

# Operating Review

During a year of continued disruptions and challenges, Baladna once again demonstrated our strength and resilience to maintain operational continuity and protect our people and, while continuing to innovate, build on our track record of operational excellence and maintain market leadership, laying the foundation for continued growth and diversification moving forward as Qatar's first fully integrated dairy farm.



Baladna succeeded in building on its strong performance during 2020 to achieve further strategic progress and memorable milestones during this year. Our farms operations achieved had an excellent year, driving self-sufficiency while significantly increasing capacity, capabilities, output and animal welfare, in order to provide the necessary foundation for business excellence and growth.

Our manufacturing operations have driven substantial progress during 2021 by introducing sophisticated new technologies to increase production volumes, enhance efficiency, manage costs, and ensure superior quality,

consistency and high product performance. We also started construction of our new evaporated milk factory that will create additional value for the company once fully completed in 2022.

Over the course of the year, Baladna maintained our market leadership across a range of categories - including milk, yogurt and labneh - while launching 44 new products to further diversify our product portfolio, leveraging customer data and research to continue to enhance consumer choice and position the company for sustainable success in the years ahead.



## A Market Leader

Revenue (QR mn)



Fresh Milk  
**86.6%**  
Market Share

- Market size: QR 200 million
- Market volume: Down 12% in 2021
- Retained strong #1 position

2020

238

2021

223

-6%



UHT Milk  
**80.4%**  
Market Share

- Market size: QR 133 million
- Market volume: Down by 13% in 2021
- Retained strong #1 position

2020

204

2021

191

-6%



Laban  
**45.9%**  
Market Share

- Market size: QR 91 million
- Market volume: Down by 14% in 2021
- Remains a significant growth opportunity

2020

48

2021

45

-6%



Juice  
**18.4%**  
Market Share

- Market size: QR 205 million
- Market volume: Decreasing by 22% in 2021
- Remains a significant growth opportunity

2020

47

2021

53

14%





## A Market Leader

Revenue (QR mn)



Yoghurt  
**40.9%**  
Market Share

- Market size: QR 121 million
- Market volume: Decreasing by 11% 2021
- Remains a significant growth opportunity

2020

55

2021

57

3%



Labneh  
**47.3%**  
Market Share

- Market size: QR 17 million
- Market volume: Down 21% in 2021
- Remains as market leader

2020

14

2021

14

1%



Cheese  
**23.5%**  
Market Share

- Market size: QR 188 million
- Market volume: Down 27% in 2021
- Remains a significant growth opportunity

2020

109

2021

123

13%



Creams  
**26.2%**  
Market Share

- Market size: QR 43 million
- Market volume: Down 25% in 2021
- Remains a significant growth opportunity

2020

14

2021

20

39%





## Operating Review

# Farming



2021 was an excellent year for our farming operations in terms of output, expansion, sustainability and animal welfare. We made great strides in self-sufficiency, cutting costs and improving overall efficiency in eliminating the need to replace our stocks, which also makes a major contribution to Qatar's food security.

Through our sustainable growth strategy, we focused this year on our goal to provide world-class facilities to maximise our long-term production and profitability potential. The headway we made in 2021 has already shown we are on course to achieve that target and expand even further in 2022, despite the continuing impacts of the COVID-19 pandemic on our operations.

