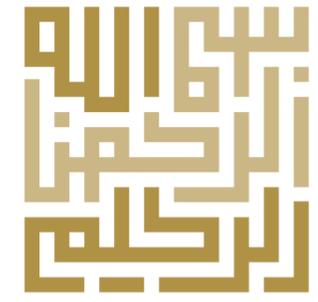


Annual Report 2018





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About Musharaka

Musharaka Capital was founded in the city of Al Khobar, Saudi Arabia, in 2013 as a closed joint-stock entity. Under the auspices of the Capital Market Authority (license no. 13169-27), the company has been acting as a principal, managing investment funds, arranging transactions, rendering advisory services, and offering securities custody. In March 2018, it further secured the approval of the Capital Market Authority (CMA) to enhance its business lines with the activity of client portfolio management, which is expected to operate during 2019.

Musharaka aspires to stand as the optimal investment choice for all corporate and individual clients and aims at giving various brackets access to the investment mechanism based on their orientation. Therefore, the infrastructure is equipped with systems, mindsets, and expertise that enable Musharaka to deliver highly efficient services exceeding expectations. For this purpose, the company keeps conducting continuous reviews to enhance performance and raise the service level.

The company further ensures that all products are Sharia-compliant, in addition to establishing its investments up to transparent and precisely analytical standards. Based on what fits for investment aspirations and desires of clients, Musharaka always moves forward with diversifying its products.

Geographical Scope

Musharaka is headquartered in the Eastern Province in Al-Khobar, Adeer Tower, 13th floor where all activities and operations are administered. The company has no other branches, however, it is considering opening new branches in the Kingdom's major cities.

Investment Management

Investment Solutions

Musharaka seeks to seize distinctive investment opportunities and give corporate and individual clients equal access to the investment mechanism that allows to easily and transparently take part in alpha mega projects.

The Investment Fund Management at Musharaka undertakes a leading role in the business of translating client investment management objectives into reality with a high degree of professionalism and efficiency. By adopting best fund management practices that rely on a comprehensive breakdown of potential business opportunities, Musharaka contributes to raising the level of local investment services and to launching innovative products fitting clients' diverse goals. Such efforts align with the company's strategic trends, the selection of the most appropriate trend, and the ongoing restructuring to which they are exposed for producing yields hand-in-hand with continuous business risk management.

Investment Banking Management

Musharaka Capital offers a full array of financial and investment services and solutions that help clients develop their activities and achieve short and long-term targets. The scope of services and solutions includes private equity, capital increase, M&A transactions, IPOs, arrangement of corporate and project financing, and capital market-related consultations. The company attempts to partner with individual, public, and/or private clients by opening up opportunities at companies looking for financial or administrative support either through M&A or capital increase in order to achieve growth and enhance their daily expanding operations.

Custody

At Musharaka, the Custody Department aims to keep records of clients' assets and data, to monitor their financial dues, to maintain property assets, to offer Sukuk and service/securities contracts, and to administer the records of fund investors.

By adopting the necessary standards and CMA policies and procedures, the custody department ensures a smooth flow for all products to an extent that instills confidence and enhances transparency between the company and its clients.



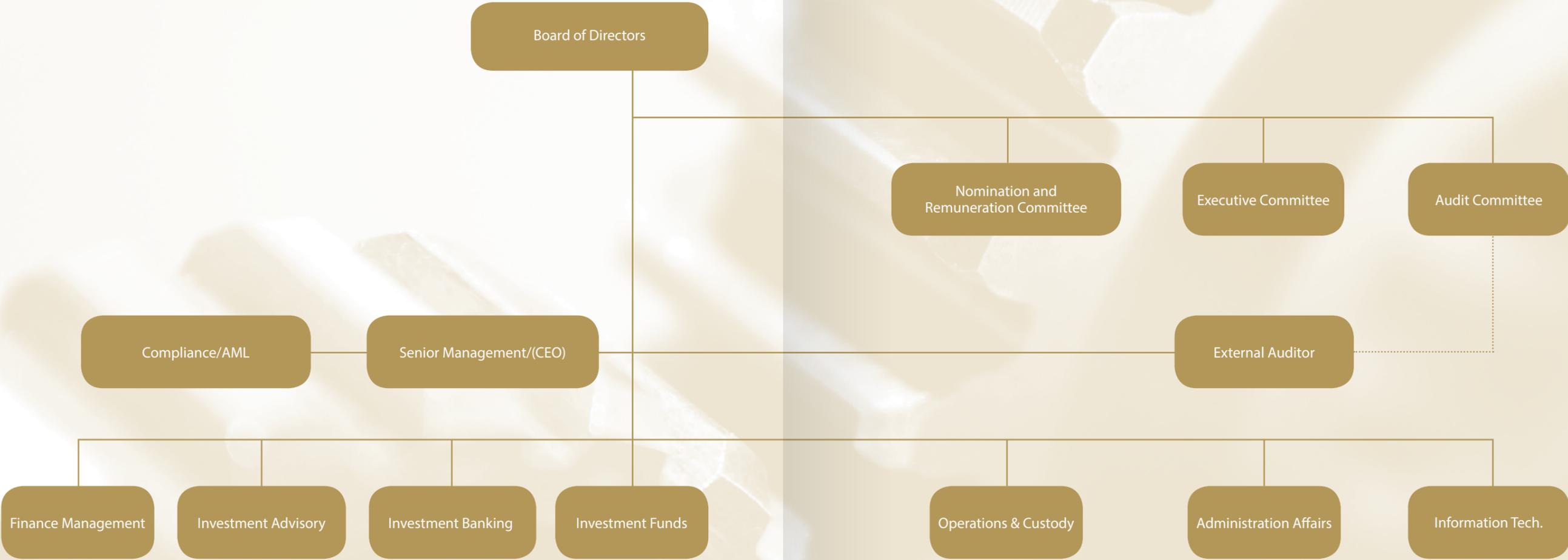
Our Vision

Musharaka eyes excellence in asset management and financial advisory services in addition to local and regional leadership through offering attractive and innovative products to clients.

Our Mission

Musharaka aspires to upgrade the local investment mechanism to the highest quality and transparency standards through an experienced team capable of attaining our client's objectives.

Organizational Structure



Our Values

Professionalism

Our commitment to professional standards is a cornerstone of all our activities and investment procedures, whether technical or administrative.

Transparency

Musharaka believes that its client has to stay updated on their investment details, operational how-to, and efficient management.

Integrity & Ethics

Respect for Business ethics is a pillar and a common professional style all over the various performance levels in the company.

Innovation

In a prosperous economy and expanding growth of investment vehicles and products, innovation remains the name of competitive differentiation. Therefore, Musharaka seeks to launch innovative investment products to clients.

Efficiency

Reason behind our efficiency lies in our long-standing experience in the investment process and asset management. It further lies in owning specialized investment team that help achieve clients' objective and diligently manage risks.

Board Members

Dr. Ayedh Farhan Al-Qahtani
Chairman - Non-Executive Member



Mr. Fahad Sulaiman Al-Rajhi
Vice Chairman - Non-Executive Member



Mr. Ibrahim Muhammad Al Al-Shaikh
Non-Executive Member



Mr. Fahad Muhammad Bamardouf Al-Amoudi
Non-Executive Member



Mr. Ibrahim Fahad Al-Assaf
Executive Member & CEO



Dr. Sami Taysir Salman
Independent Member



Mr. Muhammad Sulaiman Al-Harbi
Independent Member



Mr. Khalid Saleh Al-Akeel
Independent Member

Board of Directors' Letter

Dear Shareholders:

Greetings. Following a year of significant accomplishments, we are pleased to continue our journey with high optimism and hope for achieving further growth and development. We have seen an avid interest in success and excellence, as the past year was full of activities that brought increased pride to our human resources' capabilities as well as the acquisition of necessary expertise to attain the strategic objectives of Musharaka.

Such outstanding performance has enabled the company to keep developing its business lines through outlining a five-year "strategy." This strategic outlook aims to boost its investment role and competitiveness by diversifying products (in line with the Vision 2030 and the state programs for economic diversity) and by improving the performance of the financial services sector based on the highest standards of quality and professionalism.

Through a methodology-based operation, the company has successfully used current potentialities to expand its activities, investments, and performance indicators according to the agenda, resulting in many accomplishments at all levels of management.

In order to foster a company-client relationship, Musharaka continues to deliver qualitative services. During 2018, the company had many success stories represented by signing a number of new agreements, positioning Musharaka Capital as a sound financial advisor. In an attempt to raise client satisfaction and to demonstrate its unique operational dynamics, the company was keen on offering several investment options consistent with the local, regional, and global market variables.

Further, in 2018 the company partook in a number of economic forums and events that opened the door for presenting the company's initiatives, products, and services and networking with new sector partners. Moreover, such participation boosts its corporate social responsibility (CSR), as the company seeks to perform its national and community duty in a complete and outstanding manner.

Performance coincides with the national economic developments as the IMF has expected the GDP to increase by 2.2% and 2.4% in FY18 and FY19, respectively. In addition, the equity market delivered a strong performance in 2018 after the Tadawul index rose by 8.5%, elevating the company in 2019. In light of this advanced performance, we are pleased to thank all of the shareholders, board of directors, executives, and other personnel for their contributions to such achievements. We further wish them to be a springboard for further professional participation that enable us to attain our strategic objectives and implement our plans in an exemplary manner based on efficiency and transparency.

