



MANAGEMENT REVIEW

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Chairman's Statement



“ In a year of turbulence and upheaval stemming from the global pandemic, Baladna has stood firm as a key pillar of Qatar’s independence and self-sufficiency, delivering on the goals of National Vision 2030 and supporting the imperative of ensuring our food security in the face of continuing uncertainty. ”

Moutaz Al Khayyat
Chairman

Baladna has remained highly resilient in facing the negative fallout of the COVID-19 pandemic, accelerating our growth over the course of 2020 to achieve significant top- and bottom-line increases and secure our future as Qatar's most successful greenfield dairy farm.

Following on from our successful IPO last year, we have delivered on our promise to shareholders, realising a 67.6% increase in revenue and a net profit margin of 18.7% in 2020, outperforming the QE Index with a share price increase of 79% and announcing our first interim dividend (of QR 0.021 per share) in April. We also joined the MSCI Emerging Markets Small Cap Index in May and the QE Index, QE Al Rayyan Islamic, All Share and Sector Indices in October.

As of end-2020, Baladna maintains an extremely strong asset base; this is primarily funded by equity, which is also strong, as evidenced by our net debt-to-total-capital employed ratio of 34.5%.

We are almost entirely self-sufficient in our operations, serving the Qatari market in the absence of exposure to long supply and distribution chains, which significantly reduces our vulnerability to external shocks. Whilst expanding our production capacity and safeguarding our growth trajectory, we have also prioritised measures to ensure the safety of our animals, employees and customers, as well as the environment in which we operate.

To this end, we have secured significant progress in the areas of governance, risk management and sustainability, laying the foundations for future growth and geographic expansion in a manner that is both responsible and beneficial to the people, society and natural spaces around us.

We continue to focus on achieving best practices in corporate governance, business integrity and professionalism under a framework that is aligned with Baladna's strategic objectives and reflects regulatory guidelines, including those of Qatar Financial Markets Authority (QFMA). Our governance structure also includes a strong ethical code of conduct and a matrix of boards and committees with individual charters to maximise the efficiency of their actions and ensure clear lines of accountability.

Our focus on avoiding, managing and mitigating risks has served us well during this volatile and challenging year. Our Enterprise Risk Management methodology is regularly reviewed and updated in order to ensure the business avoids and minimises the impact of any potential risks to the Company or its ability to execute its strategy and operate its business. We also developed a major incident and crisis management protocol, which would come into effect should any abnormal or unstable event threaten the Company's strategic objectives, reputation or ongoing viability. As such, we are in a stronger position than ever to combat potential risks that may hinder us from reaching our potential as a growing and thriving leader in our sector.

We are proud to have embarked on our sustainability journey this year and are committed to complying with all regulatory requirements and aligning our best practices with the industry as we build out a full sustainability programme during 2021. We will review the issues that are key to our business proposition and important to our stakeholders, and put in place a framework and roadmap that we can build on for years to come as a responsible and sustainable company.

Baladna's increasingly holistic approach to the reuse of treated wastewater represents a key development for our company's sustainable goals in 2020, embodied by our partnership with Veolia Water Technologies - the global leader in optimised resource management. As part of Baladna's partnership with Veolia, we have increased our planned treatment capacity to enable the reuse of treated wastewater for agricultural irrigation purposes.

In closing, I wish to express my thanks to the many people who have worked so hard to deliver Baladna's remarkable achievements. Whilst our recent successes are undoubtedly a result of our strategic approach and preparedness, they would be impossible without the careful diligence of our Board, the astute decision-making of our management, and the passion and commitment of our employees at all levels of the Company. Furthermore, I must express our deepest gratitude for the support and trust provided by our shareholders, without whom Baladna would not be the Company it is today. We remain wholeheartedly committed to rewarding this hard work, commitment and trust with further good performance and returns in the coming year, as we seek to reinforce our position as Qatar's market leader in dairy and beverages, whilst also exploring new markets for growth further afield.

We have delivered on our promise to shareholders, realising a **67.6%** increase in revenue and a net profit margin of **18.7%** in 2020

CEO's Review



I am pleased to present the first annual report for Baladna QPSC. Our strong operational performance, continued commercial success and financial results achieved in the financial year 2020, reflect the dedication of the entire Baladna team and the support of the Baladna Board of Directors to serve our customers and further enhance shareholder value.

Resilient business and continued product innovation & development

Reflecting on the resilience of our people and processes, I am proud to report that in facing the COVID-19 challenges Baladna successfully continued to service customers and consumers with uninterrupted supply. Robust processes ensured business continuity whilst protecting our employees, customers, consumers and other stakeholders. Despite the challenges



2020 was a year of significant progress in transforming Baladna to be a leader in dairy and beverages in Qatar. As we had outlined to investors prior to our IPO in December 2019 - we are delighted to have delivered on our targets and paved the way for continued growth in the short and mid-term future.



