Evaluation of the Internal Controls System:

Report of the Audit Committee on the adequacy of the internal controls system in Emaar the Economic City for the Fiscal Year Ended December 31, 2022.

To the shareholders
Emaar the Economic City Group
King Abdullah Economic City - Kingdom of Saudi Arabia

Introduction:

Based on the provisions of the Corporate Governance Regulations issued by the Capital Market Authority in Articles 10 and 14 in relation to the basic functions of the Board of Directors and the tasks of the Audit Committee and based on the provisions of Article 104 of the New Companies Law, the Audit Committee presents through this report its opinion on the effectiveness of the Internal Controls System in Emaar the Economic City.

During 2022, the Audit Committee held (9) nine times, during which the annual financial statements, internal and external audit works, compliance issues and risk management were discussed.

The activities of the Audit Committee and its work during 2022:

The Audit Committee periodically follows up and performs the responsibilities and tasks entrusted to it by the Board of Directors. The Audit Committee expressed its opinion on the effectiveness of the internal controls system as follows:

- **Appointment of Independent External Auditors:** The committee had reviewed the offers submitted by a number of registered Audit Firms for the annual audit of the financial statements for the year ended 31 December 2022 and made a recommendation to the Board of Directors and General Assembly to appoint the External Auditors. This form part of the tasks assigned to the Audit Committee with regard to the recommendation to the Board of Directors on appointment, reappointment or removal of external auditors, determining their fees, and evaluates their performance.
- **The annual audit plan submitted by the External Auditors**: The Audit Committee approved the audit plan submitted by the External Auditors after discussing the same with them and ensure that it covers the main areas of concerns for the company.
- **Review the financial statements which include the accounting policies used and discussing the same with Management and the External Auditors:** During its periodic meetings throughout the year, the committee discussed the financial policies used in the preparation of the financial statements in accordance with the International Financial Reporting Standards (IFRS). After reviewing and discussing these policies, these were approved by the Board of Directors. The Audit Committee also reviewed the quarterly and annual financial statements and special reports which includes comparing the current period with the previous periods and highlighted some observations and also discussed the same with Management and the External Auditors. This was done prior to the approval of the Financial statements by the by the Board of Directors and being published on the CMA platform. The audit opinion on the Financial Statements was unqualified for the year ended 31 December 2022.
- **The "management letter" and the recommendations provided by the External Auditors and the extent to which management is taking corrective action on these recommendations:** The Audit Committee had reviewed the "management letter" submitted by the External Auditors and received from Management the necessary corrective action plan in relation to these observations. The Audit committee followed up with Management the stages of implementation of audit recommendations and made sure that Management is committed to implementing the audit recommendations.

- **Reports and recommendations provided by the company's Internal Auditors and the extent to which management is taking corrective actions on the recommendations**: The Audit Committee periodically follows up with the Internal Auditors and Senior Management the stages of management's commitment to the agreed action plans in order to take corrective action plan on the recommendations provided by the Internal Auditors. The Internal Auditors submits a follow-up report on Audit Recommendations i.e. open and closed audit recommendations. The Audit Committee discusses this report with Management and the Internal Auditors.

- **Annual audit plan submitted by the Internal Auditors:** The Internal Audit Department submits the Internal Audit Annual Plan based on the risk assessment of each department as well as inputs received from Management and the Audit Committee. The Audit Committee approves the Internal Audit Annual Plan after reviewing the above-mentioned criteria. The Audit Committee follows up with the Internal Auditors with regard to the adherence to the approved audit plan. The Audit Committee also approves any amendments to it based on justifications which require these amendments, if any.

- **Reviewing and approving the "Internal Audit Charter":** The Committee reviewed and approved the "Internal Audit Charter" in line with the International Standards of Internal Auditing and International best practices. The Audit Committee also ensured that the Head of Internal Audit is independent, which enhance the objectivity of the Internal Audit's work.

- **Approval of updates in relation to the internal audit framework and protocol:** The Audit Committee reviewed and approved the necessary and suggested updates from the Head of Internal Audit on the internal audit framework, protocols and special procedures in line with the professional developments in this field.

- **The various reports that the Audit Committee requests from management for review and discusses during its periodic meetings:** The Audit Committee periodically requests from senior management various reports on the progress of operations, collection processes, legal issues, zakat and value-added tax. The committee also reviews the operations carried out with the relevant authorities on a regular basis and provide opinions on them to the Board of Directors prior to approving them. Various reports are discussed during the periodic meetings of the Audit Committee, where management provides adequate information and address the committee's queries. The committee also discusses and reviews all developments in terms of new laws and regulations in the Kingdom of Saudi Arabia and ensures that the company complies with all requirements of the Capital Market Authority and the Companies Law.