We are happy to express our absolute confidence in our personnel to deliver an all out effort in the coming days. Our recent successes have produced vast challenges to maintain our well-received and appreciated excellence and professionalism in order to be an integral part of the success and development of our comprehensive economic plan.

Thank you

Musharaka Indicators



Revenue Growth

16%



Net Income Growth

7%



Shareholders Equity Growth

14%



AUM Growth

16%



1

FY18 Major Achievements

Arranging Banking Facilities for “Musharaka REIT Fund”

The company successfully secured Sharia-compliant banking facilities in favor of Musharaka REIT Fund for financing expansion plans. The Fund targets translating all investment objectives into reality, acquiring income-generating properties, and engaging in usufruct contracts in line with the overall strategy and risk mitigation policy. The impact will be felt through profit realization and sustainable annual cash dividends after the cost of financing is deducted.



2

FY18 Major Achievements

Obtaining CMA Approval for Listing 39% Shares of Saud H. Al-Qahtani Auction Co. in Nomu Parallel Market

Acting as a financial advisor for Saud H. Al-Qahtani Auction Co, Musharaka Capital successfully floated 39% of Al-Qahtani share capital into Nomu Parallel Market. Moreover, the two companies worked together to decide the proper method and timing for completing the offering.





3

FY18 Major Achievements

Completing Real Estate Acquisitions for “Musharaka REIT Fund”

The management succeeded in acquiring a number of distinguished commercial usufruct projects for REIT financed by the facilities given to the Fund. The projects are featured by strategic location, quality of leaseholders, long-term leases of 17 years with a 16% net return, and a total area of 45,408 M2. This acquisition will be positively reflected on annual cash dividends and scale economies.

4

FY18 Major Achievements

Closing a Transaction in the Private Real Estate Sector

Pursuing diversification and provision of several investment options in line with Vision 2030, the company acquired a majority stake in the Jordan-based ETA-max Energy & Environmental Solutions. This step will open the door to establish a new company in the Saudi market. ETA-max Energy & Environmental Solutions designs and carries out solar power projects using photovoltaic cells, along with projects of energy audit and management.



5

FY18 Major Achievements

Obtaining CMA Approval for Launching "Musharaka Real Estate Egyptian Fund"

The Capital Market Authority gave the green light for establishing the Musharaka Real Estate Egyptian Fund (Private Placement). The real estate Fund aims to increase capital gains while realizing annual income through direct investments in constructional development projects in Egypt.



6

FY18 Major Achievements

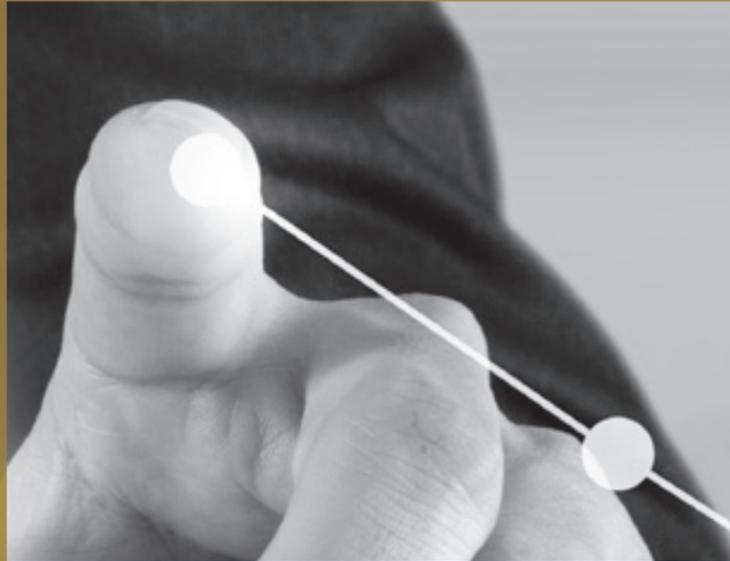
Inking a Number of Agreements with New Clients

The Company signed a number of new agreements during 2018, including a Deal with an industrial company who chose Musharaka to act as a financial advisor for listing the company on Noumu Parallel Market. The parallel market affords a new investment opportunity for a large bracket of companies, including SMEs, through benefits from flotation in such markets as well as playing an important role supporting the national economy. The parallel market further allows listed companies to develop their activities through offering various financial resources for expansion plans, to apply governance and disclosure standards, and to adopt the best administrative structures and practices.



Our FY19 Aspirations

In order to stay positioned as one the leading and most significant financial companies in Saudi Arabia, Musharaka will maintain the same level of quality and efficiency according to the Vision 2030 requirements, as well as ambitious programs that enhance the national economy and diversification through investments conducted with its state of art operational and administrative techniques.



In 2019, the company intends to achieve a number of qualitative and strategic objectives through diversifying and expanding into domestic and international investments. Such behavior requires it maintain its leading role in launching up-to-date and empirical products.

The company will drive products and direct investments into the most promising sectors to align with the current economic stage and witness many developments. In addition, Musharaka eyes boosting confidence in the financial market to stand as clients' optimal choice to meet their expectations and aspirations.



Economy in 2018

The global economy started 2018 on an upbeat note, buoyed by a pickup in global manufacturing and trade through 2017. As investors' confidence in the global economic outlook lost steam, so did the upswing. One reason behind this loss in momentum was the implementation of tariffs by major economies—especially the United States—and retaliatory measures taken by others, including China. The increasingly protectionist rhetoric on trade has meant higher uncertainty about trade policy, which weighs on future investment decisions. Despite these actions, the US economy expanded at a fast pace in 2018, as tax cuts and spending increases stimulated demand.

As a result, the US Federal Reserve has continued to raise the policy interest rate. However, interest rates on US long-term bonds have increased less, as investors see risks to future growth and value the safety of US Treasury securities.

As growth and interest rates in the United States have outpaced those in other major economies, the US dollar has appreciated against most other currencies in 2018. In contrast, activity in the Euro Area has been somewhat weaker than previously expected, owing to slowing net exports. While growth in advanced economies is estimated to have slightly decelerated to 2.2 percent last year, it is still above potential and aligned with previous forecasts.

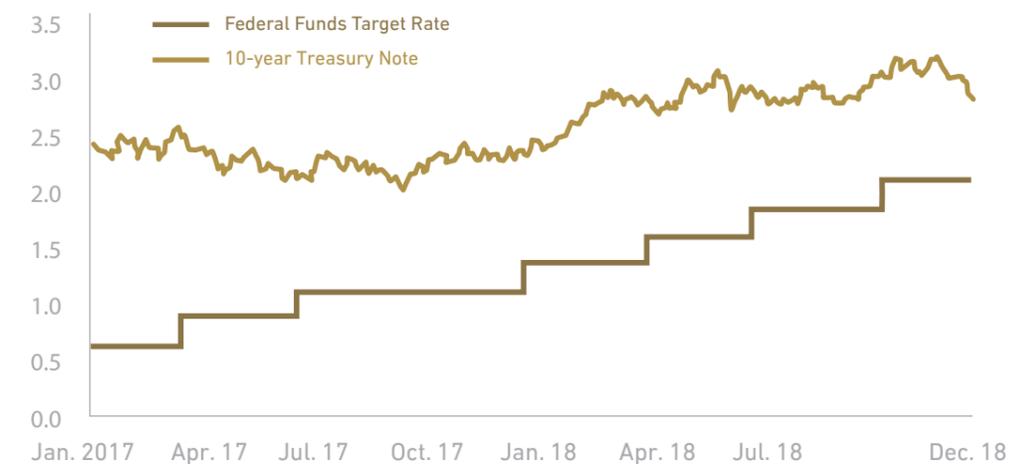


Some vulnerable emerging market economies have come under strain as the US dollar gained value and the level of risk that global financial investors were prepared to accept dropped. Most of these countries have seen increases in their external borrowing costs, but the extent of these increases varied widely. Borrowing costs for emerging market and developing economies (EMDEs) have increased, in part to major advanced economy central banks continue to withdraw policy accommodation in varying degrees. EMDE growth edged down to an estimated 4.2 percent in 2018—0.3 percentage point slower than previously projected—as a number of countries with elevated current account

deficits experienced substantial financial market pressures and appreciable slowdowns in activity.

A strengthening U.S. dollar, heightened financial market volatility, and rising risk premiums have intensified capital outflow and currency pressures in some large EMDEs, with some vulnerable countries experiencing substantial financial stress. Energy prices have fluctuated markedly, mainly due to supply factors, with sharp falls toward the end of 2018. Other commodity prices—particularly metals—have also weakened, posing renewed headwinds for commodity exporters.

Gradually Increasing
US policy rates have been rising steadily, while US 10-year bond rates have also increased but less so.



Source: Haver Analytics.

Economy in 2018



Outlook 2019

In all, global growth is projected to moderate from a downwardly revised 3 percent in 2018 to 2.9 percent in 2019 and 2.8 percent in 2020-21, as economic slack dissipates, monetary policy accommodation in advanced economies is removed, and global trade gradually slows. Growth in the United States will continue to be supported by fiscal stimulus in the near term, which will likely lead to larger and more persistent fiscal deficits. Advanced economy growth will gradually decelerate in potential, falling to 1.5 percent by the end of the forecast horizon as monetary policy is normalized and capacity constraints become increasingly binding.