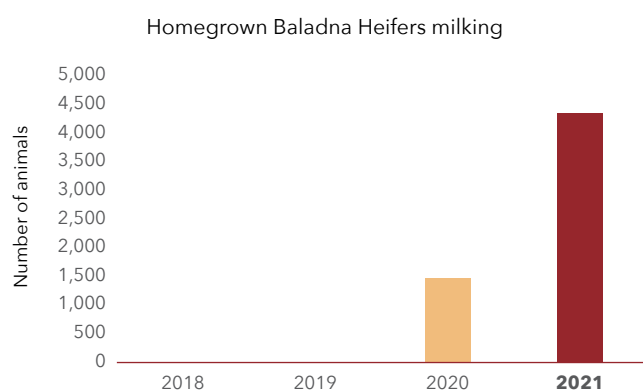
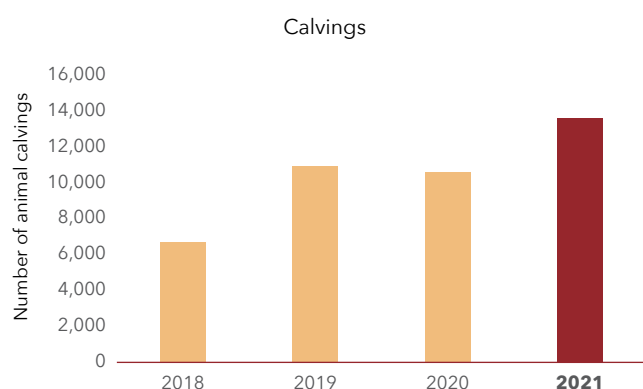
As we broaden our capabilities and capacities, we have also made concerted efforts to care for the environment which sustains our operations. We understand our reliance on the natural world and as part of our working practices have put into place a number of initiatives to ensure that we play as positive part as possible in maintaining that balance.

## Driving self-sufficiency

In order to maintain and strengthen Baladna's position as the clear leader in Qatar's dairy and beverage sector, the success of our farming operations is at the very heart of our business and the progress we make.

Our strategy from the beginning of 2021 was to provide a greater quantity of products with a higher quality than ever before. To achieve that, we introduced several major initiatives, the most significant of which is the ability to calve our own heifers, which were born and bred in Qatar.

This represents a great step forward, as we effectively become a self-supporting dairy unit without the need to purchase and replace new animals. There are profound long-term implications, as we increase our herd sizes, decrease operating costs and look towards expanding our production levels and further diversification.



## Overcoming changes and challenges

Many of last year's successes were a result of refining and reassessing existing processes, although the completion of larger scale projects, including two new milking barns, have added significantly to our future production potential.

We also benefitted from our investment in terms of our livestock welfare as we witnessed the hottest summer in four years. Despite the extreme conditions, our essential cooling systems and recent acquisition of building management systems functioned perfectly, allowing us to maintain the wellbeing of our herds and reach our optimum production targets.

## Record breaking production

With a total herd size of 23,581, we are close to achieving our capacity of 24,000, maximising our facilities and optimising our output, which in 2021 stood at 36.6 litres of milk per cow per day. The combined size of our two farms now stands at 2.4 million sqm, providing ample space for our operations to continue producing yields which cater to the vast number of dairy products.

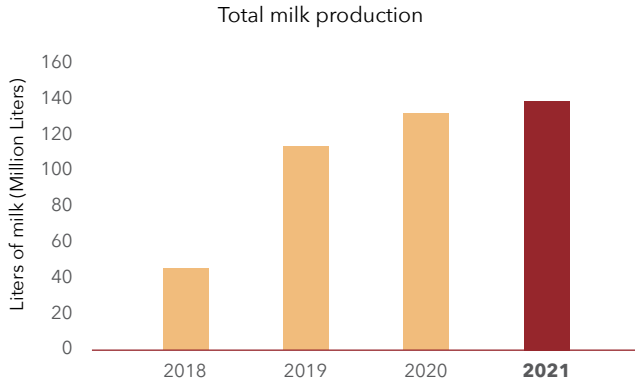
Year	Year-end Herd Size	Max Capacity
2018	14,866	24,000
2019	19,345	24,000
2020	22,250	24,000
<b>2021</b>	<b>23,581</b>	<b>24,000</b>

Baladna supplies to the country, the region and beyond. With a current share of the milk market standing at 87%, we are constantly developing our farming resources to grow that share even further and meet the ever-increasing demands that come with Baladna's expanding portfolio.

Despite the significant challenges of COVID-19, by the end of 2020 we had met our farming targets, reflecting the agility and innovation of the Farming Unit. Throughout 2021, we set our sights even higher and set new benchmarks for the future.



There was strong growth in output over the previous year and a 25% increase in total milk production since pre-pandemic levels. Since 2018, we have increased that output by nearly 238% from 42 million litres to more than 141 million. We are more productive now than we have ever been.



