial bank for SAR 2,000 million of Murabaha financing, resulting in a commission based on commercial prices. The outstanding balance of the long-term loan as of 31 December 2019 was SAR 976.25 million (31 December 2018: SAR 1,508.75 million). Under the agreement conditions, the loan shall be paid over eight semi-annual instalments from 30 June 2018 to 31 December 2021. The instalments payable over 12 months at SAR 532.5 million were classified as current liabilities. The loan is secured against part of a vacant plot owned by King Abdullah Economic City with a value of SAR 3,002 million, held by the parent Company with a promissory note of SAR 2,500 million.

Board of Directors' Report continued

Loans continued

- C. In 2015, the parent Company signed an Islamic facility agreement with a commercial bank for SAR 1,000 million, resulting in a commission according to commercial rates. The outstanding balance of the long-term loan as of 31 December 2019 was SAR 437.5 million (31 December 2018: SAR 500 million). According to the agreement conditions, the loan shall be paid over eight semi-annual instalments from 20 October 2019 to 20 April 2023. The instalments payable over 12 months at SAR 125 million were classified as current payables. The loan is guaranteed by part of a vacant plot owned by King Abdullah Economic City with a total value of SAR 15,000 million, including 92%, which is actually accomplished, and the remaining part in process. The loan is also guaranteed by a promissory note of SAR 1,200 million.
- D. During 2014 and 2015, the C has signed two facility agreements with a commercial bank for SR 1,000 million each, resulting in commissions according to prevailing commercial rates. The outstanding balance as of 31 December 2019 of SAR 1,700 million (31 December 2018: SAR 900 million). According to the conditions of the two agreements, the total term of the two loans shall be eight years, from beginning to end, with a grace period of three years as of the date of the two agreements. To comply with Shariah principles, an additional facility has been arranged by the bank, amounting to SAR 250 million and related to each of the two agreements to allow for rotation (repayment and withdrawal) so that the original amount of the loan shall be available to the Company during the first three years of the loan. The Instalments payable within 12 months, SAR 200 million, are classified as current payables. The loan facilities are guaranteed by a vacant plot owned by King Abdullah Economic City with a total value of SAR 3,000 million. The loan is also guaranteed by a promissory note of SAR 2,250 million.

Short-Term Loans

During 2018, the Company benefited from short-term facilities from a commercial bank for SAR 250 million to finance the operating capital requirements, resulting in a commission according to prevailing commercial rates. The loan facility was reduced to SAR 200 million during the current year, and is guaranteed by a promissory note for SAR 200 million. The outstanding balance as of 31 December 2019 was SAR 170 million (31 December 2018: SAR 150 million).

Of the current short-term facilities of SAR 400 million, the Company used SAR 150 million during the current year to finance operating capital the requirements. The facility carries a commission at prevailing commercial rates and is guaranteed against a promissory note for SAR 2,500 million. (See note 25b). The outstanding balance as of 31 December 2019 was SAR 150 million.

The Company also has documentary credit facilities for SAR 250 million. The outstanding balance as of 31 December 2019 was SAR 42.7 million.

Supplementary facilities from another commercial bank amount to SAR 30 million. The outstanding balance as of 31 December 2019 was SAR 3.7 million.

Board of Directors

Board membership as at December 31, 2019

According to Article 17 of the Articles of Association of the Company, the number of members of the Board of Directors shall be nine, which complies with Paragraph 1 of Article 68 of the Companies Law issued by the Ministry of Commerce and Investment. Accordingly, the Board of Directors was elected for the new three-year term that began on September 26, 2017, they are non-executive or independent members.

All members are non-executive and independent (except for the position of Managing Director, an executive position which became vacant after the resignation of Mr. Fahd Al-Rasheed on December 7, 2018). Below are the Board members and their membership category according to corporate governance regulations issued by the Capital Market Authority:

Members	Non-executive/ excutive/ independent	Educational qualifications	Directorships (current and previous) in other Saudi and foreign listed companies
H.E. Mohamed Alabbar Chairman	Non-Executive	Bachelor's in Finance and Business Administration, Seattle University. Honorary Doctorate, Seattle University.	Chairman of the Board of Directors of Emaar Real Estate Group, Emaar Malls and Emaar Middle East. Board Member of National Bank of Dubai, Chairman of Dubai Cable Company, Chairman of Amlak Finance Company, Vice Chairman of Dubai World Trade Center, Vice Chairman of Dubai Aluminum Company, Chairman and Founder of Dubai Financial Market.
Mr. Abdullah Kamel Vice Chairman	Non-Executive	Bachelor's in Economics, University of California.	Aseer Company for Trading, Tourism, Industrial, Agricultural, Real Estate & Contracting, Amlak International for Property Financing*, Umm Al Qura Development and Construction*, Durrat Arriyadh Real Estate Development (Director), National Real Estate Development Company (Director), Food Manufacturers Company (Director), New Nahj Company (Director), Kawamel Trading & Contracting (Director), Namariq Arabian Services Company (Director), Makaseb Read Estate Company (Director), Sukuk Regional Investment Company (Director), Bayt Al Tawfeeq Development Company (Director), Dallah Albaraka Holding (Director), Al Khawatem for Trading and Contracting Company (Director), Al Tilal Regional Investment Company (Director), Al Mawajed International for Real Estate Development (Director), Al Ostool Al Arabia for Real Estate Development Company (Director), Al Nusrah Development and Real Estate International Company (Director).
H.E. Khalid Al Molhem Member	Independent	BSc in Electrical Engineering, BSc in Engineering Management.	Aseer Company for Trading, Tourism, Industrial, Agricultural, Real Estate & Contracting, Saudi British Bank, Riyadh Cement*, Former General Manager of Saudi Airlines, Former President of STC.
Eng. Abdulrahman Alrowaita Member	Non-Executive	Bachelor's in Industrial Engineering, Master's in Industrial Engineering, University of Southern California.	Research & Marketing Company, Jadwa Investment*, Wilayah Investment Company*.
Mr. Ahmed Jawa Member	Non-Executive	BA and MBA, University of San Francisco.	Emaar Real Estate Group, Ras Al Khaimah Petroleum Company, Al Salam Bank.
Mr. Fahd Al-Rasheed Member **	Non-Executive	Bachelor's in Business Administration, University of Washington. MBA, Stanford University.	Ports Development Company*, Emaar Knowledge Company*.
Mr. Abdullah Taibah Member	Independent	Bachelor's in Electrical Engineering, King Fahd University of Petroleum and Minerals.	
H.E. Saud Al Saleh Member	Independent	Master's in Economics, University of Rhode Island. Bachelor's in Business Administration, Portland State University.	Maad International*, Al Baraka Financial Group, Gulf Company for Residential Complexes*.
Mr. Jamal Bin Theniyeh Member	Non-Executive	Bachelor's in Administration, UAE University.	Emaar Real Estate Group, Ports Development Company.

Board of Directors' Report continued

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Members	Non-executive/ excutive/ independent	Educational qualifications	Directorships (current and previous) in other Saudi and foreign listed companies
Mr. Alaa Al-Jabri **	Member of the Audit Committee	Master of Business Administration.	Vice Chairman of Al Rajhi Bank, Medical and Pharmaceutical Services Company*, Rolaco Group*.
Mr. Abdullah Al-Howaish **	Member of the Audit Committee	Bachelor's degree in Economics, King Abdul-Aziz University, 1985	Chairman, Amlak International for Real Estate Financing Managing Director, Aseer Company Directorships: Halwani Bros Co. Ltd for Trading, Tourism, Industry, Agriculture, Real Estate and Contracting Business; Al-Ettifaq Steel Industries Company; Al-Essa Industries*.
Dr. Faisal Al-Mubarak **	Member of the Audit Committee	PhD in Urban Design and Planning, University of Washington. PhD in political economy.	Vice Dean for Educational Affairs at Al Faisal University. Chief Executive Officer, Professor of Physical and Strategic Planning at the College of Architecture and Planning, King Saud University. Emaar Knowledge Company*.