Softening global trade and tighter financial conditions will result in a more challenging external environment for EMDE economic activity. EMDE growth is expected to stall at 4.2 percent in 2019—0.5 percentage point below previous forecasts, partly reflecting the lingering effects of recent financial stress in some large economies (e.g., Argentina, Turkey), with a sharp, weaker-than-expected pickup in commodity exporters accompanied by a deceleration in commodity importers. EMDE growth is projected to plateau at an average of 4.6 percent in 2020-21, as the recovery in commodity exporters levels off. Per capita growth will remain anemic in several EMDE

regions—most notably in those with a large number of commodity exporters—likely impeding further poverty alleviation.

Escalating trade tensions are another major downside risk to the global outlook. If all tariffs currently under consideration were implemented, they would affect about 5 percent of global trade flows and could dampen growth in the economies involved, leading to negative global spillovers. Other risks—such as heightened political uncertainty, escalating geopolitical tensions, and conflict—further cloud the outlook.



Economy in 2018

Saudi Economy 2018

Strong oil revenue for much of the year and liberalization reforms have helped Saudi Arabia's economy rebound in 2018, though falling oil prices late in the year and the potential fallout over security issues could affect growth moving forward.

In October, the IMF revised its forecast for Saudi economic growth in 2018 and 2019, predicting GDP would increase by 2.2% and 2.4%, respectively, up from the 1.9% previously projected for both years and a considerable increase compared to the contraction of 0.9% in 2017.

The fund stated the recovery was driven by higher oil prices, which improved external balances as well as improved the government's fiscal ability, along with reforms undertaken by the government to strengthen the business environment.

Growth was supported by inflation remaining stable throughout much of 2018 after an initial early-year surge. The introduction of a 5% value-added tax at the beginning of the year saw inflation jump from 0.2% in December 2017 to 3% in January; however, this eased to 2.1% in both June and September, before edging up slightly to 2.4% in October.

Reforms to Boost Employment Prospects for Locals

In 2018, the government implemented a number of notable economic and social reforms, including the mid-year granting of women the right to drive; moves to open up key sectors to foreign investment; progress on the partial privatization of state assets; sanctioning the return of cinemas to the entertainment scene; and other initiatives in order to boost domestic tourism in the country.

With the goal of slashing unemployment from current rates of 12.8% to 9% by 2020, the government increased the number of employment segments reserved for Saudi nationals throughout the year, with many of the reforms targeting the retail sector.

The scope of job opportunities is expected to widen in 2019, with more retail and wholesale businesses to be ring-fenced against expatriate employment, including positions related to the retailing of medical supplies and equipment, auto parts, building and construction materials, carpets, bicycles, garments, opticals, and confectionery.

Real Estate Sector Sluggish Despite Incentive

One sector that remained laggard in 2018 was real estate, with property prices in the third quarter down 3.1% compared to the same period in 2017, according to data issued by GaStat. The retreat was led by the residential segment, which saw prices fall by 3.8%, followed by a 2% dip in the commercial component of the market.

This sluggish performance came despite efforts to boost residential activity. In February, the government launched a SR120 billion plan to provide credit support to homebuyers, including incentives to mortgage lenders, loan guarantees, and interest-free loans and incentives for property developers. The initiative is part of a plan to lift home ownership levels from their present rate of 50% to 70% by 2030.

Economy in 2018

Capital Markets Experienced a Roller Coaster Ride

Saudi Arabia's capital markets experienced a solid year in 2018, with the main index of the Saudi Stock Exchange (Tadawul) increasing by around 8.5% from the year-opening mark of 7226 to reach around 7850 points by early December. This is despite the fact the returns generated by emerging markets as depicted by MSCI EM index performance over the same period was -16.5%.

The market was boosted by the June announcement that the country would be included on the MSCI emerging markets index as of June 2019, a move forecast to generate inflows of around \$10bn and increase the exchange's appeal to individual and institutional investors.

The growth could be further increased following the September announcement that the Tadawul would broaden its product range by introducing exchange-traded derivatives in the second-half of 2019.

While the index reached yearly highs of around 8500 in late July, much of these gains were offset late in the year.

There was a move out of local stocks following the controversy surrounding the death of Saudi journalist Jamal Khashoggi in the Saudi Arabian consulate in Istanbul. The exchange was also effected by the sharp fall in oil prices in late 2018, which fell from yearly highs of more than \$86 per barrel in early October to around \$63 per barrel in early December, resulting in many of the Kingdom's petrochemical and upstream producers experiencing an easing of share values.

Despite the fall in prices, Saudi Arabia maintained a high level of oil production, with international media reporting output ranged from all-time highs between 11.1m and 11.3m barrels per day (bpd) in November to some 1m bpd higher than early months of the year.



Economy in 2018

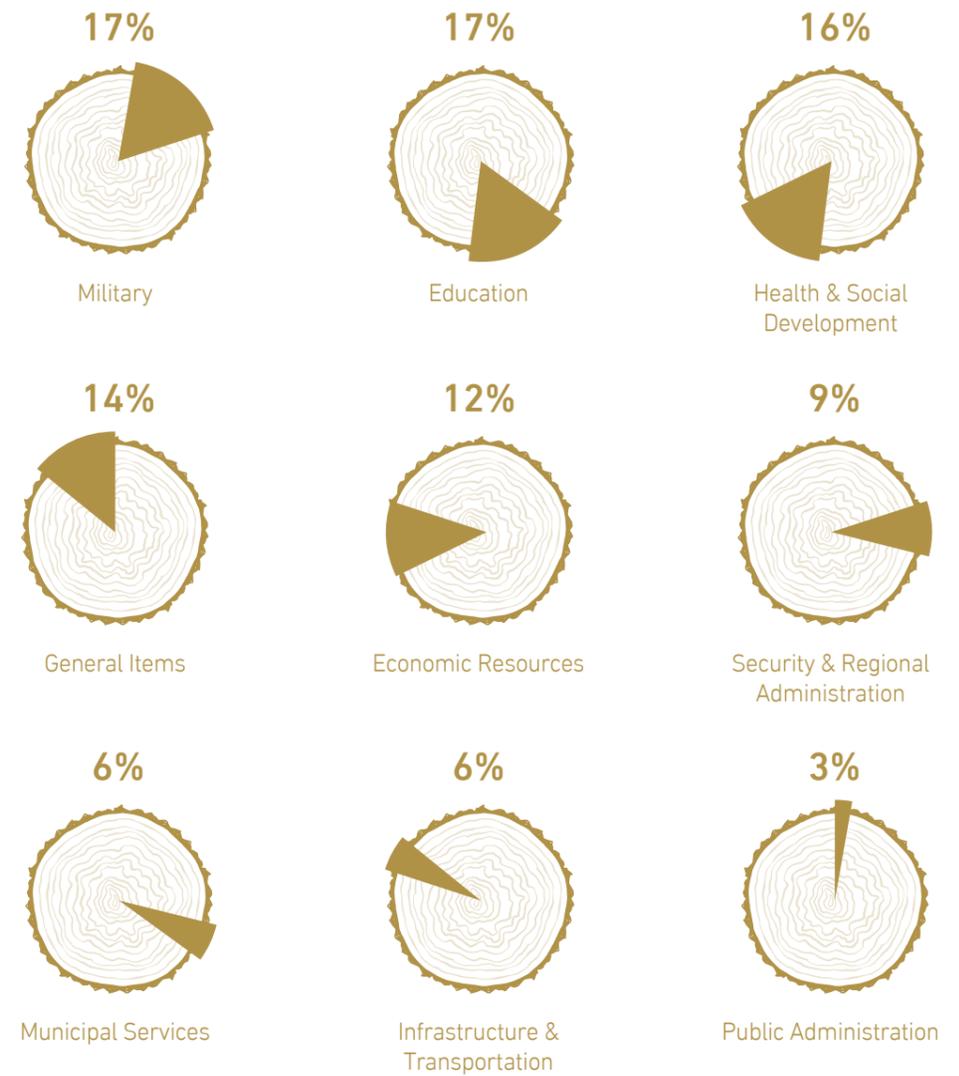
Expansionary Budget in 2018

Regardless of austerity measures being undertaken, Saudi Arabia plans to increase state spending by 7 percent next year in an effort to spur economic growth that has been hurt by low oil prices, according to a 2019 state budget. Spending is projected to rise to an all-time high of 1.106 trillion riyals (\$295 billion), from an actual 1.030 trillion riyals this year with revenues expected at SAR 975 billion, higher by 24.5% over-budgeted revenues of 2018.

Due to the ramp-up in spending, the 2019 budget also appears to mark a slowing of Saudi Arabia's drive to cut a big state budget deficit caused by the oil price slump. The deficit, which the government has pledged to eliminate by 2023, came in at 136 billion riyals in 2018, well below the 195 billion riyal gap originally projected. Next year, the government projects only a minimal shrinking of the deficit to 131 billion riyals. Saudi Arabia does not disclose the oil price assumptions on which its planning is based, but some private economists estimated the 2019 budget implied Brent at \$70-71 per barrel with oil production at 10.2 million barrels per day. The budget predicted oil revenues would jump 9 percent to 662 billion riyals in 2019.