In line with our ongoing management of our herd size, we increased animal sales in 2021 compared to last year, which resulted in a 53% increase in revenue from animal sales to reach QAR 24 million in 2021. With our world-class facilities and ever-evolving infrastructure, our operations will continue to grow in the years ahead.

### Disappearing footprint

Our commitment to our natural environment has always been a core concern to Baladna, and during 2021 we initiated several major developments to minimise the impact of our operations on our surroundings.

We embarked on a project to reduce our carbon footprint by collecting fine solids from the farm's wastewater which will reduce methane gasses by a massive 70% as well as increase the compost quantity for sale by 30%. In addition, we are working on a system which will allow us to clean and re-use our wastewater, reducing our freshwater consumption by approximately 40%.

### 2022 outlook

As we continue to grow and become more self-sufficient, Baladna farms will provide the natural resources which have become synonymous with health, nutrition and affordability. State-of-the-art techniques and progressive operations mean that we will be able to expand our production in line with new demands and diversify into new lines.

In 2022, we will launch an organic farm to cater to the rising 'from grass to glass' demand, which is becoming increasingly popular, presenting another opportunity for Baladna to lead the market. Animal health and welfare is also high on the agenda as we upgrade our cooling facilities and continue to ensure our livestock live in a stress-free environment.

Over the past 12 months, we have reached record levels of production and herd levels, supplying the natural resources which make us the most recognised dairy and beverage brand. Our customers understand that there is no compromise on Baladna quality, which remains our commitment as we move forward with confidence and ambition.



## Operating Review

# Manufacturing

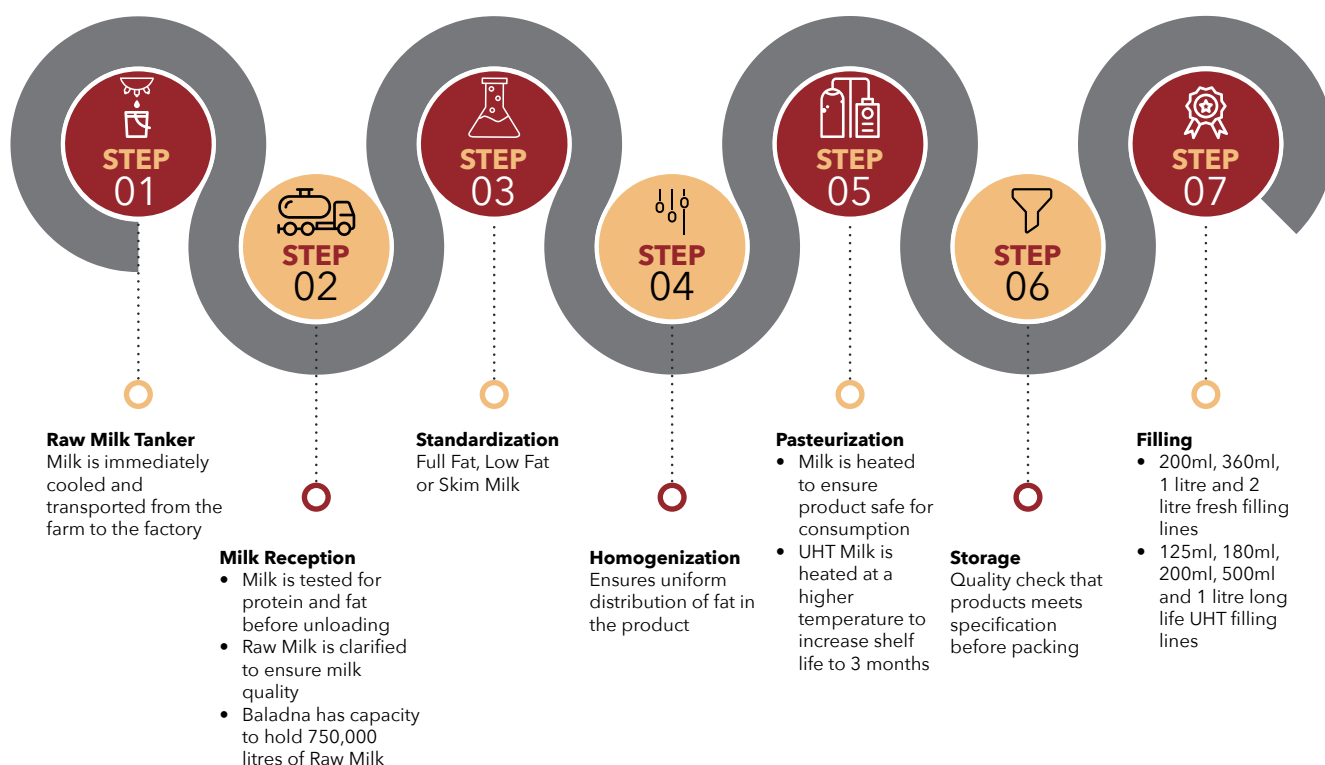
Despite the continuing impact of COVID-19 on our operations, our strategic focus in 2021 revolved around increasing output of our established products, introducing new lines and ensuring we operated within budget, all of which we achieved with great success. As well as being a year to remember for expansion into new markets, we have also created the infrastructure for future growth. New technology, industry innovation and our own initiatives have helped us to enhance our flexibility and capacity, which in turn have led to developing key channels.