* Unlisted company

** Member from outside the Board of Directors.

Board meetings in 2019

The Board of Directors held three meetings during 2019, as follows:

	March 30, 2019	October 1, 2019	December 15, 2019
H.E. Mohamed Alabbar	○	⊙	⊙
Mr. Abdullah Kamel	⊙	○	⊙
H.E. Khalid Al Molhem	⊙	⊙	○
Eng. Abdulrahman Alrowaita	⊙	⊙	⊙
Mr. Ahmed Jawa	⊙	⊙	⊙
Mr. Fahd Al-Rasheed	⊙	⊙	⊙
Mr. Abdullah Taibah	⊙	⊙	⊙
H.E. Saud Al Saleh	⊙*	⊙	⊙
Mr. Jamal Bin Theniyeh	⊙	⊙	⊙

⊙ Attended the meeting ○ Did not attend the meeting

* Attended by proxy (where Eng. Abdulrahman Alrowaita is authorized)

The Annual General held one meeting during 2019, as follows:

	May 8, 2019 16th Annual General Meeting
H.E. Mohamed Alabbar	<input type="radio"/>
Mr. Abdullah Kamel	<input type="radio"/>
H.E. Khalid Al Molhem	<input type="radio"/>
Eng. Abdulrahman Alrowaita	<input type="radio"/>
Mr. Ahmed Jawa	<input type="radio"/>
Mr. Fahd Al-Rasheed	<input type="radio"/>
Mr. Abdullah Taibah	<input checked="" type="radio"/>
H.E. Saud Al Saleh	<input type="radio"/>
Mr. Jamal Bin Theniyeh	<input checked="" type="radio"/>

Attended the meeting Did not attend the meeting

Board Committees

Within the framework of corporate governance, the following committees are established by the Board of Directors: Executive Committee, Audit Committee, and Remuneration and Nomination Committee.

Executive Committee

The Executive Committee comprises four members. The Committee is granted its powers by the Board of Directors, which assigns it the following responsibilities: supervision of the execution of the Company's overall strategy, setting the Company's budget, monitoring the Company's operational and financial performance and reporting to the Board of Directors about financial and strategic affairs, in addition to all related matters.

The Executive Committee comprises the following members:

Name	Position
Eng. Abdulrahman Alrowaita	Chairman
H.E. Khalid Al Molhem	Member
Mr. Fahd Al-Rasheed	Member
Mr. Abdullah Taibah	Member

The Committee held four meetings during 2019, as follows:

	March 4, 2019	March 29, 2019	September 15, 2019	December 12, 2019
Eng. Abdulrahman Alrowaita	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>
H.E. Khalid Al Molhem	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>
Mr. Fahd Al-Rasheed	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Mr. Abdullah Taibah	<input checked="" type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>

Attended the meeting Did not attend the meeting

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Audit Committee

The Audit Committee comprises between three and five members, selected from the shareholders and others, taking into consideration the following conditions:

- The Committee must have at least one independent member.
- Not to include any of the Executive Board members.
- The Chairman of the Board must not be a member.
- The Chairman of the Audit Committee must be an independent member.
- Among its members there must be one specialized in finance and accounting.
- It is not allowed for those who work or had worked during the last two years in the executive or financial management of the Company, or with the auditing company, to be part of the Audit Committee.
- The Committee must collectively have enough experience in businesses and deep knowledge of the Company's finance and accounting policies and procedures.
- If a member's seat is vacated, for any reason, the Board of Directors can appoint a temporary member who replaces the previous member to continue the period of the previous member, and this appointment must be presented to the General Assembly in its first meeting. All concerned parties are notified of this appointment as per prevailing regulations.

The Audit Committee focuses on monitoring the Company's businesses and confirming the integrity and correctness of financial reports and statements, and internal auditing systems. The responsibilities of the Committee specifically include:

Financial reports

- Study initial and annual financial statements of the Company before being submitted to the Board of Directors, offering opinions and recommendations to guarantee fairness, integrity and transparency.
- Offer technical opinions, upon the Board of Directors' request. Advise if the Board Of Directors' Report and the Company's financial statements are fair, balanced, understood and include all information that will allow shareholders and investors to evaluate the financial status of the Company, along with its performance, business model and strategy.
- Study any important or unusual matters included in the financial reports.
- Detailed discussion about any issues raised by the financial manager or compliance officer in the Company or financial auditor.
- Verify accounting evaluations adopted in critical matters mentioned in financial reports.
- Study the Company's financial policies, offering opinions about them and making recommendations to the Board.

Internal audit

- Study and review internal and financial audit regulations and risk management in the Company.
- Study the internal audit reports and follow the implementation of corrective measures related to notes mentioned therein.
- Audit and monitor the performance and activities of the Company's Internal Audit Department and review its efficiency, confirm its compliance with international standards in relation to internal audit and business ethics. The Audit Committee must also verify the availability of suitable resources to allow the Internal Audit Department to perform its responsibilities efficiently, and review and approve the budget allocated to this department.
- Recommend to the Board to appoint/exempt the Head of Internal Audit or the Internal Auditor, and define his remuneration in consultation with the Remuneration and Nomination Committee.
- Verify the independence of the Internal Audit Department.

Auditor

- Evaluate the suitability of the auditing firm and recommend its appointment to the Board of Directors, appointing it or reappointing it for the coming year, defining its fees as per the negotiations of the Company's executive management, or exempting it from its duties.
- Verify that the auditor is not offering other technical, managerial or consultancy services to the Company which are not within the scope of auditing and offering its views in this regard.
- Review the plan of the auditor and its businesses, study its reports and notes on the financial statements, verify the answers of the executive management on these notes, follow-up in this regard and verify that no difficulties were faced by the auditor with the Company's management, while performing its duties.
- Study the impacts of any changes in International Financial Reporting Standards (IFRS) or any changes in the regulations on the Company's financial statements and its accounting policies.
- Meet on a regular basis with the auditor and answer its enquiries and questions.
- Verify the independence of the auditor, its objectivity, equity and the efficiency of the auditing process, taking into consideration the related regulations and standards.

Compliance guarantee

- Review company reports submitted to regulatory authorities, including financial statements and data, and verify that the information contained in these reports is consistent with the information in the approved financial statements.
- Review results of the reports of the regulatory authorities and verify that the Company takes the necessary action.
- Verify the Company's compliance with relevant laws, regulations and policies.
- Review contracts and transactions proposed by the Company with related parties and submit their views thereon to the Board of Directors.
- Raise any issues it deems necessary to be taken to the Board of Directors and make recommendations for any action to be taken.
- Review the results of internal investigations for any suspicion of fraud or suspicion of attempting to infringe any law, rules or regulations that have or are likely to have a material impact on the operating results of the Company or its financial position. The Committee shall discuss these results with the Auditor and submit recommendations thereon to the Board of Directors in due time.
- Ensure that there is a strong corporate governance structure, sound management practices, financial and other policies and guidelines that are sufficiently defined and available to all those who need to know thereof.

Evaluating internal control system

Report on effectiveness of internal auditing system at Emaar The Economic City.

Based on the provisions of Articles 10 and 14 of the Corporate Governance Regulations issued by the Capital Market Authority regarding the basic functions of the Board of Directors and the tasks of the Audit Committee, as well as provisions of Article 104 of the new Companies' Law, the Audit Committee provides through this report its opinion on the effectiveness of the internal auditing system of Emaar The Economic City).