Saudi 2019 Budgeted Outlay



Governance



Governance

In compliance with CMA requirements and best corporate governance standards and practices, Musharaka infrastructure has been established by implementing the company's own "governance policy and BoD policies."

The table below measures the extent of compliance with corporate governance requirements:

| Sr. | Articles of Governance | Adherence |
|----------|--|-----------|
| 1 | BoD Composition | |
| 1.1 | Independent directors are represented in the Board. | Yes |
| 1.2 | Board Majority is non-executive directors. | Yes |
| 1.3 | The chairperson may not hold any other executive position in the company. | Yes |
| 1.4 | Minimum number of directors is fulfilled. | Yes |
| 1.5 | Minimum number of independent directors is fulfilled. | Yes |
| 1.6 | The board of directors is appointed by the general meeting. | Yes |
| 2 | Shareholders' Equity | |
| 2.1 | Articles of association defines procedures by which shareholders shall exercise their statutory rights. | Yes |
| 2.2 | The general meeting convenes once a year and within six months post the FY end. | Yes |
| 2.3 | Timing, sitting, and agenda of the assembly is announced no less than ten days ahead of the meeting. | Yes |
| 2.4 | The meeting minutes are reviewed by shareholders and a copy is filed with CMA within no less than ten days of the assembly date. | Yes |
| 2.5 | Cumulative voting is applied upon selecting the directors. | Yes |
| 2.6 | Policy of dividend distribution is referred to in the annual report. | Yes |
| 3 | The Annual Report about the BoD Includes: | |
| 3.1 | A Description of all main activities. | Yes |
| 3.2 | Board Composition and classification of directors. | Yes |
| 3.3 | Names of companies based inside or outside Saudi Arabia, where our director is positioned as a board member or director. | Yes |
| 3.4 | Name of each subsidiary of the licensed person, its capital, equity ownership of the licensed person, main activity, country of operation, and country of incorporation. | Yes |

| Sr. | Articles of Governance | Adherence |
|----------|---|-----------|
| 3.5 | Description of significant plans and resolutions as designated. | Yes |
| 3.6 | Number and dates of board meetings held within the last financial year, in addition to the record of attendance classified by name. | Yes |
| 3.7 | Brief description of committees' terms of reference, names, tasks, members, number & date of meetings, and records of attendance classified by name. | Yes |
| 3.8 | Disclosure of remunerations paid to the board, mentioning five senior executives who receive the highest remunerations (in addition to the CEO and CFO, if not otherwise included). | Yes |
| 3.9 | Statement of any arrangement or agreement under which a board member or a senior executive waives any remuneration. | N/A |
| 3.10 | Clarification of any sanction, penalty, precautionary action, or provisional attachment imposed on the company. | Yes |
| 3.11 | Results of annual revision of control systems and procedures. | Yes |
| 3.12 | Information on potential risks and its management & monitoring policy. | Yes |
| 3.13 | Financial results and auditor's notes or reservations (if any). | Yes |
| 3.14 | A chart of assets, liabilities, and financial statements for five years past or since debut, whichever is shorter. | Yes |
| 3.15 | Core differences of operational results year-on-year and any guidance announced by the company. | Yes |
| 3.16 | Any interests, contractual securities, and subscription rights attributing to board members and any relevant person in shares or debt instruments of company or any subsidiary, and any change in such interest or rights within the last fiscal year. | N/A |
| 3.17 | Information on company loans. | Yes |
| 3.18 | A description of each transaction closed with any relevant person. | N/A |
| 3.19 | Information on any activities or contracts to which the company, a board member, senior executive, or any relevant person are parties, in order to mention the activity-designated names and contracts, in addition to the nature, conditions, term, and value of such activities or contracts. | Yes |
| 4 | Development of Governance Infrastructure: | |
| 4.1 | Identifying procedures and controls of BoD membership and responsibilities and main duties. | Yes |
| 4.2 | Identifying BoD powers and executive management members. | Yes |
| 4.3 | Developing a code of professional conduct | Yes |
| 4.4 | Constituting Control Committee. | Yes |

Board of Directors Composition and Classification

The board of directors consists of a leading group of businessmen and investment, banking, and accounting expertise. The existing board was elected during the extraordinary general meeting held on 16 May 2017. It comprises eight members, as follows: Three independent members, an executive member, and four non-executive members. The present tenure (the second one) lasts for three years as of 16 May 2017. Below are the board composition, member classifications, and statement of membership in other BoDs:

| # | Member Name | Position | Membership Classification | Membership of Other Boards |
|---|-----------------------------|---------------|---------------------------|---|
| 1 | Dr. Ayedh Farhan Al-Qahtani | Chairman | Non-Executive Director | <ul style="list-style-type: none"> Sumou Real Estate Company, Chairman Ajar Investment Company, Chairman Dhahiat Sumou Real Estate Development Company, Chairman Energy & Power Service Company (Power Co.), Chairman Khairat Company, Chairman Iktva Company, Board Director Albait Company, Board Director |
| 2 | Mr. Fahad Sulaiman Al-Rajhi | Vice Chairman | Non-Executive Director | <ul style="list-style-type: none"> Alrajhi Ekhwan Group, Chairman Saudi International Petrochemical Company (Sipchem), Board Director International Methanol Company (IMC), Board Director Yanbu Cement Company, Vice Chairperson (since December 2017) Saudi German Company for Non-woven Products (SGN), Chairman Bischof & Klein Middle East (B & K), Chairman Al Watania for Industries, Vice Chairman Al Watania Poultry, Board Director |

| # | Member Name | Position | Membership Classification | Membership of Other Boards |
|---|--|----------------------|---------------------------|--|
| 3 | Mr. Ibrahim Fahad Al-Assaf | Board Director & CEO | Executive Director | <ul style="list-style-type: none"> Al-Riyadh Development Company, Board Director Musharaka REIT Fund, Chairman Armas Limited Company, Chairman |
| 4 | Mr. Ibrahim Muhammad Al Al-Shaikh | Chairman | Non-Executive Director | <ul style="list-style-type: none"> Mashorah Engineering Consultant, Board Director Asharqia Chamber, Board Director |
| 5 | Mr. Fahad Muhammad Bamardouf Al-Amoudi | Board Director | Non-Executive Director | <ul style="list-style-type: none"> Bamardouf Decorations Company, Vice Chairman Sedra Real Estate Company, Chairman Mashorah Engineering Consultant, Board Director Eastern Region Welfare Organization, Member of General Meeting |
| 6 | Dr. Sami Taysir Salman | Board Director | Independent Director | <ul style="list-style-type: none"> International Institute of Islamic Waqf, Managing Director Sulaiman Al-Rajhi for Real Estate Investment, Board Director |
| 7 | Mr. Muhammad Sulaiman Al-Harbi | Board Director | Independent Director | <ul style="list-style-type: none"> Zamil Industrial Investment Company, Board Director Arabian Amines Company, Board Director National Talents Company, Board Director |
| 8 | Mr. Khalid Saleh Al-Akeel | Board Director | Independent Director | Not a board member in other companies |

Board of Directors Meetings in 2018

| Member Name | First Meeting, 27 February 2018 | Second Meeting, 18 December 2018 |
|--|------------------------------------|-------------------------------------|
| Dr. Ayedh Farhan Al-Qahtani | Yes | Yes |
| Mr. Fahad Sulaiman Al-Rajhi | Yes | Yes |
| Mr. Ibrahim Fahad Al-Assaf | Yes | Yes |
| Mr. Ibrahim Muhammad Al Al-Shaikh | Yes | Yes |
| Mr. Fahad Muhammad Bamardouf Al-Amoudi | Yes | Yes |
| Dr. Sami Taysir Salman | Yes | Yes |
| Mr. Muhammad Sulaiman Al-Harbi | Yes | Yes |
| Mr. Khalid Saleh Al-Akeel | Yes | Yes |



Board Committees & Meetings in 2018

Audit Committee

The committee shall be composed of three non-executive directors, at minimum, including a single director specialized in finances and accounting, at least,. Selection of members shall be subject to certain requirements specified according to the BoD-approved governance policy to ensure fulfilling its duties as well as possible.

Audit Committee Duties

The Audit Committee by-laws was voted and approved by the extraordinary general meeting convened on 16 May 2017. The Audit Committee roles include the following duties:

1. Overseeing the internal audit to verify implementation of tasks and duties assigned by the board effectively;
2. Reviewing and developing opinion and recommendation report(s) on the internal control system;
3. Reviewing internal audit reports and monitoring execution of corrective measures based on the remarks mentioned in the reports;
4. Giving recommendations on appointment and dismissal of chartered accounts, including their remunerations, ensuring accountants recommended are independent, have the required scope of licenses, and hold sufficient qualifications and experiences;
5. Monitoring activities of chartered accountants and approving the activities that are out of their scope of work;
6. Reviewing and commenting on the audit plan with the legal accountant;
7. Considering and following-up on remarks left by the legal accountant on financial statement;
8. Reviewing, commenting, and giving recommendations on initial and annual financial statements before submission to the board of directors.
9. Reviewing the adopted accounting policies, filing its opinion and recommendations to the board of directors;
10. Reviewing operational and control systems and procedures;
11. For fulfilling the scope of assigned duties, the Audit Committee has the right to access all records and documents of the company and shall solicit obtaining any clarification or statement from board of directors or executive management; and
12. The Audit Committee may ask the board of directors to call the general meeting in case the board impedes its work or in case a serious damage or loss is caused to the company.

