

14) Audit Committee Report

Below are the results of the annual review of the effectiveness of the internal control procedures of the Company and the opinion of the Audit Committee with respect to the adequacy of the Company's systems of internal and financial controls and risk management:

- Evaluating internal control system:

Based on the provisions of the Corporate Governance Regulations (CGR) issued by the Capital Market Authority in Articles 21 (2-d) and 52 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 of 87 (10) of the CGR, the Audit Committee presents through this report its opinion on the adequacy of the Internal and Financial Controls and Risk Management Systems in Emaar, the Economic City.

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 Auditor:** As part of the Audit Committee's mandates with regard to the recommendation to the Board of Directors on appointment, reappointment or removal of external auditor, determining their fees, and evaluates their performance, the committee had reviewed and evaluated the performance of the independent external auditor for the previous fiscal year and recommended to the Board of Directors and General Assembly to reappoint the External Auditor to audit the financial statements for the year ended 31 December 2024 and the determined audit fee in accordance of the previous General Assembly resolution to appoint the External Auditor for the three fiscal years from 2023 to 2025.
- The annual audit plan submitted by the External Auditor:** The Audit Committee approved the audit plan submitted by the External Auditor 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 Auditor:** 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 Auditor. 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 2024.



- d. **The "management letter" and the recommendations provided by the External Auditor 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 Auditor 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.
- e. **Reports and recommendations provided by the company's Internal Auditor and the extent to which management is taking corrective actions on the recommendations:** The Audit Committee periodically follows up with the Internal Auditor 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 Auditor 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 Auditor.
- f. **Annual audit plan submitted by the Internal Auditor:** The Internal Audit Department submitted 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 approved the Internal Audit Annual Plan after reviewing the above-mentioned criteria. The Audit Committee follows up with the Internal Auditor with regard to the adherence to the approved audit plan. The Audit Committee also approved the amendments to it based on justifications which require these amendments, if any.
- g. **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.
- h. **Approval of updates in relation to the internal audit manual and protocol:** The Audit Committee reviewed and approved the necessary and suggested updates from the Head of Internal Audit on the internal audit manual, protocols and special procedures in line with the professional developments in this field.
- i. **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 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.



- j. The annual report on the risks that the company may face: The Audit committee reviewed the report on the risks that the company may face and provide recommendations on it after reviewing the steps taken by management to mitigate the effects of these risks or avoid them completely, if possible. The Audit Committee submits the same to the board of directors for final discussion and approval.
- k. Reviewing the extent of co-operation and assistance provided by the External Auditor and Internal Auditor 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 procedures. The Audit Committee did not receive any comments from the auditors in this regard. The External Auditor as well as the Internal Auditor confirmed that they had obtained all the information and documents required in order to complete their audit procedures.
- l. 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 fraud or thefts.
- m. 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 systems of the Internal and Financial Controls and Risk Management:

The reports referred to the above did not show a fundamental weakness in the company's systems of internal and financial controls and risk management, as the majority of observations are mainly in the areas of improving performance, enhancing the effectiveness of the functions, increasing their efficiency and documentation of procedures in order to improve the system of internal controls and make the best utilization of available resources.

Based on all of the above, and bearing in mind that the main objectives of the systems of internal and financial controls and risk management 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 systems of internal and financial controls and risk management 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 these Systems from the previous year. The Audit Committee also considers that management position in general regarding internal and financial controls and risk management 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 systems of internal and financial controls and risk management to help overcome current or future changes and challenges at all levels with regard to the efficiencies and effectiveness of the company's operations.

The Audit Committee also would like to highlight that it is not possible to absolutely confirm the comprehensiveness of the examinations and evaluations of internal and financial controls and risk management, 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 and financial controls and risk management.

The committee will continue its activities during the next year, and will report any changes on the above-mentioned matters if they occur.