The Audit Committee carries out periodic follow-up and undertakes the responsibilities and tasks assigned by the Board of Directors, where the committee, in expressing opinion on the effectiveness of the internal auditing system, relied on:

- Studying the financial statements that include the adopted accounting policies and discussion with the Company's management and with the auditor: The committee, through its periodic meetings during the year, discussed the financial policies adopted in preparing the financial statements based on International Financial Reporting Standards (IFRS). After studying and discussing such policies, the policies are approved by the Board of Directors. The committee also revised the quarterly and annual financial statements as well as special reports in comparison with the previous periods and provided any notices in this regard and discussed these with the financial management of the company and with the auditor before approval by the Board of Directors and publishing, which resulted in providing an unreserved opinion on the Company's consolidated financial statements for the year ending 31 December 2019.

Board of Directors' Report continued

Board of Directors continued

Audit Committee continued

- Reports and notices provided by the auditor and how far does the Company's management undertake corrective actions for such notes: The committee reviewed the report of notices provided by the auditor according to auditor's annual report and received the plan necessary to take corrective actions for such notes from the Company management. The committee followed up with the financial management through the stages of implementing the plan, "and confirmed the commitment of the management to implement such plan."
- Recommendation to Board of Directors to appoint, reappoint or discharge auditors, determine fees, and assess their performance.
- Annual auditing plan provided by the auditor: The committee approved the auditing plan provided by the auditor after discussing the plan and ensuring that the plan includes the main and fundamental areas of concern for the Company.
- Reports and notices developed by the internal auditor of the Company and how far does the Company's management take corrective actions regarding such notes: The committee, periodically, with the internal auditor and senior management of the Company, will follow up stages of the administration's compliance to the agreed work plans so as to take corrective steps regarding the notices developed by the internal auditor of the Company. The internal auditor shall provide a periodic report indicating the updated status of the notices and percentage of completion of the work plan agreed with the management. The committee shall discuss such report with the Company's senior management and the internal auditor.
- Annual auditing plan provided by the internal auditor: The internal auditor shall provide an annual auditing plan based on risk assessment for each division of the Company in addition to the directives of the senior management and Audit Committee. The committee shall adopt such plan after revision of the criteria. The committee, with the internal auditor, shall monitor compliance to the approved plan and shall adopt any modifications based on the justifications that require such modifications, if any
- Various reports requested by the committee from the Company's management, which are audited and discussed during periodic meetings: The committee, periodically, shall request the Company's senior management to provide various reports regarding progress of operations, collections, legal issues, Zakat status, value-added tax, and transactions with the relevant authorities. Various reports shall be discussed during the periodic meetings of the Audit Committee, where the management shall provide sufficient information and answers to the committee's inquiries. The committee shall also discuss and audit all developments regarding the level of new laws and regulations in the Kingdom and shall ensure the Company's compliance with all requirements of the Capital Market Authority and the Companies' Law.
- Annual report regarding the risks that may be incurred by the Company: The committee shall audit the report regarding the risks that may be incurred by the Company and provide notices in this regard after considering the steps taken by the Company's management to mitigate the effects of such risks or cancel all such steps, if possible, and shall report to the Board of Directors for final discussion and approval.
- Revision of the extent of cooperation and assistance provided by the management to the external auditor and the internal auditor, and confirmation of their independence, in addition to absence of any restrictions that prevent completion of the the tasks assigned: The committee requested the auditors to refer in case of any professional difficulties that may represent an obstacle to complete auditing assignments. The committee did not receive any note from the auditors in this regard. The external auditor as well as the internal auditor confirmed that both had obtained all the required information and documents to complete the full audit works.
- Verify and settle complaints received by the Company from stakeholders, and revise the deals of the stakeholders.

The auditing reports does not indicate any fundamental weakness in the Company's internal auditing system, where the majority of notices are mainly in the areas of performance improvement, activating work and raising efficiency of departments and divisions, completing documentation of procedures, and aiming to add more durability to the auditing system and making the best use of available resources.

Based on all these points, taking into consideration that the objectives of the internal auditing system are to:

- Ensure that the accounting records are prepared correctly; increase accuracy and confidence in the accounting data
- Protect assets and property
- Maintain integrity of transactions
- Increase the efficiency of the Company's performance and the efficient use of available capabilities
- Ensure compliance with various laws, regulations and agreements

The Audit Committee considers that the objectives of the internal auditing system as provided in Emaar The Economic City are considerably achieved. The committee also considers that the Company's management position, in general, regarding internal auditing, is positive, where most activities are governed by written policies and procedures, and management interacts positively with the recommended policies.

The Company's management formed several internal committees from different departments, each according to its specialization, to advance operational application of the policies and compliance with the various laws, that each public joint stock company listed on the Saudi Stock Market shall be subject to.

We also note that the comprehensive operations of inspection and assessment of internal auditing procedures cannot be absolutely emphasized, because the auditing process is essentially reliant on random sampling, as well as the diversity of the Company's operations. Therefore, improvement and development efforts shall continue by the committee and control departments to ensure effectiveness and efficiency of the mechanism of follow-up and improvement in internal auditing operation and procedures.

The committee shall continue work during the next year, and shall report any modification the aforesaid, if any.

On 31 July 31 2019, Audit Committee member Dr. Faisal Al Mubarak resigned due to personal reasons. The Board of Directors approved the resignation request on 6 August 2019, effective as of that date.

The Audit Committee comprised the following members up to May 7, 2019:

Name	Position
H.E. Khalid Al Molhem	Chairman
Dr. Faisal Al-Mubarak	Member from outside the Board of Directors
Mr. Alaa Al-Jabri	Member from outside the Board of Directors

The following table shows the committee members after May 8, 2019, after the approval of the Annual General Meeting for the joining of Mr. Abdullah Al-Howaish (from outside the board) to the committee:

Name	Position
H.E. Khalid Al Molhem	Chairman
Mr. Abdullah Al-Howaish	Member from outside the Board of Directors
Dr. Faisal Al-Mubarak	Member from outside the Board of Directors
Mr. Alaa Al-Jabri	Member from outside the Board of Directors

The following table shows the committee members after August 6, 2019 following the resignation of Dr. Faisal Al-Mubarak from the committee:

Name	Position
H.E. Khalid Al Molhem	Chairman
Mr. Abdullah Al-Howaish	Member from outside the Board of Directors
Mr. Alaa Al-Jabri	Member from outside the Board of Directors

The Committee held four meetings during 2019, as follows:

	March 26, 2019	August 5, 2019	November 5, 2019	December 11, 2019
H.E. Khalid Al Molhem	⊙	⊙	⊙	⊙
Dr. Faisal Al-Mubarak	⊙	–	–	–
Mr. Alaa Al-Jabri	⊙	⊙	⊙	⊙
Mr. Abdullah Al-Howaish	–	⊙	⊙	⊙

⊙ Attended the meeting ○ Did not attend the meeting – Was not a member of the Committee

Board of Directors' Report continued

Board of Directors continued

Audit Committee continued

Declaration

The Committee declares that it reviewed and approved the quarterly and annual financial statements for 2019 before submitting them to the Board of Directors.