Committee Formation

No change has been made to the Audit Committee formation during the second tenure of the board. The Audit committee shall be composed of a single non-executive member and two independent members appointed in the extraordinary general meeting on 16 May 2017. Names and classification of committee members are as follows:

| Name | Position | Membership Classification |
|-----------------------------------|-----------------------|---------------------------|
| Mr. Ibrahim Muhammad Al Al-Shaikh | Committee Chairperson | Non-Executive Director |
| Mr. Khalid Saleh Al-Akeel | Committee Member | Independent Member |
| Mr. Muhammad Sulaiman Al-Harbi | Committee Member | Independent Member |

Audit Committee Meetings in 2018

| Member Name | First Meeting 27 February 2018 | Second Meeting 1 May 2018 | Third Meeting 12 September 2018 | Fourth Meeting 18 December 2018 |
|-----------------------------------|-----------------------------------|------------------------------|------------------------------------|------------------------------------|
| Mr. Ibrahim Muhammad Al Al-Shaikh | Yes | Yes | Yes | Yes |
| Mr. Khalid Saleh Al-Akeel | Yes | Yes | Yes | Yes |
| Mr. Muhammad Sulaiman Al-Harbi | Yes | Yes | Yes (by phone) | Yes |



Nomination & Remuneration Committee

Nomination & Remuneration Committee Duties

1. Recommend names of nominees for board membership as per the approved policies and standards, taking into consideration that no one previously convicted of an offense against honor or trust may be nominated;
2. Review annually the appropriate skills needed for board membership and draft a description of all required capabilities and qualifications, including the timeframe the board member shall set of the BoD activities;
3. Review the BoD structure and provide recommendations on possible changes;
4. Identify BoD points of weaknesses and strengths and propose remedies in line with the company's interests;
5. Annually verify independence of relevant directors, ensuring no conflict of interests may occur if a director is listed on the board of another company or companies; and
6. Develop clear remuneration policy for board directors and senior executives, taking into account KPIs.

Nomination & Remuneration Committee Formation

No change has been made to the Nomination & Remuneration Committee formation during the second board tenure. Nomination & Remuneration Committee shall be composed of three members: Two non-executive members and a one executive member. The names and classification of members are as follows:

| Name | Position | Membership Classification |
|--|-----------------------|---------------------------|
| Mr. Fahad Muhammad Bamardouf Al-Amoudi | Committee Chairperson | Non-Executive Director |
| Mr. Ibrahim Fahad Al-Assaf | Committee Member | Executive Member |
| Mr. Ali Hussein Al-Sheriff | Committee Member | Non-Executive Director |

Nomination & Remuneration Committee Meeting in 2018

The Nomination & Remuneration Committee of Musharaka Capital shall meet whenever deemed necessary. In 2018, nothing necessary in the agenda entitled a call for a Nomination & Remuneration Committee meeting.

Executive Committee

The Executive Committee shall act on behalf of the board of directors entirely in the event no board meeting is being held. The Executive Committee aims to help the BoD in performing its duties effectively and in facilitating the decision-making process. It can further deal with emergencies or disasters that require an immediate response.

Executive Committee Duties

1. Oversee implementation of BoD resolutions and their effective impact on operations;
2. Keep the BoD updated of resolutions made by the Executive Committee as well as justifications behind their grounds;
3. Oversee the annual strategic planning and performance evaluation compared to the objectives;
4. Oversee activities and recommendations rendered by the standing committees;
5. Make decisions, in times of urgency, on behalf of the board when the board is not being entirely held;
6. Function as a senior advisory group to the executive management, when unexpected or urgent events arise;
7. Develop the investment policy, present this policy to the board of directors for approval, and oversee the implementation of said policy; and
8. Endorse investments after verifying its compliance with annual plans and investment policy, and with all CMA regulations and rules.

Executive Committee Formation

The Executive Committee has been reconstituted as of the second BoD tenure. During the second tenure, the Executive Committee shall consist of the following six members: Two independent members, a single executive member, and three non-executive members. Their names and classifications are as follows:

| Member Name | Position | Membership Classification |
|--|-----------------------|---------------------------|
| Dr. Ayedh Farhan Al-Qahtani | Committee Chairperson | Non-Executive Director |
| Mr. Ibrahim Fahad Al-Assaf | Committee Member | Executive Member |
| Mr. Ibrahim Muhammad Al Al-Shaikh | Committee Member | Non-Executive Director |
| Mr. Fahad Muhammad Bamardouf Al-Amoudi | Committee Member | Non-Executive Director |
| Dr. Sami Taysir Salman | Committee Member | Independent Member |
| Mr. Muhammad Sulaiman Al-Harbi | Committee Member | Independent Member |

Executive Committee Meetings in 2018

| Member Name | First Meeting 11 March 2018 | Second Meeting 23 April 2018 | Third Meeting 22 July 2018 | Fourth Meeting 26 September 2018 | Fifth Meeting 21 October 2018 |
|--|-----------------------------------|------------------------------------|----------------------------------|--|-------------------------------------|
| Dr. Ayedh Farhan Al-Qahtani | Yes | Yes | Yes | Yes | Yes |
| Mr. Ibrahim Fahad Al-Assaf | Yes | Yes | Yes | Yes | Yes |
| Mr. Ibrahim Muhammad Al Al-Shaikh | Yes | Yes | Yes | Yes | Yes |
| Mr. Fahad Muhammad Bamardouf Al-Amoudi | Yes | No | No | No | No |
| Mr. Khalid Saleh Al-Akeel | Yes | Yes | Yes | Yes | Yes |
| Mr. Muhammad Sulaiman Al-Harbi | No | Yes | Yes | Yes | Yes |

Remunerations of Board Directors & Senior Executives

| Statement | Executives | Non-Executive/ Independent Members | Five Senior Executives received the Highest Remunerations, along with the CEO and CFO, if not included |
|---|------------|--|---|
| Salaries & Wages | - | - | 3,424,910 |
| Allowances | - | 75,000 | 119,289 |
| Periodic & Annual Remunerations | - | 150,000 | 376,672 |
| Incentive Plans | - | - | - |
| Commissions | - | - | - |
| Any other in-kind benefits or compensations paid monthly or annually | - | - | - |

Results of Annual Review of Control Systems & Procedures

According to the framework for continuously boosting internal control procedures, the Audit Committee undergoes periodic reviews to verify sufficiency and effectiveness of control and operational procedures and for developing the procedures as per recent updates into internal and external business environments as well as CMA regulations and instructions. In 2018, all control and operational systems and operations were audited. Moreover, AML/CFT procedures and operation management policies were updated.

The Audit Committee approved appointing Abdullah Bakodah & Adel Aboulkhair Company to undertake the internal audit activity for the year 2018. The Executive Committee approved, as well, the business plan submitted for completing FY18 internal audit activities.

The internal audit report mainly aims to assess compliance with the systems and regulations adopted by CMA, internal control procedures, and by-laws and policies approved by the board of directors.



Potential Risks & Risk Monitoring

Financial Risks

Financial risks are generally defined as fluctuations witnessed by the economic value or income. Financial risks include the following:

- 1. Market Risk:** the risk of negative market price actions (caused by a change in market conditions or market volatility). This type of risk includes:
 - Stock Price Risk
 - Currency Risk
 - Credit Margin Risk
 - Shortage of New Investment Risk
 - Interest Rate & Inflation Risk
- 2. Liquidity Risk:** difficulties a company may encounter when providing adequate cash flow to meet its financial commitments at maturity. This type of risk arises out the company's inability to convert an asset into cash or to secure sufficient funds. It includes:
 - Cash Flow Risk
 - Alternative Opportunity Risk
 - Concentration Risk
- 3. Credit Risk:** the risk of defaulting on a debt that may arise from natural or legal borrower's inability or failure to make required repayments as per the terms and conditions agreed upon. It includes:
 - Risk of default, past due payments, or repayment inability
 - Counterparty Risk (Settlement)
 - Custodial Risk

Operational Risks

Operational risks refer to the prospect of loss that could result from inefficiency, internal operational and system failures, and individual errors. It could also be caused by external events. The prospect of operational risk covers legal risks. The operational risk is either internal or external and covers the following:

1. Individual risks (such as employee errors, HR risks, accidents affecting key employees, employment practices, premises safety, or unlawful actions).
2. Internal Operations risks (such as lack or weakness of due diligence/account settlement production, M&A risks, and new product risks).

Strategic Risks

Strategic risk arises out of the business environment and includes the following:

1. IT/IS risks
2. External Event(s) risks

Reputation Risk

Reputation risk is caused by the damage to the trademark, which is an important intellectual property asset. It could lead to legal/compliance risks in terms of honoring legal systems, laws, and regulations. This type of risk directly affects the trademark, putting in mind that client satisfaction is one of the most important reasons affecting the company's reputation.