Future and Emerging Risks

Developing a comprehensive city involves inherent risks, as with any large-scale strategic project. These risks emerge primarily from the extended timeline required for completion and the need to adapt to evolving economic and operational conditions. To navigate these challenges, the company actively engages with industry experts to validate its assumptions and studies, ensuring compliance with industry standards while reinforcing long-term sustainability. The company has identified a general overview of the risks and challenges it may face, which could affect its performance or the city's development programs. The Board of Directors and Executive Management have developed plans and measures to mitigate or avoid the impact of these risks. The most important of these risks are:

A. Key Operational Risks

1. Security and Safety Risks

Ensuring the safety of residents and the integrity of city infrastructure against potential threats, emergencies, or criminal activities is critical to maintaining a successful city environment. The company is developing and



implementing security strategies that protect residents and properties to preserve the stability and resilience of the community.

2. Legal and Financial Liabilities

Customer lawsuits or unresolved financial obligations can lead to significant reputational and financial damage, potentially undermining the organization's long-term success. The company is addressing legal challenges by ensuring that disputes are resolved fairly and efficiently to protect the organization's reputation and preserves its financial stability and fosters long-lasting trust with customers and stakeholders.

3. Population Growth Challenges

Challenges in attracting residents could delay city growth and disrupt the city's economic ecosystem. Key factors such as affordability, access to job opportunities, and the availability of robust infrastructure are vital in driving sustainable growth. The company is fostering long-term economic prosperity by prioritizing these elements, ultimately enhancing the quality of life for residents.

4. Implementing Regulatory Frameworks

Inadequate implementation of the regulations set by the Economic Cities & Special Zones Authority, or any new and updated regulations from relevant authorities, could delay the effectiveness of economic cities and special economic zones. The company is implementing a comprehensive plan and strategies to ensure that all regulatory requirements are implemented and kept up to date.

5. Funding Risks

Liquidity constraints, economic fluctuations, and difficulties in securing investments can severely impact on the company's ability to meet its obligations and sustain long-term growth. These financial challenges may restrict operational flexibility, delay strategic initiatives, and affect the overall stability of the business. The company is working to support its financial management strategy, diversify funding sources and partnerships in developing the city in various segments.

6. Cybersecurity and Information Security Risks

Data breaches, cyberattacks, and system vulnerabilities pose significant threats to sensitive information and can severely disrupt operations. The company is working to implement robust cybersecurity measures, including proactive monitoring, encryption, and employee training.

B. Financial Risk Management

In addition to operational risks, the company is exposed to various financial risks due to its activities. The company's management monitors and tracks financial risks, which include the following:

1. Credit Risk

Credit risk arises when customers or counterparties fail to meet their financial obligations. The company mitigates this risk by assessing customer creditworthiness, monitoring outstanding receivables, and performing impairment analyses



based on macroeconomic factors. The company also works with reputable banks and maintains a diversified portfolio to manage concentration risks effectively.

2. Market Risk

Market risk refers to potential financial impacts due to fluctuations in market variables, including foreign exchange rates, interest rates, and equity prices. The company's market risk management strategy aims to optimize returns while controlling exposure. This risk is further divided into:

- **Currency Risk:** This is the risk arising from changes in foreign exchange rates, interest rates, and stock prices. However, these risks are limited because the company's core transactions are conducted in Saudi Riyals and US Dollars.
- **Interest Rate Risk:** Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market interest rates. The company's exposure to interest rate changes is primarily related to its short- and long-term loans with variable interest rates. The company manages interest rate risk by regularly monitoring the interest rate profiles of its interest-bearing financial instruments.
- **Price Risk:** The company is not materially exposed to price risks as it does not hold securities representing equity or commodities.

3. Liquidity Risk

Liquidity risk is the challenge of securing sufficient funds to meet financial commitments, particularly when assets cannot be quickly sold at fair value. The Company manages this risk by ensuring access to committed credit facilities and maintaining centralized oversight of cash flow and funding needs by balancing funding continuity and flexibility through reserves banking facilities and borrowing options. The Company effectively monitors and matches the maturity profiles of its financial assets and liabilities to ensure long-term financial stability.

Through these comprehensive risk management strategies, the company aims to safeguard its financial and operational stability while positioning itself for long-term success in an evolving economic landscape.

Fahad S. Al-Hathloul

Chairman of Audit Committee