Remuneration and Nomination Committee

The Committee consists of three members, taking into account the following conditions:

- The Chairman of the Committee must be an independent member of the Board of Directors and appointed by Committee members during the first meeting held after its formation.
- Committee members are appointed in a way that guarantees the availability of varied skills and experience, taking into consideration experience suitable to the Company's activities.
- The Committee's Chairman and members must adhere to the principles of fidelity, integrity and loyalty and take care of the Company's and shareholders' interests, putting these ahead of their own interests.
- The Company must notify the authorities of the Committee members' names and positions within five working days from their date of appointment, and about any changes to the membership within five working days of the changes.
- The Committee membership ends at the conclusion of its term, or the end of the member's eligibility according to any laws or regulations or instructions applicable in the Kingdom. The Board is permitted to remove all committee members, or some of them, at any time and Committee members are permitted to resign from the Committee.
- The Chairman of the Committee or any of its members he appoints must attend the Annual General Meeting to answer shareholders' questions.

Responsibilities and duties of the Remuneration and Nomination Committee

The Committee is responsible for studying topics related to it or which are transferred to it by the Board of Directors. It then raises its recommendations to the Board to take the necessary decisions, or takes the decisions itself, if the Board authorizes it to do so.

The Committee focuses on:

Remuneration

- Preparing a clear policy for the remuneration of Board members and Committees emanating from the Board and executive management and submitting them to the Board for consideration, before being approved by the Annual General Meeting, taking into account the performance, disclosure and verification criteria.
- Clarifying the relationship between remuneration awarded and the applicable remuneration policy and indicating any material deviation from this policy.
- Regularly reviewing the Company's remuneration policy and evaluating its effectiveness.
- Recommending to the Board the remuneration of its members, its Committees and senior executives in accordance with the approved policy.
- Reviewing the CEO's remuneration, including long-term and short-term incentives, as well as determining the achievements of the Group Chief Executive Officer and making recommendations thereon to the Board.
- Reviewing and approving the Group Chief Executive Officer's recommendations on the remuneration of senior executives.
- Ensuring that the Company complies with the remuneration policy of the Board of Directors and the members of Committees emanating from the Board of Directors and executive management, as approved by the Annual General Meeting.

Nominations

- Proposing clear policies and criteria for membership in the Board of Directors and executive management.
- Recommending to the Board of Directors the nomination and re-nomination of members in accordance with approved policies and standards, taking into consideration not to nominate any person previously convicted of the crime of breach of trust.

- Preparing descriptions of the capabilities and qualifications required for Board membership and executive management positions.
- Defining the time that the member is to allocate to the Board's work.
- Annual review of the necessary skills and experience for Board membership and executive management positions, identifying weaknesses and strengths in the Board and executive management, and recommending solutions according to the Company's interests.
- Reviewing the structure of the Board of Directors and executive management and recommending any changes.
- Annual verification of the status of independent members, and ensuring no conflicts of interest exist if the member is on the board of another company.
- Developing job descriptions for executive, non-executive and independent Board members and senior executives of the Company.
- Developing special procedures in the event of vacancy of Board members or senior executives.
- Providing the appropriate level of training and orientation for new Board members about the Company's mission and its achievements so that they can perform their duties with the required efficiency.
- Studying and reviewing the performance of the executive management.
- Studying and reviewing management succession plans for the Company in general, and for the Board of Directors, Group Chief Executive Officer and senior executives.

Remuneration and Nomination Committee powers

The Committee has the right to:

- Investigate any matter that falls within its tasks or any subject specifically requested by the Board of Directors.
- Access the Company's records and documents.
- Request any clarification or statement from Board members, executive management or employees of the Company for the purpose of investigating and enquiring about any information.
- Seek legal and technical advice from any third party or other independent advisory body necessary to assist the Committee in the performance of its functions, provided that this shall be included in the minutes of the Committee meeting.
- Invite any member of the executive management to attend a meeting and provide certain information, provided that this shall be included in the minutes of the Committee meeting.

Remuneration and Nomination Committee members

Name	Position
Mr. Abdullah Taibah	Chairman
Mr. Ahmed Jawa	Member
Mr. Jamal Bin Theniyeh	Member

The Committee held one meeting during 2019, as follows:

	July 14, 2019
Mr. Ahmed Jawa	<input checked="" type="radio"/>
Mr. Jamal Bin Theniyeh	<input checked="" type="radio"/>
Mr. Abdullah Taibah	<input checked="" type="radio"/>

Attended the meeting Did not attend the meeting

Note: The Regulations of the Nomination and Remuneration Committee stipulate that a regular meeting of the Committee must be held every six months. Personal circumstances of the members led to the postponement of the second meeting that was scheduled for December 2019, and was held in January 2020.

Board of Directors' Report continued

Board of Directors continued

Remuneration and Nomination Committee continued

Shares held by Board members, their spouses and children

Member	Shares held on January 1, 2019	Shares held on December 31, 2019	Ownership of first degree relatives	Change from January 1, 2019 to December 31, 2019
H.E. Mohamed Alabbar	10,000,000	10,000,000	None	Zero
Mr. Abdullah Kamel	1,000	1,000	None	Zero
H.E. Khalid Al Molhem	10,153	10,153	None	Zero
Eng. Abdulrahman Alrowaita	125,000	125,000	None	Zero
Mr. Ahmed Jawa	1,000	1,000	None	Zero
H.E. Saud Al Saleh	100	100	None	Zero
Mr. Fahd Al-Rasheed	14,000	14,000	None	Zero
Mr. Jamal Bin Theniyeh	4,107	4,107	None	Zero
Mr. Abdullah Taibah	1,000	1,000	None	Zero

Mr. Abdullah Kamel (Vice Chairman of the Board) owns an interest (right to vote) in each of the following: Dayim Modern Real Estate Company, Aseer Company for Trading, Tourism, Industrial, Agricultural, Real Estate & Contracting, Makaseb Real Estate Company, Al Samaha Commercial, Al Khawatem for Trading and Contracting Company. These companies own various shares in the stocks of Emaar, The Economic City.

He also has full control of the following companies: Kawamel Trading & Contracting, and Al Omran International for Property Management. These companies own a total of 192,710,570 shares in Emaar, The Economic City.

Executive Management

Name	Position	Academic degree	Experience
Mr. Ahmed Linjawy	Group Chief Executive Officer	Bachelor's in Medical Technology, King Abdulaziz University.	Five years as Deputy CEO and six years as Executive Director for External Affairs, Emaar, The Economic City. Previously ten years at Procter & Gamble.
Mr. Faisal Faruqi*	Group Chief Financial Officer	Bachelor's degree, California State University, City Fresno.	Ten years as Group CFO, Emaar, The Economic City. Previously AGM at Samba, Faruqi has 15 years of experience in financial engineering.
Mr. Iyad Ihsan Abdel-Rahim **	Group Chief Financial Officer	Master of Business Administration, and Bachelor of Accounting and Finance	Worked for 24 years in financial departments of various sectors of Al-Futtaim Group, as well as in listed companies and family companies, including: Arab Bank, Standard Chartered Bank, and Arabtec Holding
Mr. Charles Biele***	CEO, Residential Development	BSc in Civil Engineering and MBA in Finance from Virginia Tech.	Six years at Emaar, The Economic City. Previously with Qatari Diar and Emaar Properties (UAE).
Mr. Ramzi Solh	CEO, Commercial Development	Bachelor's in Economics, University of Western Ontario.	Twelve years at Emaar, The Economic City. Previously with the Saudi Arabian General Investment Authority (SAGIA) and Al-Futtaim Group.

Name	Position	Academic degree	Experience
Dr. Hani Gharbawi	General Counsel and Chief Corporate Affairs Officer	BSc in Chemical Engineering, Oregon State University. PhD in Law, Lewis & Clark Northwestern School of Law.	Seven years at Emaar, The Economic City. Previously at Aramco and King Abdullah University of Science and Technology.
Mr. Karim Mourad	Executive Director, Chief Compliance Officer & Head of Board and Shareholders Affairs and Secretary of the Board	Bachelor's in Accounting and Finance, Saint Joseph's University.	Twelve years at Emaar, The Economic City. Previously Senior Auditor at Abdul Latif Jamil Company for six years.