Risk Management

The company manages risks by applying the following monitoring methods and procedures:

| Type of Risk | Monitoring Procedures |
|----------------|---|
| Market Risk | The company manages capital requirements necessary to encounter market risks based on the standardized method determined by the regulatory body and mentioned in the rules of financial adequacy. |
| | The company further uses a mix of methods to identify, measure, and monitor market risks, including the analysis of securities, the macro and micro economic picture, relevant industry, analysis of supply and demand factor, competition, and risk assessment and analysis. |
| | The company complies with restrictions and limits as mentioned in the internal policies or regulations. |
| | The company assesses concentration ratios, including asset classification and geographical coverage, as liquidity is a pillar for deciding on the quality of assets. |
| | The company applies the monitoring process accurately and timely and develops reports on market risks and the minimum required capital to face all sudden events (including a CAM monthly report, ICAAP annual report, and Pillar III Disclosure Report). |
| | The company undergoes pre-assessments through adequate and proper procedures of due diligence. |
| Liquidity Risk | Watch and monitor the expected cash flows and liquidity ratios. |
| | Assess liquidity risks through maturity date, including the analysis of liquidity gaps at different time periods. |
| | Method of calculating liquidity ratios coverage. |
| | Calculation of total net cash outflows. |

| Type of Risk | Monitoring Procedures |
|--|---|
| Credit Risk | Assess and properly review the quality of investment. |
| | Apply due diligence procedures to the counterparty. |
| | Set criteria and process for selection. |
| | Set and continuously review concentration limits. |
| | Fulfill capital requirements regarding credit risks in accordance with CMA requirements, financial adequacy rules, Pillar I, and Credit Limits control. |
| | Carry out proper and adequate due diligence procedures in advance. |
| | Analyze risk factors and investments to expected yields. |
| | Analyze the company's targeted sectors and operations appropriately. |
| | Analyze the financial statements and target investment. |
| | Review and analyze the legal, regulatory, administrative, and technical framework of the company and target investment. |
| Operational Risk | Review and analyze the mechanism and process of investment decision-making. |
| | Prepare a feasibility study and accurately assess target investment. |
| | Analyze factors of macro and micro economy, competition, market share and future growth opportunities. |
| | Communicate culture of commitment and good conduct to promote a better understanding of operational risk that may face an employee while practicing his/her work. The environment should encourage disclosure of operational incidents to collectively work on avoiding them or minimizing impact, in addition to compliance with the code of professional conduct. |
| | Develop control and operational policies and procedures, and take effective steps as to internal control and reviews of accounts and settlements. |
| | Appropriately segregate functions and duties. |
| | Develop plans and programs for addressing emergencies, and appropriate and tested plans on the ability to resume work under all circumstances and possibilities, including business continuity and resumption plans. |
| Provide vocational insurance. | |
| Clearly identify responsibilities and duties of all positions, ensuring the availability of sufficient employees to perform tasks satisfactorily (succession planning policy, job description, and good procedures of recruitment). | |
| Adopt a conservative approach for Pillar I, which is represented in appropriately satisfying requirements of this pillar in terms of capital required to be allocated for confronting operational risks (as defined in financial sufficiency rules). | |

| Type of Risk | Monitoring Procedures |
|-----------------|---|
| Strategic Risk | Adopt an effective and proper governance |
| | Comprehensively address risks the company's activity may face; review and control such risks periodically to verify efficiency of control mechanisms and update. |
| | Control and follow the surrounding environmental risks and business portfolio risks, in particular, to develop appropriate plans for encountering such risks. |
| | Annually review and update the business plan and the light of newly emerging challenges, changes, and risks. |
| | Optimally allocate resources to accomplish the company's strategic objectives. |
| Reputation Risk | Give priority to stakeholders and clients, in particular, and work on attracting more clients by rendering appropriate services at high quality, in addition to promptly responding to client complaints. |
| | Effective and appropriate supervision by board of directors. |
| | Integration of risks into company's strategy and business planning. |
| | Effective communication and build-up of a good reputation and picture. |
| | Adoption of high corporate values supported by appropriate performance incentives. |
| | Creation and enhancement of a culture of compliance with internal policies and by-laws. |
| | Effective communication with stakeholders (shareholders, suppliers, and clients). |
| | Creation and development of an appropriate control environment. |
| | Development of an effective policy to handle client's complaints and recommendations. |
| | Analysis of performance and comparisons with peers . |

General Meetings

On Monday, 7 May 2018, the extraordinary general meeting was held. The meeting was presided by Dr. Ayedh Farhan Al-Qahtani (Chairman) in the presence of all shareholders. During the meeting, the agenda of the ordinary general meeting was considered.

The meeting decided:

- To approve amending the Articles of Association (to add Client Portfolio Management to business lines);
- To approve the Audit Report and Board Report for the fiscal year 2017;
- To approve the Auditor Report and financial statements for the fiscal year 2017;
- To discharge board members for the fiscal year 2017; and
- To select a FY18 auditor.

External Auditor

In the extraordinary general meeting held on Monday, 7 May 2018, the meeting decided Baker Tilly M.K.M. & Co. (chartered accountants) to act as the FY18 auditor upon a recommendation made by the audit committee.

Compliance with Regulations

Musharaka Capital Company is keen on fully complying with systems, regulations, directions, and instructions issued by the CMA. During 2018G, a violation was issued against the company by CMA: (Violation of Clause (1) of CMA circular to licensed persons under no. (1/6/264/18/R) dated 24/04/1439H, corresponding to 11/01/2018G.

No punishment, penalty, provisional attachment, or sanction was imposed on the company by any supervisory, regulatory, or judicial body.



Description of Dividends Policy

Annual net profits of Company shall be distributed as follows:

1. Ten percent (10%) of net profits shall be allocated to build up the statutory reserve. The ordinary general meeting may decide to stop this appropriation when the reserve reaches 30% of paid-up capital.
2. Upon board proposal, the ordinary general meeting may allocate an equal ratio of net profits, to build up other reserves to the extent that ensures the company's interests are a fixed amount of dividend distribution, as much as possible. The concerned meeting may also withhold amounts out of net profits to incorporate social institutions for personnel or to assist the existing ones.
3. The remaining amount, if any, shall then be paid to shareholders as an initial payment representing 5% of the paid-up capital.
4. As per the provisions of Article 20 of the Articles of Association and Article 76 of Corporate Law, the ordinary general meeting may, if profits exceed 10% of capital and following to the aforesaid allocations, allocate no more than 10% of the remaining amount for rewarding board members with a percentage no more than the maximum limits under official resolutions and instructions issued by concerned bodies in this regard. Eligibility to such remuneration shall be appropriate to the number of meetings attended by the member.
5. Remaining amounts shall be distributed to shareholders in the form of additional share of profits.

Loans

| Lender | Type of Finance | Date of Finance | Maturity Date | Principal | Repayments within the Year |
|---------------------------|-----------------|-----------------|---------------|----------------|----------------------------|
| Alinma Investment Company | Margin Finance | 20/12/2018 | 15/12/2019 | SAR 11,000,000 | N/A |

Businesses or Contracts between the Company and Board Members, Senior Executives, or Any Relevant Person

An operation lease has been concluded between the company and Sumou Holding Company (owned by the Chairman), by which its head office is leased. The contract term is three (3) years starting from 1 January 2018. Its value amounts to SAR 1,000 per square meter for the first year and SAR 1,100 per square meter for both second and third years (such a price is considered below average, compared to rates at the same area, and less than the rental value of the previous head office).

Board Acknowledgment

The Board of Directors shall acknowledge account ledgers and the internal control systems are developed properly and correctly. They shall further acknowledge the company's ability to continue its activities, which is considered undisputed.

Musharaka Subsidiaries

Companies owned by Musharaka Capital (for special purposes):

| Name and Type of Company | Capital SAR | Musharaka Stake (%) | Activity | Head Office | Place of incorporation | Notes |
|--|-------------|---------------------|--|-------------|------------------------|---|
| Musharaka Real Estate Company (Limited Liability Company) | 30,000 | 95% | Real estate development, management, and maintenance; management and operation of industrial, entertainment, and touristic cities and projects | Khobar, KSA | KSA | Company's commercial register was canceled after stopping activity was halted on 03/07/1439H, corresponding to 20/03/2018 |
| Entifa' Alawwal Invest (Limited Liability Company) | 5,000 | 100% | Management and lease of owned or leased properties, either residential or non-residential, real estate development and investment, public constructions of non-residential buildings, export, commercial commitments, and marketing on behalf of third party | Khobar, KSA | KSA | Company's commercial register was canceled after stopping activity was halted on 03/07/1439H, corresponding to 20/03/2018 |
| Tansiq Al Oula Trading Company (Limited Liability Company) | 10,000 | 95% | Commercial services and sale, purchase and lease of lands and properties, and general contracting | Khobar, KSA | KSA | |
| Tansiq Al Taqa for Investment | 10,000 | 100% | Installation, maintenance, and repair of solar energy networks | Khobar, KSA | KSA | |

* The above companies are incorporated for special purposes related to investment funds

Investments in Other Companies

| Name and Type of Company | Capital SAR | Musharaka Stake (%) | Activity | Head Office | Place of incorporation |
|--|-------------|---------------------|--|-------------|------------------------|
| Armas Co. Ltd. (Limited Liability Company) | 6,900,000 | 25% | Wholesale and retail trade in marble, industrial granite, wooden platforms, and wooden and metal furniture | Khobar, KSA | KSA |





Financial Results and Disclosures



Independent Auditor's Report

TO THE SHAREHOLDERS OF MUSHARAKA CAPITAL COMPANY

(A Saudi Closed Joint Stock Company)

Opinion

We have audited the financial statements of Musharaka Capital Company (A Saudi Closed Joint Stock Company) (the "Company"), which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia ("ISAs"). Our responsibilities under those standards are further described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of our report. We are independent of the Company in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter - basis of preparation

We draw attention to note 2 to these financial statements which describes the basis of preparation. As a result of the regulatory requirements in the Kingdom of Saudi Arabia, the financial statements of the Company for the year ended 31 December 2018 have been prepared in accordance with the International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants (SOCPA). For all years up to and including year ended 31 December 2017, the Company prepared its financial statements in accordance with accounting principles generally accepted in the Kingdom of Saudi Arabia.