Malcolm Jordan
CEO

brought upon the business during 2020, Baladna remained committed to continued enhancement of its operations, processes and the product portfolio.

Product portfolio management remained paramount as Baladna continues to focus on introducing innovative and value accretive products. Our consumer insights program, launched in 2020, coupled with the NPD program, allows us to identify the market trends and customer preferences in an accelerated and more informative manner, resulting in the successful launch of 96 new SKUs and delisting of 18 SKUs to optimise Baladna's yield. Overall, our product portfolio grew by 40.7% in 2020.

Financial Results confirm strong growth combined with high profitability

In 2020, Baladna achieved significant growth in terms of sales volume, revenue and net profit. Total revenue for 2020 stand at QR 814.8 million, compared to QR 486.2 million in 2019. Our EBITDA at year-end was QR 322.5 million, reflecting an EBITDA margin of 39.6%. The business delivered a strong net profit of QR 152.1 million, an increase of 152.1% versus previous year and represented a net profit margin of 18.7%.

We are pleased to have confirmed and further strengthened Baladna's market leading position in our target markets. In addition to product development and continued product innovation in existing product segments, entering new product segments was key to Baladna's growth. Specifically the identified markets with high profit margins such as processed cheese, whipping/cooking cream and long life juice were key success factors of our revenue growth and increase in margins in 2020.

Expanding market presence further fuelled our growth. In the retail segment Baladna improved its market coverage. We enhanced customer service levels and further strengthened in-store visibility. Rapid growth within the Food Services sector was underpinned by close collaboration with our strategic customers to deliver innovative tailor-made products as well as expanding the portfolio penetration in the channel.

In addition to revenue growth, a key priority remained driving margin growth via extracting efficiency gains across the value chain. Investments in additional farming and manufacturing capacity continued to deliver material benefits. Herd yield improved by 14.9% whilst manufacturing conversion costs reduced by 13.0%. As the size of Baladna's operations rapidly grew, we have successfully leveraged our purchasing power and hence reduced input costs by 5.4%. Furthermore, the benefits of business scale positively impacted the route-to-market with the distribution cost per litre declining by 1.9%.

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2021 Outlook

As we enter 2021, Baladna remains highly confident in our ability to continue growth. We intend to continue to focus on our successful core business, growing Baladna's dairy and juice portfolio in a value accretive manner through innovation and our experience. Furthermore, Baladna intends to continue exploring opportunities to enter new product categories

if identified by our teams to be profitable within our capabilities.

We have proven our relentless pursuit of efficiencies through the entire value chain and stringent control of costs to enhance profitability and financial flexibility, and we intend to continue our efforts on this front.

In addition to the focus on shareholder value creation, Baladna is fully aware and proud of its role as well as contribution to the National Food Security Program.

We remain committed to investing in talent development and look forward to sharing progress updates about our business wide sustainability program. We continue to assess opportunities for geographical expansion- leveraging our existing asset base to develop an export business as well as transferring our experience and knowledge to business models in South East Asia and beyond. 2021 is expected to be an exciting year during which Baladna will continue preparations to meet the extensive demand dynamics of the 2022 FIFA World Cup in Qatar, which is expected to result in a significant increase in Qatar's population in the lead up to and during the event.

The considerable progress we have attained to-date, across all areas, is a result of the combined efforts of the entire Baladna family including our steadfast leadership, experienced management and dedicated employees, all of whom have been inspired by the trust placed in Baladna by our customers and shareholders. I wish to express my deepest thanks and appreciation to all of our vital partners in our collective success.

CFO's Message

The Company recorded a 67.6% year-on-year revenue growth, posting QR 814.8 million in total revenue for the period of 2 December 2019 to 31 December 2020. Our continuous successful product portfolio expansion, based on Baladna's strong Research & Development capabilities, resulted in an increase of SKUs from 157 to 235 during the period. Out of the total product portfolio, fresh milk, UHT milk and cheese represented the main contributors to the absolute growth in revenue.



2020 marks the first full financial year of Baladna as a listed company on the Qatar Stock Exchange. Despite the various challenges related to the COVID-19 pandemic, Baladna delivered on its operational and financial targets communicated at the time of the Initial Public Offering. In addition to confirming our leading position in the market through product portfolio expansion, increase in revenues and net profits, we placed a strong emphasis on driving efficiencies across the entire value chain to increase margins and optimise working capital management, creating a solid foundation for continued growth and profitability.



Saifullah Khan
CFO



For the period, Baladna achieved an EBITDA of QR 322.5 million and a net profit of QR 152.1 million, confirming Baladna’s high profitability with an EBITDA margin of 39.6% and a net profit margin of 18.7%. These profit margins validate our operational excellence and strategic financial planning, especially considering the unforeseen expenses directly and indirectly linked to the COVID-19 pandemic and Baladna’s efforts to ensure the highest health and safety measures for customers, employees and suppliers, as well as the planned reduction by the authorities of QR 103.8 million in compensation – compensation from date of establishment to reporting date amounted to QR 164.4 million as compared to QR 268.2 million in the similar period last year. Market share gain, new product introductions, higher milk yield, efficiency measures and cost control led to an increase of the EBITDA by 37.4% and net profit by 152.1% compared to the previous period.