* Resigned as Group Chief Financial Officer on January 13, 2019.

** Appointed as Group Chief Financial Officer on June 16, 2019.

*** Terminated by the Company on September 30, 2019.

Shares held by senior executives, their spouses and children

Member	Position	Shares held on January 1, 2019	Shares held on December 31, 2019	Ownership of first degree relatives	Change from January 1, 2019 to December 31, 2019
Mr. Ahmed Linjawy	Group Chief Executive Officer	25,000	25,000	None	Zero
Mr. Ramzi Solh	CEO, Commercial Development	None	None	None	Zero
Mr. Faisal Faruqi	Group Chief Financial Officer	None	None	None	Zero
Mr. Iyad Abdel-Rahim	Group Chief Financial Officer	None	None	None	Zero
Mr. Charles Biele	CEO, Residential Development	None	None	None	Zero
Dr. Hani Gharbawi	General Counsel and Chief Corporate Affairs Officer	None	None	None	Zero
Mr. Karim Mourad	Executive Director, Chief Compliance Officer & Head of Board and Shareholders Affairs and Secretary of the Board	None	None	None	Zero

Major shareholders

Shareholder	Owned Shares	Ratio %
Dayim Modern Real Estate Company	146,000,000	17.26%
MI Royal Capital Company	80,000,000	9.4%
Emaar Middle East	50,000,000	5.9%
MI Holdings Company	50,000,000	5.9%
MI Strategic Investments Company	50,000,000	5.9%
MI Partners Company	46,000,000	5.4%

Annual assessment of the Board of Directors

The Board requires each member to undertake a self-evaluation to determine points of strength and weakness of the Board. Based on the results of such evaluation, training programs for Board members shall be arranged as needed.

Board of Directors' Report continued

Related Party Transactions

During the normal course of business, the Company has entered into transactions with other facilities that fall within the definition of the Related Party according to IAS 24. Related Entities are the major shareholders and senior management employees of the group and facilities that exercise common control or substantial influence over such entities. Transactions with Related Parties shall be implemented during the normal course of business subject to conditions, which are not better than the available conditions or the conditions, which were reasonable. It is expected that such similar transactions shall be with the related parties, i.e. – equivalent to such long-standing transactions. In addition to Note 17 in the annual financial statements for the year to 31 December 2019, the following are the main transactions with related parties during the period and related balances:

Related party	Transaction nature	Transaction amount		Balance as at	
		2019 SR '000	2018 SR '000	31 December 2019 SR '000	31 December 2018 SR '000
Sister companies	Rent, general services and service charges	4,616	7,349	3,211	7,941
	Real estate sale	5,640	27,762	1,650	–
Joint venture	Sale of real estate, public services and service expenses	1,497	1,208	971	2,241
Senior management	Rent, general services and service charges	1,179	186	895	203
	Real estate sale	222	–	222	–
Board of Directors	Rent, general services and service charges	164	580	231	4,668
	Real estate sale	147	–	147	–
Total				7,327	15,053
Sister companies	Incurring expenses to the Group	–	–	(2,619)	(2,619)
	Services to the Group	389	4,187	(415)	(305)
	Advance payment against sale of leased properties and units	–	–	(7,961)	(7,965)
	Advance payments for the purchase of cables	20	276	–	–
Sister companies of great influence	Remuneration	–	–	(89)	(89)
Senior management	Fees and expenses for meeting attendance	16,263	23,197	–	(7,875)
Board of Directors	Sale of real estate, public services and service expenses	4,003	4,200	(4,003)	(4,200)
	Sale of real estate, public services and service expenses	–	–	(19)	–
Total				(15,106)	(23,053)

Board of Directors' and Executive Management Remuneration

The Company's Articles of Association stipulate the Board of Directors' remuneration, as well as the remuneration policy for Board members and senior executives approved by the Company's Annual General Meeting. This indicates that the Remuneration and Nomination Committee shall recommend to the Board the remuneration for Board and Committee members. According to the policy, the Company shall take into account:

- Adherence to the Company's strategy and objectives.
- Remunerate to encourage Board members and executive management to make the Company successful and achieve long-term development, linking the variable part of remuneration with long-term performance.
- Base remuneration on job level, duties and responsibilities of the member, in addition to educational qualifications, experience, skills and performance level.
- Remuneration consistent with the size, nature and risk level within the Company.
- Take into consideration other companies' remuneration practices, avoiding what might result from a non-justifiable increase in remuneration and compensation.
- Attract skilled and qualified people, their retention and encouragement, without exaggerating this.
- Coordinate with the Remuneration and Nomination Committee when making new appointments.
- Consider holding or reversing remuneration if it is discovered to be based on non-accurate information presented by a Board member or senior manager. This is to discourage the misuse of job status to receive undeserved remuneration.

According to Article 21 of the Company's Articles of Association and Article 76 of the Company's bylaws, remuneration granted to the Board of Directors shall be an identified amount, attendance fees for meetings, in-kind benefits, or a percentage of net profits. Two or more of these may be combined, in line with the provisions of the Company's bylaws, corporate governance regulations, and the rules and regulations set by the Capital Market Authority in this regard:

- If the Board members' remuneration is a percentage of net profits, then according to Article 47 of the Company's bylaws and Article 76 of the companies' regulations, the remuneration of Board members must not exceed ten percent of the remaining net profits after deducting the approved reserves and distribution of dividends to shareholders in a percentage of not less than five percent of the paid-up capital.
- Differences in the remuneration of Board members are permitted, reflecting the experience of each member and his specialization, duties, responsibilities, independence, number of meetings attended, and other considerations.
- The remuneration of independent Board members must not be a percentage of profits achieved by the Company or based directly or indirectly on the Company's profitability.
- In all cases, the total remuneration or tangible benefits that a Board member receives must not exceed SR 500,000.00 annually.

The policy of each committee must include the remuneration of its members and the policy of remunerating executive management should include:

- Basic salary (paid at the end of the month and on a monthly basis).
- Allowances that include, for example but not limited to, housing, car, telephone and education for children.
- Insurance benefits, including medical, health, life, and accidents.
- Short-term incentive plans related to performance of the member and the Company, long-term incentive plans such as stock options, and other plans related to retention of staff.
- Other benefits that include, but are not limited to, annual leave, annual air tickets, and end of service indemnity.

