

# Capital Reduction and Significant Transaction

## FAQ

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## Capital Reeducation:

1. **What is capital reduction and why is it required for the distribution of Almarai shares to Savola shareholders?**  
**Why does Savola need to reduce its capital especially since Savola just increased capital by rights issue?**
  - a. The Capital Reduction is part of 4 interlinked transactions intended to fully distribute Almarai stake held by Savola Group to its eligible shareholders.
  - b. The Board of Directors of Savola recommended on 23/03/1446H (corresponding to 26/09/2024G) to reduce the capital due to it being in excess of Savola's needs. This is to facilitate distribution-in-kind of Savola's full stake (~34.52%) in Almarai and optimize Savola's capital structure as Savola lacks sufficient retained earnings to facilitate the full distribution of its stake in Almarai. As of June 30, 2024, Retained Earnings were approximately SAR 6.4bn while fair value of Almarai stake held by Savola as of October 21, 2024 was SAR 19.9bn compared to its book value of SAR 8.8bn as of June 30, 2024.
  - c. The capital increase by SAR6.0bn does not have an impact on the retained earnings of Savola. Proceeds from the capital increase were used to pay down Savola's debt and strengthen its financial position.
2. **It seems like the amount of capital reduction is lower than the book value of Almarai stake in Savola books. How will you distribute the remaining amount/balance of Almarai shares?**  
 Book value of Almarai in Savola's books was SAR 8.8bn as of June 30, 2024. In accordance with applicable regulations, the overall distribution of Almarai investment contributed to a net reduction of total equity amounting to SAR 8.8bn that was effectuated by reduction of share capital and retained earnings by SAR 8.3bn and SAR 0.9 bn respectively, and an increase to other reserves by SAR 0.4 bn. The balance will be utilized from retained earnings to cover the market value of Savola's stake in Almarai.
3. **What is the expected percentage of reduction to the number of shares I own in my portfolio?**
  - a. The reduction rate for each share held in Savola will be approximately 73.54% (reduction ratio of 0.7354 shares for each 1 share).
  - b. For a shareholder holding 1000 shares, this implies that 735.4 shares will be cancelled.
4. **Does this mean that Savola will return cash to shareholders against the capital reduction?**
  - a. The capital reduction will occur via cancelation of shares against which the eligible shareholders of Savola will be compensated with a number of Almarai shares having fair value equivalent to the par value of Savola's canceled shares after adjusting for fractional shares, if any, and in accordance with applicable regulations. The number of Almarai shares, distributed via Capital Reduction, is contingent on the market value of Almarai's shares on Tadawul on the actual date of eligibility.
5. **What will be the treatment for fractional shares, if any?**
  - a. Savola will aggregate fractional shares of Savola (if any) resulting from the capital reduction into a single portfolio, then sell them in the market at the prevailing price. The proceeds from the sale will be distributed to the eligible shareholders based on their holdings within thirty (30) days from the date of the shareholders' approval in the EGM on the capital reduction.
  - b. Savola will aggregate fractional shares of Almarai (if any) resulting from the distribution in kind into a single portfolio, then sell them in the market at the prevailing price. The proceeds from the sale will be distributed to the eligible shareholders based on their holdings within thirty (30) days from the date of the shareholders' approval in the EGM on the distribution.

**6. When can I expect to see the impact of the capital reduction on my portfolio?**

- a. Savola's capital reduction shall become effective by adjusting the number of shares owned on the day of the EGM by the shareholders who appear in Savola's registry at the Eada Depository Center at the end of trading on the second day (T+2) which is the suspension of trading of Savola shares for a period of two days on the Saudi Tadawul following the EGM on the capital reduction. The adjusted number of shares will be effective and appear in portfolios the trading day after the two day suspension. The deposit of the proceeds from the sale of the Savola fractional shares (if any) will be within thirty (30) days from the date the EGM approves the capital reduction.

**7. What are the required approvals to complete the capital reduction process?**

- a. In addition to the CMA approval received on 27<sup>th</sup> Oct, Savola will require 1) compliance with the Creditors' Objection Period, and 2) EGM approval to execute the capital reduction. Additionally, procedures need to be completed with MoC to obtain the updated Savola commercial register and bylaws.

**Significant Transaction:**

**1. What is a Significant Transaction and how is it related to your proposed distribution of Almarai shares to your shareholders?**

- a. Article 75 of the Companies Law defines a "Significant Transaction" as the sale of a company's assets "the value of which exceeds 50% of the value of its total assets, whether the sale is made through one transaction, or more. In such case, the transaction which leads to the sale of more than 50% of the value of the assets shall require the general assembly's approval. The said percentage shall be calculated from the date the first transaction is concluded within the previous 12 months.
- b. Additionally, the CMA's profit test (i.e., exceeds 50%) is triggered, as per Part 11 of the CMA's Rules on the Offers of Securities and Continuing Obligations (OSCOs), by the distribution of Almarai shares - calculated by dividing the total Net Profit attributable by Almarai (the subject matter of the significant transaction) to Savola by the total Net Profit of Savola, based on the most recent reviewed interim or audited annual financial statements, whichever is later.

**2. Why does it require a Specialized Committee? What is the role of the committee and how are we concerned about its role?**

- a. A specialized committee, required by Article 122 of the OSCOs for any significant transaction needing shareholder approval, is formed by Savola's Board of Directors which shall consist solely of independent board members or of other independent persons, or both, none of whom have a substantial interest in the proposed transaction. Its key role is to issue a letter to the shareholders of the issuer to advise shareholders on whether the terms of the relevant transaction are fair and reasonable and whether the transaction is in the interests of Savola and all its shareholders.

**3. In what ratio will Almarai shares get distributed?**

- a. For each Savola share held prior to the capital reduction, the shareholder will receive 0.3044 Almarai shares.

Any fractional shares of Almarai resulting from the distribution in kind will be compensated by cash. Savola will aggregate fractional shares of Almarai (if any) resulting from the distribution in kind into a single portfolio, then sell them in the market at the prevailing price. The proceeds from the sale will be distributed to the eligible shareholders based on their holdings within thirty (30) days from the date of the shareholders' approval in the EGM on the distribution.

**4. What are the zakat/tax implications from distribution of Almarai shares?**

- a. Gains resulting from the disposal of listed shares are subject to Zakat. Hence, the Company's Zakat for 2024 will primarily be influenced by capital gain arising from derecognition of the Almarai investment; moreover, an increase in retained earnings resulting from the same gain would ordinarily elevate the Zakat Base in subsequent years. However, the distribution of Almarai shares is expected to reduce the retained earnings balance. Historically, the tax and zakat authorities considered the amended income as the minimum balance subject to Zakat. However, as per the latest Zakat regulations, the Zakat base shall be the lower of: the adjusted net profit for the taxpayer, or; the total non-deductible assets, added to the adjustments to the net income. More details shall be disclosed in the Shareholders' Circulars related to Capital Reduction and Significant Transaction.