- **The annual report on the risks that the company may be exposed to**: The Audit committee reviews the report on the risks that the company may be exposed to and provide recommendations on it after reviewing the steps taken by management to mitigate the effects of these risks or cancel them completely, if possible. The Audit Committee submits the same to the board of directors for final discussion and approval.

- **Reviewing the extent of co-operation and assistance provided by the External Auditors and Internal Auditors and emphasizing their independence and the absence of any restrictions preventing them from completing the assigned tasks:** The Audit Committee asked the auditors to comment on any professional difficulties that would impede them to complete their Audit Work. The Audit Committee did not receive any comments from the auditors in this regard. The External Auditors as well as the Internal Auditors confirmed that they had obtained all the information and documents required in order to complete their audit work.

- **Verification and clearance of grievances received from stakeholders:** The Audit Committee reviewed the reports received through the system of reporting violations and independently investigated them through the Internal Audit Department and took the necessary corrective actions in accordance with the policy for reporting violations which was approved by the Board. Investigations reports received during the year did not reveal any violations related to operations or thefts.

- **Reviewing the compliance reports:** The Audit Committee periodically reviews the compliance reports that reflect the company's compliance with the statutory requirements issued by the relevant government agencies such as the Economic Cities and Special Zones Authority, and follow up on the points raised and the implementation of the recommendations contained in those reports.

The Audit Committee Opinion on the adequacy and effectiveness of the system of Internal Control:

The audit reports referred to the above did not show a fundamental weakness in the company's internal controls system, as the majority of observations are mainly in the areas of improving performance, activating the work of departments, increasing their efficiency and documentation of procedures in order to improve the internal controls system and make the best use of available resources.

Based on all of the above, and bearing in mind that the objectives of the internal control system are:

- Ensuring that the accounting records are prepared in an appropriate manner and that they are valid, accurate and complete.
- Safeguarding of assets and property.
- Maintaining Integrity in transactions.
- Increasing the efficiency of the company's performance and the efficient exploitation of its available capabilities.
- Comply with various laws, rules & regulations.

The Audit Committee considers that the objectives of the internal controls system as stipulated in Emaar the Economic City have been achieved to a reasonable extent with the need to focus on improving the effectiveness of certain aspects of the Internal Controls system of the prior year. The Audit Committee also considers that management position in general regarding internal control is positive, as the majority of activities are governed by written policies and procedures, and management reacts positively towards the recommended policies or improvements. Furthermore, there was no conflict between the recommendations and decisions of the Audit Committee with the Board of Directors during the year.

The Audit Committee also stresses that the emerging stage requires the Board of Directors and senior management to work on updating the internal controls system and risk management systems to help overcome current or future changes and challenges at all levels with regard to the efficiencies and effectiveness of the company's operations.

We also would like to highlight that it is not possible to absolutely confirm the comprehensiveness of the examinations and evaluations of internal controls, as auditing is based on random sampling. Furthermore, there is a diversity in the company's operations. Therefore, improvement and development efforts are on-going by the Audit Committee through the system of the three lines of defense of governance to ensure the efficiency & effectiveness in the mechanism of follow-up and improvement of internal control procedures.

The committee will continue its work during the next year and will report any change to the foregoing, if any.

Future and Emerging Risks:

As in the case of mega strategic projects, the construction of an integrated city involves many risks associated with the long period of time to complete the project and implies on the necessity of adapting to rapid changes in terms of economic and practical terms. Therefore, the company from time to time consults with expert firms to ensure the accuracy of the assumptions and studies and to rely on best practices in the activities it practices in order to ensure long-term continuity.

The company had identified a general perception of the risks and challenges that it may face that may affect its performance or the city's development programs, and the Board and the Executive Management have set the necessary plans and procedures to reduce or eliminate the impact of these risks.

Emaar Econ
2211 – Hejaz Boulevard – BayLaSun – Unit No. 01
King Abdullah Economic City 23965-7373
Kingdom of Saudi Arabia
Tel. +966 12 510 6666 Fax. +966 12 510 6902
www.kaec.net

شركة إعمار المدينة الإقتصادية
2211 – طريق الحجاز – البيلسان – وحدة رقم 1
مدينة الملك عبدالله الاقتصادية 23965-7373
المملكة العربية السعودية
الهاتف: ٦٦٦٦ ٥١٠ ١٢ ٩٦٦+ الفاكس: ٦٩٠٢ ٥١٠ ٩٦٦+
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The most significant risks are as follows:

- Risks related to the security and safety of the city and its residents.
- Continuous decreased in sales.
- Increase in number of legal cases from customers or other financial obligations and payables.
- Inability to attract enough population to KAEC due to lack of white-collar job opportunities and materialized investments.
- Inadequate activation of the regulations as stipulated by the Economic Cities & Special Zones Authority or any new or updated regulations from the competent authorities, other supportive regulations to provide special privileges to Economic Cities.
- Liquidity risks and inability to obtain additional funding and financial support which results with inability to meet the current financial obligations and loans, or to continue support the primary facilities and operational needs of the city or finance new projects.
- The risks associated with the cybersecurity and information security.