Board of Directors' Report continued

Board of Directors' and Executive Management Remuneration continued

The Company paid SR 4,002,654 as salaries and allowances to members of the Board of Directors:

SR '000	Fixed remuneration						Variable remuneration						Total	Gratuity	Grand total	Expenses
	Amount	Board meeting attendance fees	Total Board meeting attendance fees	Benefits in-kind	Technical, administrative and consulting	Chairman, Managing Director or Secretary if a member	Total	Ratio of profits	Periodic remuneration	Short-term incentive plans	Long-term incentive plans	Shares granted (value is entered)				
Independent members																
H.E. Khalid Al Molhem	350,000	-	150,000	-	-	-	500,000	-	-	-	-	-	-	-	500,000	-
Mr. Abdullah Taibah	350,000	-	150,000	-	-	-	500,000	-	-	-	-	-	-	-	500,000	-
H.E. Saud Al Saleh	350,000	-	-	-	-	-	350,000	-	-	-	-	-	-	-	350,000	-
Total	1,050,000		300,000				1,350,000								1,350,000	
Non-Executive members																
H.E. Mohamed Alabbar	350,000	-	0,000	-	-	-	350,000	-	-	-	-	-	-	-	350,000	-
Mr. Abdullah Kamel	350,000	-	0,000	-	-	-	350,000	-	-	-	-	-	-	-	350,000	-
Eng. Abdulrahman Alrowaita	350,000	-	95,000	-	-	-	445,000	-	-	-	-	-	-	-	445,000	-
Mr. Ahmed Jawa	350,000	-	80,000	-	-	-	430,000	-	-	-	-	-	-	-	430,000	-
Mr. Jamal Bin Theniyeh	350,000	-	80,000	-	-	-	430,000	-	-	-	-	-	-	-	430,000	-
Mr. Fahd Al-Rasheed	350,000	-	90,000	-	-	-	440,000	-	-	-	-	-	-	-	440,000	-
Total	2,055,000		345,000				2,445,000								2,445,000	
Executive member																
External members																
Mr. Alaa Al-Jabri	0,000		95,000				95,000								95,000	
Dr. Faisal Al-Mubarak	0,000		48,750				48,750								48,750	
Mr. Abdullah Al-Howaish	0,000		63,904				63,904								63,904	
Total	0,000		207,654				207,654								207,654	
Grand total																

This includes the remuneration of Committee members as follows:

	Fixed remuneration (except meeting attendance fees)	Meeting attendance fees	Total
Executive Committee			
Eng. Abdulrahman Alrowaita	75,000	20,000	95,000
H.E. Khalid Al Molhem	75,000	20,000	95,000
Mr. Fahd Al-Rasheed	75,000	15,000	90,000
Mr. Abdullah Taibah	75,000	10,000	85,000

	Fixed remuneration (except meeting attendance fees)	Meeting attendance fees	Total
Audit Committee			
H.E. Khalid Al Molhem	75,000	20,000	95,000
Dr. Faisal Al-Mubarak *	43,750	5,000	48,750
Mr. Alaa Al-Jabri *	75,000	20,000	95,000
Mr. Abdullah Al-Howaish *	48,904	15,000	63,904
Remuneration and Nomination Committee			
Mr. Abdullah Taibah	75,000	5,000	80,000
Mr. Ahmed Jawa	75,000	5,000	80,000
Mr. Jamal Bin Theniyeh	75,000	5,000	80,000

* External members (Not members of the Board of Directors)

The Company paid a total of SR 15,769,758 to senior executives including the Group Chief Executive Officer and Group Chief Financial Officer.

Executive Management Remuneration

Fixed remuneration				Variable remuneration							
Salaries	Allowances	Benefits in-kind	Total	Periodic remuneration	Dividends	Short-term incentive plans	Long-term incentive plans	Shares granted (value is entered)	Total	Total	
7,748,781	2,712,073	988,143	11,448,998	797,950	–	–	3,522,810	–	4,320,760	15,769,758	

Declaration

The Company confirms the relationship between the remunerations granted to members of the Board of Directors and executive management, and the applicable remuneration policy, where there is no significant deviation from such policy.

Operating Structure

Due to the continued works and activities of the Company in the subsidiary companies described in this report, the Company attracted a large number of distinguished global and local contributors to the work according to the requirements of the next stage, especially after the city's operation and intensity of development operations. The Company, during 2019, has implemented many training courses and workshops for employees.

Subsidiary Companies

The Company owns shares in seven subsidiary companies:

1. **Ports Development Company** is a closed joint stock company based at KAEC. It executes contracts related to managing, developing, maintaining, operating, financing and investing in King Abdullah Port, in addition to all services necessary to operate the port and its facilities. Port Development Company's capital is SR 5.21 billion, distributed over 521 million shares. Emaar, The Economic City owns 260.5 million shares, equivalent to SR 2.605 billion and 50 percent of Port Development Company's capital.
2. **Economic Cities Investments Holding Company**, commercial register number 4602003130. Emaar, The Economic City owns 99 percent of shares and the remaining shares are held by a partner. The company's capital is SR 500,000. It is based at KAEC and is involved with establishing companies or buying shares in existing companies.
3. **Industrial Zones Development Company Limited**, commercial register number 4602211995. Emaar, The Economic City owns a 1 percent share, the Economic Cities Investments Holding Company owns 98 percent of the shares, and the remaining shares are owned by a partner. The company's capital is SR 500,000 and it is based at KAEC, involved with establishing, managing, operating and the provision of services to industrial areas, cities, warehouses and storage areas.

Board of Directors' Report continued

Subsidiary Companies continued

4. **Economic Cities Real Estate Development Company**, commercial register number 4602004969, is a limited liability company based at KAEC. The company's capital is SR 500,000. Emaar, The Economic City owns a 1 percent share, the Economic Cities Investments Holding Company owns 98 percent of the shares, and the remaining shares are owned by a partner. The company is involved with the ownership, purchase, investment, sale, development, marketing, rental and lease of lands, real estate, schools, hospitals, health facilities, sports stadiums and the train station, including lands on behalf of the Company.
5. **Economic Cities Pioneer Real Estate Management Company**, commercial register number 4602004970, is a limited liability company based at KAEC. The company's capital is SR 500,000. Emaar, The Economic City owns a 1 percent share, the Economic Cities Investments Holding Company owns 98 percent of the shares, and the remaining shares are owned by a partner. The company is involved with the establishment, management, development, operation, leasing, rental and provision of services for various types of real estate, commercial, residential and administrative complexes in the economic cities.
6. **Economic Cities Real Estate Operations and Management Company**, commercial register number 4602004968, is a limited liability company based at KAEC. The company's capital is SR 500,000. Emaar, The Economic City owns a 1 percent share, the Economic Cities Investments Holding Company owns 98 percent of the shares, and the remaining shares are owned by a partner. The company is involved with owning, buying, investing, selling, developing, leasing, and renting land and real estate for various residential and commercial purposes in the economic cities on behalf for the Company, establishing and providing various services for real estate, facilities, schools, hospitals and sports stadiums in the economic cities.
7. **Emaar Knowledge Company**, commercial register number 4602006620, is a limited liability company based at KAEC. The company's capital is SR 10 million. Emaar, The Economic City owns 96 percent of the shares and the remaining 4 percent of the shares are owned by subsidiary companies. The Company is involved with the administration and operation of a college specializing in granting Bachelor's and Master's degrees in business administration, establishing college buildings, institutes, the center, housing for students and teachers, schools and sports stadiums.

Corporate Governance

The Board of Directors supervises the Company's compliance with corporate governance rules and regulations issued by the Capital Market Authority. The Governance and Compliance Department coordinates with the Board Secretariat, executive management and Committees to review and update corporate governance policies and practices to promote integrity, transparency and compliance.

The Company is required to disclose in the Board of Directors' Report the regulatory requirements stipulated in the corporate governance regulations issued by the Capital Market Authority, whose regulations shall be applied in full.

The Company is committed to implementing all corporate governance regulations issued by the Capital Market Authority pursuant to Decision No (8-16-2017) dated to February 13, 2017, except for the following paragraphs:

1. Articles 70, 71 and 72, which relate to the formation of a Risk Management Committee. The Company considers that the Audit Committee is fully responsible for the work required by this Committee.
2. Article 95, which refers to the existence of a Governance Committee. The Company considers that the Audit Committee is able to perform this task in full.

Board of Directors' declarations

- The Company asserts that no cash loan of any kind is provided to its Board members, or has guaranteed the members in any loan with others.
- The Company does not have rights of option and subscription for the Board of Directors, senior executives, their spouses and children, whether in shares or debt instruments of the Company or any of the subsidiaries of Emaar, The Economic City.
- The Company had no convertible debt instruments, option rights, subscription notes or similar rights issued by the Company or its subsidiaries during the year 2019.
- The Company affirms that no agreement or waiver was concluded with any of the Board members, shareholders, executives or employees of the Company, whereby the right of profits has been waived.