Baladna’s 2020 commercial and financial performance confirms our key investment highlights:

- Market leader in dairy products and beverages in Qatar
- Proven ability to identify growth opportunities and execute strategy successfully
- Excellence in product innovation and development
- State of the art facilities that increase efficiencies and lower operating costs
- Integrated value chain allowing management to be in full control
- Strong financial track record and solid financial position
- Strategic shareholder support

Strong cash flow generation and solid financial position

With the successful IPO of QR 1,425,750,000 (representing 75% of issued share capital of the Company), the nominal value of the total equity base (including retained earnings, legal reserve and

acquisition reserve) reached QR 2,241.3 million.

Our EBITDA for 2020 was **QR 322.5 million**
Total profit for 2020 stood at **QR 152.1 million**

With IPO proceeds used for the partial settlement of a bank loan facility, the Company reached a healthy net debt to total capital employed ratio of 34.5% as of 31 December 2020. Based on Baladna’s strong operating cash flow, the Company did not require to use any additional debt to finance any major cash outflow, including QR 220.8 million of capital expenditure, settlement of QR 1,414.0 million bank loans, and payment of an interim dividend of QR 32.0 million out of a declared dividend of QR 40 million. This was all financed with cash generated through operations.

KPIs	Year 2020 (Since date of establishment)
EBITDA to Revenue	39.6%
Net Profit to Revenue	18.7%
Return on Equity	6.8%
Net Debt to Capital Employed	34.5%
EPS	QR 0.082

Robust risk management

As a strategic and preventative measure, although Baladna’s material sourcing and supply chains were not impacted during pandemic, Management decided to increase the inventory levels to cover a period of up to 6-months for all major materials. Baladna ensured as well during the height of the pandemic, while complying with the required health and safety regulations, that production

continued and orders and distribution were fulfilled.

Interest cost remained low during 2020, as we were able to secure a lower interest rate compared to previous terms from one of Baladna’s banking partners. Baladna is well positioned as the leader in our local market, currently with minimal exports to international markets. Therefore, other than US Dollar to which the Qatari Riyal

exchange rate is pegged, our foreign exchange rate exposure is negligible.

With regards to corporate governance, the Company has developed a comprehensive risk register and relevant initiatives are taken to mitigate all identified risks. This includes written policies and procedures developed in line with local regulations and industry best practices.

Initiatives for greater efficiency

We apply the latest technologies for milking and a state-of-the-art manufacturing facility designed to drive efficiency across our business, resulting in cost of sales per unit (without considering compensation by the authorities) decreasing by 12.7% compared to last year. We constantly monitor market demand and production requirements in order to optimise our milk production accordingly. We support the natural growth of our herd and increase milk yield by providing comfortable living conditions and necessary vaccines, while at the same time conducting regular health and feed testing, which contributes to higher yield of milk per cow per day, from 31.8 litres to 36.6 litres compared to last year .

Continuous product portfolio reviews and new product launches allow the Company to maintain an optimum product mix, supporting margin improvements and accelerating the growth, resulting in our overall margin over material increasing by approximately 80% compared to last year. Meanwhile, continued focus on partnerships and logistics enable access of our products to an ever-growing

customer base, through our distribution network that has expanded to cover the current Qatari retail and HORECA market, resulting in lower cost of sales per unit due to higher volumes.

Share price performance and shareholder return

Investors have recognised Baladna's strong performance in 2020 and IPO investors, as well as many others who purchased shares in the secondary market, have witnessed a strong performance of the share price. As of 31 December 2020, the share price compared to the IPO price increased by 79%, reflecting an outperformance compared to the QE index which is increased by 1%.

2021 Outlook

In 2021, Baladna will continue to grow its volumes. The resulting production growth is expected to further reduce the production cost per unit through greater economies of scale.

Strategic expansion and strategic partnerships remain key for long term growth and is one of Baladna's focus areas. As such in Malaysia, Baladna with its partner Felcra Berhad is currently evaluating the

design and financial assessment of a large scale fully integrated forage and dairy farm together with a state-of-the-art processing plant. When completed, the dairy farm will house 10,000 milking cows producing over 100 million litres of fresh milk a year, significantly improving Malaysia's current food security and self-sufficiency ratio for dairy products.

Based on the strong financial position and cash generation capabilities, Baladna has the financial flexibility to lead larger projects and react in a timely manner, if an opportunity is identified and deemed value accretive by the management. Building on the strong financial foundation established in 2020 and the diverse avenues available for diversification and expansion, the management targets a favourable growth in revenue and profitability for the coming year.