In addition to the above risks, management monitors and follows up on risks of a financial nature as follows:

The Group's activities may expose it to a variety of financial risks. The Group's overall risk management program focuses on robust liquidity management as well as monitoring of various relevant market variables, thereby consistently seeking to minimize potential adverse effects on the Group's financial performance.

The Group may expose to the following risks from its use of financial instruments:

- Credit risk;
- Market risk (commission rate risk, currency risk and price risk)
- Liquidity risk.

This part illustrates information about the Group's possible exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk.

The Board of Directors has an overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's senior management are responsible for developing and monitoring the Group's risk management policies and report regularly to the Board of Directors on their activities.

The Group's risk management policies (both formal and informal) are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Group's principal financial liabilities comprise of trade and other payables, lease liabilities and long-term and short-term borrowings. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include investment in equity accounted investees, employees' receivable – home ownership scheme, unbilled revenue, trade receivables and other current assets, restricted cash and cash and cash equivalents.

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المملكة العربية السعودية
الهاتف: ٦٦٦٦ ٠ ٥١ ١٢ ٩٦٦+ الفاكس: ٦٩٠٢ ٠ ٥١ ١٢ ٩٦٦+
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The Board of Directors reviews and agrees policies for managing each of the following risks which are summarised below:

1 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is exposed to credit risk principally from its employees' receivable – home ownership scheme, unbilled revenue, trade receivables and other current assets.

Customer credit risk is assessed by the Group according to the Group's established policy, procedures and controls relating to customer credit risk management. Credit quality of a customer is assessed based on a credit rating process. Each new customer is analysed individually for credit worthiness before entering into contract with the customer.

The Group seeks to manage its credit risk with respect to customers by monitoring outstanding receivables. Certain sales pertaining to real estate are made on instalment basis. The sale agreements with customers provide that the title to the property is transferred to the customers only upon the receipt of complete sale price. The collection department monitors the situation of outstanding receivables and follows up with customers for the payments in accordance with the contractual terms. Payment term varies from product to product with some exceptions at the customer level.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for various customer segments with similar loss patterns. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors (such as GDP forecast and inflation rate) affecting the ability of the customers to settle the receivables.

With respect to credit risk arising from the other financial assets of the Group, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Credit risk from balances with banks and financial institutions is managed by Group's treasury in accordance with the Group's policy. Given the profile of its bankers, management does not expect any counterparty to fail meeting its obligations. The Group deals with reputable banks with investment grade credit ratings and the credit quality of these financial assets can be assessed by reference to external credit ratings. Credit risk on cash at banks and restricted cash is limited as these are held with banks with sound credit ratings ranging from BBB+ and above. While cash and cash equivalents and other receivables are also subject to impairment requirements of IFRS 9 'Financial Instruments' ("IFRS 9"), these are considered as low risk and the impairment loss is not expected to be material.

Excessive risk of concentration

Concentration arises when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration of risk is managed through focus on the maintenance of a diversified portfolio. In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

2 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. Market risk comprises of three types of risk: currency risk, commission rate risk and other price risk

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الهاتف: ٦٦٦٦ ٥١٠ ١٢ ٩٦٦+ الفاكس: ٦٩٠٢ ٥١٠ ١٢ ٩٦٦+
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i. Commission rate risk

Commission rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market commission rates.

The Group's exposure to the risk of changes in market commission rates may relate primarily to the Group's long-term and short-term borrowings with floating commission rates. The Group manages the commission rate risk by regularly monitoring the commission rate profiles of its commission bearing financial instruments.

Commission rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in commission rates on long term loans. With all other variables held constant, the Group's loss before tax is affected through the impact on floating rate borrowings.

The assumed movement in basis points for the commission rate sensitivity analysis is based on the currently observable market environment, showing a significantly higher volatility than in prior years.

The weighted average rate for the Group's long-term borrowings is approximately 4.73%.

ii. Currency risk

Currency risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in foreign exchange rates. The Group did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars. As US Dollar is pegged to Saudi Riyal, the Group is not exposed to significant currency risk.

iii. Price risk

The Group has no significant exposure to price risk as it does not hold any equity securities or commodities.

3 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available through committed credit facilities to meet any future commitments. The cash flows, funding requirements and liquidity of Group companies are monitored on a centralised basis, under the control of Group Treasury. The objective of this centralised system is to optimise the efficiency and effectiveness of the management of the Group's capital resources. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank borrowings. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and borrowing facilities, by continuously monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group's management has developed a plan to enable the Group to meet both its obligations as they become due and to continue its operations, without significant curtailment, as a going concern.

With Best Regards,

Osama Barayyan
Chairman of Audit Committee

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