In addition to technical investment, we have also focussed on our human resources through training, assessments and succession planning at operator and technician levels, which has also been a great contributing factor to increasing output and diversification.

## Overview of Baladna's dairy processing plant

Extensive range of products made possible through state-of-the-art facilities

### Facilities and Milk Process



## Overview of Baladna's Juice Processing

**Value creation and achievement of synergies through utilization of existing facilities to produce juice**

### Facilities and Process



#### Mix

Juice concentrate is mixed at the Baladna plant 3 with water. Concentrates come in two forms, long-life and short-life concentrates



#### Pasteurization

Juice is pasteurized, heating it quickly then cooling it down to guarantee product is safe for consumption



#### Filling

The filling machine from the milk production line is also used to fill all other beverages at Baladna

**Process used in Dairy Production**

- Baladna juice products are **produced within the existing facilities and benefit from synergies with the dairy production facilities**

### Putting Plans into Practice

As the undisputed leader in Qatar's dairy and beverage sector, Baladna's priorities were to continue broadening our production and portfolio. It was a year which began with ambitious targets and came to a close with impressive achievements. Our growth extended to almost every aspect of manufacturing and production from increased capacity to new processes, with the result that we realised those targets and expanded both our geographical and market reach.

This was thanks in part to our processing expansion with increased GEA cooling capacity and one of the most prominent breakthroughs of the year, the new UHT filling line which creates tremendous opportunities for the recovering hotels, restaurants and catering sector as well as the mass export market.

Mr David Stuart started as the new GM Manufacturing in December 2021 and will continue with the improvement activities throughout Manufacturing that have been put in place.

In terms of development and innovation, more sophisticated technology and processing methods have played a major role in our manufacturing. We now have the capacity to use oil, cream and butter as fat substitutes, providing greater flexibility to deliver existing and future products, in line with one of the company's key priorities to offer our clients a single point of contact for a greater range of goods. And through the new high total solids pasteuriser, we have improved our processing for products such as traditional labneh, desserts and processed cheeses as well as significantly increased our capability to produce GDL feta.



## Total production for 2021

Product category	(KG/LTR Mn)
Fresh and UHT Milk	75.2
Yoghurt	11.0
Laban and Ayrar	8.5
Cheese	4.2
Labneh	0.7
Fresh and UHT Cream	1.0
Other Dairy Products (Such as Custard, Desserts, Ghee etc.)	0.6
Chilled and Long Life Juice	13.3

Baladna is constantly looking to enhance our product mix by adding additional items to our portfolio. In 2021, we introduced 44 SKUs, including new product lines, such as Karak Latte and Espresso Latte, and added variations to existing lines, such as cream and cheese products.