Responsibilities of Management and Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by SOCPA, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibilities of Management and Board of Directors for the Financial Statements

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Auditor's Responsibilities for the Audit of the Financial Statements

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Baker Tilly MKM & Co.
Certified Public Accountants

Majed Muneer Alnemer
License No. 381
Al-Khobar 7 Rajab 1440
14 March 2019

Financial Results and Disclosures

MUSHARAKA CAPITAL COMPANY

(A Saudi Closed Joint Stock Company)

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

| | Note | 31 December 2018 SR | 31 December 2017 SR (Note 6) | 1 January 2017 SR (Note 6) |
|---|------|---------------------------|---------------------------------------|-------------------------------------|
| ASSETS | | | | |
| Property and equipment | 7 | 2,356,487 | 1,247,396 | 671,374 |
| Investment in unconsolidated subsidiaries | 8 | 20,000 | 15,000 | - |
| Investment in associates | 9 | 45,759,801 | 37,712,362 | 5,000,000 |
| Financial assets at fair value through profit or loss | 10 | 5,221,711 | 9,203,659 | 21,850,498 |
| Due from related parties | 21 | 6,760,749 | 4,016,812 | 175,287 |
| Prepayments and other receivables | 11 | 1,932,542 | 1,172,762 | 756,081 |
| Cash and cash equivalents | | 15,282,215 | 4,881,470 | 21,877,772 |
| TOTAL ASSETS | | 77,333,505 | 58,249,461 | 50,331,012 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| Liabilities | | | | |
| Employee termination benefits | 12 | 1,204,939 | 850,794 | 529,842 |
| Accrued expenses and other payables | 13 | 1,629,918 | 950,954 | 645,469 |
| Short-term borrowings | 14 | 11,000,000 | - | - |
| Zakat payable | 15 | 741,178 | 1,338,655 | 1,203,115 |
| Total liabilities | | 14,576,035 | 3,140,403 | 2,378,426 |
| Shareholders' Equity | | | | |
| Capital | 16 | 65,000,000 | 65,000,000 | 65,000,000 |
| Accumulated losses | | (2,242,530) | (9,890,942) | (17,047,414) |
| Total shareholders' equity | | 62,757,470 | 55,109,058 | 47,952,586 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 77,333,505 | 58,249,461 | 50,331,012 |

MUSHARAKA CAPITAL COMPANY

(A Saudi Closed Joint Stock Company)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

| | Note | 2018 SR | 2017 SR (Note 6) |
|---|------|-------------------|------------------------|
| Income | | | |
| Revenue from service contracts with customers | 17 | 20,594,598 | 13,605,571 |
| Unrealized loss on financial assets at fair value through profit or loss | 10 | (1,223,533) | (2,352,410) |
| Realized loss on financial assets at fair value through profit or loss | 10 | (90,250) | (95,718) |
| Dividends income | | 18,012 | 154,664 |
| | | 19,298,827 | 11,312,107 |
| Expenses | | | |
| Marketing expenses | | (287,547) | (102,602) |
| General and administrative expenses | 18 | (13,448,749) | (10,933,907) |
| Operating income | | 5,562,531 | 275,598 |
| Finance costs | 19 | (49,278) | (19,542) |
| Other income | 20 | 1,460,934 | 7,670,000 |
| Share of results of associates | 9 | 2,025,077 | 632,987 |
| Income before zakat | | 8,999,264 | 8,559,043 |
| Zakat | 15 | (1,311,321) | (1,400,000) |
| NET INCOME FOR THE YEAR | | 7,687,943 | 7,159,043 |
| Other Comprehensive Income (OCI) | | | |
| OCI that will not be reclassified to profit or loss in subsequent years: | | | |
| Remeasurements of defined benefit liability | 12 | (40,011) | 5,585 |
| Share of OCI of associate | 9 | 480 | (8,156) |
| Other comprehensive loss for the year | | (39,531) | (2,571) |
| Total comprehensive income for the year | | 7,648,412 | 7,156,472 |
| Earnings per share | | | |
| Earnings per share attributed to the shareholders of the Company: | | | |
| Basic (SR) | | 1.18 | 1.10 |
| Diluted (SR) | | 1.18 | 1.10 |
| Earnings per share for operations | | | |
| Earnings per share from operations attributed to the shareholders of the Company: | | | |
| Basic (SR) | | 0.86 | 0.04 |
| Diluted (SR) | | 0.86 | 0.04 |
| Weighted average number of shares outstanding: | | | |
| Basic shares | | 6,500,000 | 6,500,000 |
| Diluted shares | | 6,500,000 | 6,500,000 |

Financial Results and Disclosures

MUSHARAKA CAPITAL COMPANY

(A Saudi Closed Joint Stock Company)

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

| | Note | Capital | Accumulated | Total equity |
|---|------|-------------------|--------------------|-------------------|
| | | SR | Losses | SR |
| For the year ended 31 December 2018: | | | | |
| As at 1 January 2018 | 6 | 65,000,000 | (9,890,942) | 55,109,058 |
| Profit for the year | | - | 7,687,943 | 7,687,943 |
| Other comprehensive loss | | - | (39,531) | (39,531) |
| Total comprehensive income | | - | 7,648,412 | 7,648,412 |
| As at 31 December 2018 | | 65,000,000 | (2,242,530) | 62,757,470 |
| For the year ended 31 December 2017: | | | | |
| As at 1 January 2017 | 6 | 65,000,000 | (17,047,414) | 47,952,586 |
| Profit for the year | | - | 7,159,043 | 7,159,043 |
| Other comprehensive loss | | - | (2,571) | (2,571) |
| Total comprehensive income | | - | 7,156,472 | 7,156,472 |
| As at 31 December 2017 | | 65,000,000 | (9,890,942) | 55,109,058 |

MUSHARAKA CAPITAL COMPANY

(A Saudi Closed Joint Stock Company)

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

| | 2018 | 2017 |
|---|--------------------|---------------------|
| | SR | SR |
| | | (Note 6) |
| OPERATING ACTIVITIES | | |
| Income before zakat | 8,999,264 | 8,559,043 |
| Adjustments for non-cash items: | | |
| Depreciation | 392,173 | 303,779 |
| Property and equipment written off | 65,582 | - |
| Unrealized loss on financial assets at fair value through profit or loss | 1,223,533 | 2,352,410 |
| Realized loss on financial assets at fair value through profit or loss | 90,250 | 95,718 |
| Share of results of associates, net | (2,025,077) | (632,987) |
| Finance costs | 49,278 | 19,542 |
| End of service indemnities | 321,233 | 310,370 |
| | 9,116,236 | 11,007,875 |
| Changes in working capital: | | |
| Due from related parties | (2,743,937) | (3,841,525) |
| Prepayments and other receivables | 363,724 | (416,681) |
| Accrued expenses and other payables | 658,830 | 305,485 |
| | 7,394,853 | 7,055,154 |
| Zakat paid | (1,908,798) | (1,264,460) |
| End of service indemnities paid | (36,243) | (3,375) |
| Net cash flows from operating activities | 5,449,812 | 5,787,319 |
| INVESTING ACTIVITIES | | |
| Investment in unconsolidated subsidiaries | (10,000) | (15,000) |
| Disposal of unconsolidated subsidiaries | 5,000 | - |
| Additions to financial assets at fair value through profit or loss | (11,390,250) | (1,090,619) |
| Proceeds from sale of financial assets at fair value through profit or loss | 14,058,415 | 11,289,330 |
| Additions to investment in associates | (9,455,386) | (37,354,499) |
| Proceed from disposal of associates | - | 5,266,968 |
| Dividends received from an associate | 2,310,000 | - |
| Purchase of property and equipment, net | (1,566,846) | (879,801) |
| Net cash flows used in investing activities | (6,049,067) | (22,783,621) |
| FINANCING ACTIVITIES | | |
| Proceeds from short-term borrowings | 11,000,000 | - |
| Net cash flows from financing activities | 11,000,000 | - |
| Net change in cash and cash equivalents | 10,400,745 | (16,996,302) |
| Cash and cash equivalents at the beginning of the year | 4,881,470 | 21,877,772 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | 15,282,215 | 4,881,470 |
| Non-cash transactions: | | |
| Dividends receivable | 1,123,504 | - |