- The Company affirms that no significant change has been made in its financial records, and that the Company shall comply with the accounting standards issued by the Saudi Organization for Certified Public Accountants (SOCPA). There are also no material observations from the accountant regarding the Company's activities, financial records or financial statements for 2019. The certified accountant has no reservations about these statements.
- The Audit Committee monitors the Company's procedures and internal controls and evaluates their effectiveness through:
 - Reviews of the financial statements included in the accounting policies used and discussed with the Company's management and the certified accountant.
 - Periodic reports and observations raised by the Company's internal auditor based on the annual audit plan and the extent to which the Company's management takes corrective action on these observations.
 - Reports and observations provided by the auditor and the extent to which the Company's management takes corrective action on these observations.
 - The various reports requested by the Committee from the Company's management team, which are reviewed and discussed during periodic meetings.

The audit reports referred to above did not show any significant weakness in the Company's internal control system. The majority of the observations are mainly focused on the areas of improving performance, activating the work of departments and divisions, improving their efficiency, and updating their procedures to give the system greater control and better utilization of resources.

Based on all of the above, and taking into account that the objectives of the internal control system are:

- To ensure that the accounting records shall be prepared correctly and increase accuracy and confidence in the accounting data.
- To protect assets and property.
- To maintain integrity in transactions.
- To increase the efficiency of the Company's performance and efficient management of its available resources.
- To comply with various laws, regulations and contracts.

Therefore, the Audit Committee considers that the objectives of the internal control system as stipulated by Emaar, The Economic City have been largely achieved. The Committee also considers that the overall position of the Company's management relevant to internal control is positive, as the majority of activities are governed by formal policies and procedures, and management responds positively to the recommended policies.

In addition, the management of the Company has formed several internal committees from different departments, each committee according to its competence, for the proper conduct of operations and the application of policies and compliance with the various laws applicable to public companies listed on the Saudi Stock Exchange (Tadawul).

- The Company affirms that the Board of Directors has developed a formal policy to regulate conflicts of interest and address possible conflicts of interest relevant to the Board of Directors, executive management and shareholders, including abuse of the Company's assets and facilities, in addition to misconduct resulting from transactions with related parties.
- The Company affirms that it did not receive any statement of interest in shares with voting rights belonging to individuals (other than members of the Board of Directors, senior executives, their spouses and children).
- The Company affirms that no redemption, purchase or cancellation by the Company or its subsidiaries of any refundable debt instruments.
- The Company affirms that no rights of transfer or subscription under debt instruments convertible into shares, option rights or subscription notes.
- The Company affirms that no contracts were signed in 2019 and that there is no any fundamental interest of a Board member as stated in Paragraph 7 in the report.
- The Company affirms that no other investments or reserves were created for the benefit of the Company's employees.
- The company affirms that no person of legal standing, who is entitled under the Company's Articles of Association to appoint representatives on the Board of Directors, has voted on the selection of other members of the Board of Directors.

Board of Directors' Report continued

Zakat and Government Payments

The General Authority for Zakat and Tax issued Zakat assessments for the years from 2006 to 2008 which required an additional Zakat and withholding tax differentials of (SR 90.4 million) in addition to imposing a delay fine. The claim was considered before the Board of Grievances. In line with the appeal procedure and without acknowledgment of the obligation, the Company provided a bank guarantee under appeal against the withholding tax differentials.

The Board of Grievances did not accept the objection in form. The Company filed a petition to the Royal Court requesting the Board of Grievances to reconsider the judgment and re-study the case. The petition was not accepted by the Board of Grievances and the Court upheld the previous decision.

During 2019, the authority issued a letter to collect an additional Zakat obligation of SAR 86.6 million. The Company settled 20% of the total liabilities in 2019 and 43% of the total liabilities after the end of the year. The authority agreed to allow four monthly installments to pay the Zakat obligation.

The withholding tax issue is studied by the Board of Grievances. The Board of Grievances issued a decision to confirm the Company's objection related to the delay penalty. The authority filed an appeal to the Royal Court against the decision of the Board of Grievances regarding the delay penalty, which is still awaiting judgment.

The Company settled the additional Zakat obligations and terminated the assessment for the years 2009 to 2011. The Company provided Zakat declarations for the years up to 2018 and obtained restricted Zakat certificates.

Subsidiaries are: Economic Cities Investments Holding Company (ECIHC), Industrial Zones Development Company Limited (IZDCL), Economic Cities Real Estate Operation and Management Company Limited (REOM), Economic Cities Pioneer Real Estate Management Company Limited (REM), and Economic Cities Real Estate Development Company Limited (RED)

Economic Cities Investments Holding Company (ECIHC) declared assessment until 2012 and provided its Zakat declaration until 2018 and obtained restricted Zakat certificates. The authority requested additional information regarding the years from 2014 to 2018, which was provided.

Industrial Zones Development Company Limited (IZDCL) declared Zakat position up to 2012. The authority issued the Zakat assessment for the years 2013 to 2015, and claimed for an additional Zakat amount of SAR 4.6 million. Industrial Zones Development Company Limited (IZDCL) objected to the assessment of the authority, where the Company provided the documents supporting position. The authority referred the case to the General Secretariat of the Tax Committees. The Industrial Zones Development Company Limited (IZDCL) also filed an appeal at the Secretariat's portal. The authority provided comments on the filed appeal, to which it responded at the time, and the response is still awaited.

Industrial Zones Development Company Limited (IZDCL) provided Zakat Declarations until 2018 and obtained Zakat certificates

Economic Cities Real Estate Operation and Management Company Limited (REOM), Economic Cities Pioneer Real Estate Management Company Limited (REM), and Economic Cities Real Estate Development Company Limited (RED), provided zakat declarations for 2013 to 2018 and obtained unrestricted Zakat certificates.

Emaar Knowledge Company Limited (EKC) provided Zakat Declarations for 2016 to 2018 and obtained unrestricted Zakat certificates.

Declaration

The Company abides by the Zakat regulations as per the General Authority of Zakat and Tax in the Kingdom of Saudi Arabia. It lists the annual due Zakat allocations on the net income, and registers the amendments made when effectuating the final Zakat assessment – if any – during the relevant period of assessment.

Shareholder Rights and Annual General Meeting

The Company's bylaws and governance regulations included the necessary procedures and precautions to ensure that all shareholders exercise their statutory rights, among which are:

1. The right to receive dividend payments.
2. The right to receive a share of the Company's assets upon liquidation.
3. The right to attend general assemblies, participate in deliberations and vote on decisions.

4. The right to share disposal.
5. The right to monitor the work of the Board of Directors and file responsibility lawsuits against the members of the Board.
6. The right of enquiry and information request in such a way that does not compromise the interests of the Company or contradict the Capital Market laws and its executive regulations.

The Company also provides all information that enables shareholders to exercise their rights to the fullest extent. This information is complete, accurate and updated in a regular and timely manner through the annual reports, the Company's website, the Tadawul website, and press releases in the application of disclosing information to shareholders without discrimination. The Shareholders' Affairs Division also provides periodic reports to senior management, including a detailed report on shareholders and stock movement, and related to inquiries, proposals and observations about the Company and its performance. The executive management presents to the Board of Directors an annual report containing the required information of investor activity, related Company's shares and their movement. The Company discloses all shareholder or regulatory authority questions that are received during the Annual General Meeting on the Company's website. There are no suggestions or comments by shareholders about the Company and its performance other than those disclosed.