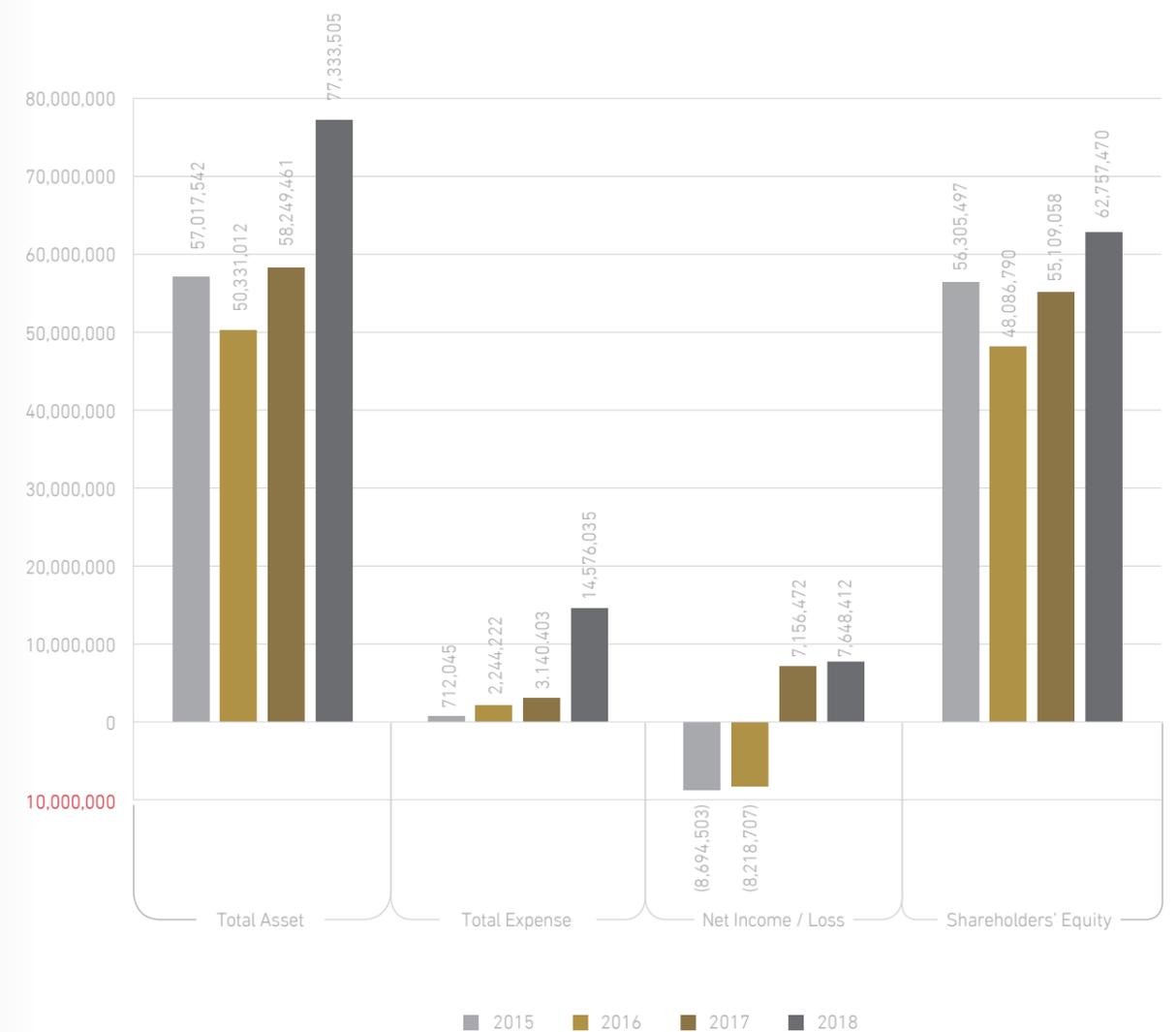
Financial Results and Disclosures

Note about Core Difference in Operational Results Compared to Last Year

In 2018, the company recorded revenue growth that led to the increase of net profits year on-year. FY18 witnessed an increase in revenue of investment banking (arrangement & execution of transactions) and in management fees of "Musharaka REIT Fund" on further expansion, in addition to the calculation of Fund's management fees in 2018 rather than FY17 partial calculation of management fees (as of date of Fund Operation in August 2017). No subscription fees were collected within the period as no investment funds were launched.



4-Year Financial Summary



Financial Results and Disclosures

Capital Adequacy Ratio

Musharaka Capital seeks to comply with the financial adequacy rules issued by CMA to enhance the company's ability to maintain a robust capital base.

Below are the details of minimum capital requirements, capital base, and capital adequacy ratio for the last three years.

| Item | 2018 | 2017 | 2016 |
|-----------------------------|------------|------------|------------|
| Total Capital Base | 61,534,000 | 54,648,000 | 48,087,000 |
| Minimum Capital Requirement | 33,035,000 | 26,649,000 | 10,184,000 |
| Capital Adequacy Ratio | 1.86 | 2.05 | 4.72 |

Approval for Financial Statements

On 14 March 2019, the board of directors recommended approving the financial statements for the year ended on 31 December 2018. The general meeting seconded its recommendation.



Pillar III Disclosures

As per CMA requirements, the company developed the Pillar III Disclosure Report for FY18; it was approved by the board of directors. The report includes capital structuring, capital adequacy, and plans for risk management and mitigation. The report is available via the company's website, www.musharaka.sa

Social Responsibility
& Events





Social Responsibility & Events



Launching of “Road Iftar” Project

Out of our social responsibility, Musharaka Capital launched this project in coordination with King Fahd Causeway Authority. The project aims to distribute Iftar meals over fasting travelers from KSA to Bahrain via King Fahad Causeway. Company personnel and their sons took the initiative to take part in packaging and distributing meals for the fasting travelers just before Maghrib Azan.

Social Responsibility & Events

Sponsoring Award of Top 100 Saudi Brands

To support Saudi brands out of our belief in their vital role in the national economy, Musharaka Capital sponsored "Top 100 Saudi Brands" Award-associated events organized in Jeddah on 18 April 2018 under the sponsorship of H.R.H. Prince/ Khalid Al-Faisal, Mecca Governor, who honored Musharaka Capital's CEO, Mr. Ibrahim Fahad Al Assaf, by the end of ceremony for the company's sponsorship of the award.



Participation in the Seminar of Venture Capital for Supporting Small Enterprises

Out of our belief in the vital role of small and medium enterprises in the national economy, head of investment bank, Mazen Al - Dandashly, took part in the forum organized by Asharqia Chamber on 18 April 2018, named (Venture Capital Role in Supporting Small Enterprises). At the end of the seminar, Mr. Ibrahim Mohammed Al Al-Sheikh, a member of the Board of Directors of Asharqia Chamber, honored Mr. Mazen El-Dandashli for his active participation.



Social Responsibility & Events

Sponsoring the Financial Market Listing Forum in 2018, Asharqia Chamber

In order to fulfill its role in supporting directions of Vision 2030 as well as CMA directions represented in building up advanced financial markets, deepening financial markets, and facilitating the flotation of shares, Musharaka Capital played the role of diamond sponsor of the forum named, "Financial Market Listing Forum 2018," which is organized by Asharqia Chamber in cooperation with Tadawul, under the sponsorship of CMA Chairman, Mr. Mohammed Abdullah Al-Quwaiz on Sunday, 5 June 2018. Musharaka Capital further participated in the forum-accompanied scientific meetings, which discussed the following subjects: Family businesses and the impact of enlisting

on their growth and sustainability; challenges that encounter family businesses in terms of development, update, and direction to offering and enlisting in financial markets; challenges and problems related to offering and enlisting rules and how to prepare public offer files; in addition to other subjects including business preparedness and evaluation.

By the end of the forum, CMA Chairman, Mr. Mohammed bin Abdullah Al-Quwaiz honored Musharaka Capital's CEO, Mr. Ibrahim bin Fahad Al Assaf for participation and diamond sponsorship of forum.



Social Responsibility & Events

Participating in Financial Market Listing Forum in Riyadh Chamber

To maintain participation in economic and investment forums and upon the invitation of Tadawul, Musharaka participated in the Financial Market Listing Forum, which was organized by Riyadh Chamber in cooperation with Tadawul on Sunday, 9 September 2018, under the sponsorship of CMA Chairman, Mr. Mohammed bin Abdullah Al-Quwaiz. The forum spotted challenges that encounter family businesses in terms of development, update, and direction to offering and enlisting in financial market, besides challenges and problems related to offering rules and how to prepare public offer files.

By the end of the forum, CMA Chairman, Mr. Mohammed bin Abdullah Al-Quwaiz, honored Musharaka Capital for its effective participation in the forum.



Social Responsibility & Events

Participating in the 7th Global Family Office Investment Summit, 2018

In keeping with the commitment of Musharaka Capital to permanently meet the business community and decision-makers domestically and worldwide, Musharaka Capital's CEO, Mr. Ibrahim bin Fahad Al Assaf, took part in the 7th Global Family Office Investment Summit organized in Dubai from 10-12 November 2018. Mr. Al Assaf participated in seminar during opening session of summit in the presence of a number of senior officials, decision-makers, and businessmen in the financial sector worldwide.

The Summit discussed wealth management strategies, investment opportunities under economic challenges and geopolitical risks, and the best methods for protecting investments from all possible risks.







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