Emaar The Economic City Company held its sixth Extraordinary General Assembly meeting on Wednesday, Ramadan 03,1440H (corresponding to 08 May 2019, through which the following resolutions were passed:

1. Voting for the report of the Board of Directors for the fiscal year ending on 31/12/2018.
2. Voting for the consolidated financial statements of the Company for the fiscal year ending on 31/12/2018.
3. Voting for the auditor's report for the fiscal year ending on 31/12/2018.
4. Voting for appointment of the company's external auditor based on the recommendation of the Audit Committee to inspect, revise and audit the financial statements for the second, third quarters and annually for the fiscal year 2019 and the first quarter of 2020, in addition to determination of fees.
5. Voting for amendment of Article 30 of the Company's Articles of Association related to invitation for assembly meetings (attached).
6. Voting for amendment of Article 41 of the Company's Articles of Association related to reports of the committee. (attached).
7. Voting for amendment of Article 46 of the Company's Articles of Association related to financial instruments (attached).
8. Voting for the recommendation of the Board of Directors to appoint the member of the Board of Directors, Eng. Khaled Al-Mulhim as a member of the Audit Committee to replace the member of the Board of Directors who resigned from the Committee, Mr. Saud Al-Saleh, as of 13/11/2018 to the end of the course of the committee's work on 23/04/2020, according to Regulations of the Audit Committee's work (attached).
9. Voting for appointment of Mr. Abdullah Al-Howaish as the fourth member of the Audit Committee (from outside the Board of Directors) as of 08/05/2019 until the end of the course of the committee's work on 23/04/2020 (attached).
10. Voting for remunerations and compensations paid to members of the Board of Directors, included in the report of the Board of Directors for the period 1 January 2018 to 31 December 2018.
11. Voting for releasing the members of the Board of Directors regarding liability for the fiscal year ending on 31 December 2018.

The Company used the electronic voting system for shareholders provided by the Saudi Stock Exchange (Tadawul) and enabled voting five days before the date of the meeting.

We confirm that the Company did not receive any request from the chartered accountant KPMG Al-Fawzan and Co., to hold the general assembly meeting during the fiscal year ending in 2019 and it was not held. We confirm that no request is received from shareholders, who holds 5% of the share capital or more, to hold General Assembly meeting during the fiscal year ending 2019 and it was not held.

Board of Directors' Report continued

Shareholder Rights and Annual General Meeting continued

The company announced the date, location and agenda of General Assembly meeting, 21 days before the determined date. The invitations were published on Tadawul and in Al-Madina newspaper. The announcement clarified the rules governing shareholders' General Assembly meetings and voting procedures. The opportunity is given to all shareholders to actively participate and vote for items on the agenda. Shareholders were also able to discuss the issues on the agenda and to ask questions to members of the Board of Directors and the chartered accountant, and such questions were answered, knowing that no shareholder who holds 5% or more of the share capital of the Company provided a request to add one or more topics to the agenda of the General Assembly.

The Company confirms that it avoided development of any procedure that might hinder the shareholder's use of right to vote, and also verifies the powers of attorney of attending shareholders who are non-members of the Board of Directors and non-employees of the Company. Realizing the importance of communication with shareholders, the company continued to:

1. Publish the quarterly financial statements and final accounts for the fiscal year 2019 on the Tadawul website, during the period specified by the law.
2. Adhere to the form of announcements specified by the Capital Market Authority, and the essential information that shall be included and the dates of publication.
3. Prepare the report of the Board of Directors in accordance with the requirements of disclosure and the indicative form prepared by the Capital Market Authority.
4. Updating the Company's website (www.kaec.net) and upload the website with the necessary information that reflects the Company's activity, news and financial results periodically.
5. The Shareholders' Affairs Department in the company continues to communicate regularly with shareholders, receive their suggestions and inquiries, and submit these to the Board of Directors.

All shareholders are given the opportunity to actively participate and vote for the agenda issues, especially as the Company continued to use the electronic voting system through the Saudi Stock Exchange (Tadawul).

The Company received 5 registers of the shareholders during 2019 according to the following schedule:

Request date	Report date	Request reason
1. March 20, 2019	March 19, 2019	Companies regulations
2. May 5, 2019	May 8, 2019	Annual General Meeting
3. June 10, 2019	June 5, 2019	Companies regulations
4. August 29, 2019	August 28, 2019	Companies regulations
5. December 3, 2019	December 2, 2019	Companies regulations

Future Risks

As is the case in sizable strategic projects, the construction of a comprehensive city may involve many risks related to the long-term period to finalize the project, and the necessity to adapt to the rapid economic and operational changes that all this implies. Therefore, the Company consults from time to time with experts to ensure the accuracy of assumptions and studies, and to rely on the best practices in carrying out the activities of the Company to guarantee long-term continuity.

The Company defined a general perception regarding the risks and challenges that may be incurred and which may affect performance of the Company or the city's development programs. The Board of Directors and The Executive Management developed the necessary plans and procedures to reduce or eliminate the impact of such risks. The most important risks are:

- Risks related to security and safety in the city.
- Decrease in sales due to the slow economic movement in the Kingdom resulting from the decline of oil prices which affected the investment environment in the public and private sectors, and which also affected the ability of current customers to adhere to their financial and investment obligations in KAEC.
- Activating regulations as stated in the regulations of the Economic Cities Authority and many other new or updated specialized regulations.
- Risks related to cyber-attacks that the Kingdom of Saudi Arabia witnessed during the previous period.

At the date of issuance of this report, the Corona pandemic was sweeping the world, and the company is currently studying its future effects in order to develop the necessary plans to counter these negative effects.

In addition to the above mentioned risks, the Company's management is following and monitoring risks of a financial nature represented in:

The risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market commission rates. The group's exposure to the risk of commission commission changes in the market relates to the bank deposits of the group on which a commission is paid and the loan from the Ministry of Finance and commercial banks.

Currency risk

These are risks related to the fluctuation of the fair value or future cash inflows of monetary instruments due to the changes in foreign currency exchange. The Group during the year did not conduct any major transactions in currencies other than the Saudi riyal and US dollar. Since the US dollar is linked to the Saudi riyal, the Group was not exposed to any major currency risks.

Credit risk

These are risks related to the non-adherence of a party to its commitments, thus causing financial loss to the other party. The Group works on limiting credit risks related to clients through monitoring the current account payables. And according to the sales agreement with clients, the ownership document is transferred to the clients only after receiving the full price.

The Group manages its exposure to credit risks in relation to Murabaha deposits at banks through diversification and investing with other parties of good credit rating.

Liquidity risk

Liquidity risks revolve around the Group facing difficulties in having the funds needed to face its commitments and financial obligations. Liquidity risks can arise from the inability to sell a monetary asset quickly and at a price that equals its fair value. Liquidity risks are managed through regular monitoring and always confirming that enough funds are available from credit facilities to meet any future obligations. The Group expects it will have enough available funds to pay all due liabilities during 12 months from the end of the year.

The Company monitors and evaluates all these risks and deals with them on an ongoing basis through regular follow-ups and reporting to the board of directors, and through taking the right decisions and directions to offset the effects of these risks or reduce their effect to the accepted levels.

Penalties

The Company did not receive any fines from the Capital Market Authority or any other supervisory authority in 2019.

Declarations

Emaar, The Economic City declares that:

1. The financial statements were properly produced.
2. The internal audit system was established on a sound basis, and effectively implemented.
3. There is no doubt concerning the ability of Emaar, The Economic City to continue its activities.

May Allah grant us success.

Board of Directors

Emaar, The Economic City