## New products in 2021

Product category	SKUs
Fresh Dairy	11
Long Life Dairy and Creams	6
Cheese	10
Chilled and Long Life Juice	17

Thanks to new processing lines, we have been in a position to introduce new SKUs to our consumers and thanks to our benchmark of good manufacturing practices we have seen a considerable increase in customer satisfaction.

While we delisted 11 products to optimise the portfolio, in total, we are now manufacturing 268 items, thanks in part to our processing expansion with GEA, increased cooling capacity and the new UHT filling line.

With construction already underway for our new plant for the production of evaporated milk, we are planning to introduce butter and move Cheese Products to the new plant which will again increase capacity and efficiency.

## Meeting Targets

We made it our mission to raise the bar for our key performance indicators last year and improved the tracking of their accuracy through the latest business analytics service software. In achieving those, one of our greatest accomplishments was reducing products Loss in Process (LIP) from 6.5% to 4.3%. Alongside this, we improved considerably on manpower costs and streamlined budgets accordingly.

Our KPI Criteria:

- Improving skill levels through training, competency assessments and succession planning at an operator/technician level
- LIP targets
- Overall equipment effectiveness tracking
- Introduction of string cheese process
- Enhanced capacity of processed cheese
- Cold store capacity increased

In closely tracking and monitoring our equipment effectiveness, we have been able to identify even further where certain savings can be made or efficiency improved. By reaching and exceeding those key performance indicators throughout 2021, we managed to broaden our horizons in terms of products to market.

## Creating a Sustainable Circle

We have always been conscious that our business is reliant on our environment and our intrinsic resources. Our products are inherently natural and we have our immediate surroundings to thank for that.

We believe that we need to care for those precious commodities and are grateful that they provide us with an ongoing means to ensure the people of Qatar are provided with clean and healthy dairy food and drink. As part of our plans to give even more back to our natural surroundings, we are currently installing and commissioning a new effluent treatment plant with a Biogas reactor. This will allow us to generate gas from our factory waste that can in turn be used to generate energy. Baladna has an ongoing policy to maintain a healthy and sustainable environment and through this reactor, we will make even more progress.



## 2022 Outlook

In the coming 12 months, we will continue to expand our portfolio in categories as well as individual products across a wider market. Eastern Europe and Asia in particular are expected to be key destinations for Baladna growth and the manufacturing expertise and equipment that come with it. The new factory for full production of

evaporated milk and butter will also be a significant factor in growing the capacity of our new lines.

Our ultimate goal is to provide healthy, safe and affordable consumables to our customers and with our continuous improvement in efficiency and quality, we will deliver that not just next year but every year.



## Operating Review

# Sales and Distribution

As the largest vertically integrated dairy and beverage company in Qatar, Baladna operates the biggest and most modern fleet of trucks for chilled distribution in the nation. Our market-leading distribution infrastructure and capabilities deliver over 260 trusted and nutritious Baladna and Awafi products to over 3,400 customers and contact points across Qatar – around the clock and every day of the year.

Baladna embarked on a major transformation of its sales team and processes in 2021, under the leadership of our newly appointed General Manager Sales. We launched a recruitment drive early in the year to refresh our sales organisation, primarily focusing on attracting key talent to bolster our sales and merchandising teams. This coupled with the successful implementation of Baladna's new sales and merchandising System, RoutePro, resulted in a dramatic improvement in our sales performance, with a massive 33% reduction in wastage and an 11% improvement in sales efficiency.

Our modern trade channel was also a key focal point for our business in 2021. In close collaboration with all our leading retail partners, we developed joint business plans and invested in our in-store visibility and secondary touch points, further strengthening our brand equity.

Outside Qatar, we focused on extending our brand presence and prominence through our Export Division, increasing the number of countries where we export our products from two countries last year to a total of eight countries as of the end of 2021.

Overall, despite the extremely challenging operating environment, which as a significant market contraction of -19%, ongoing COVID-19 restrictions and the largest population decline witnessed in recent years, the commercial team continued to create substantial value for the business and deliver growth heading into 2022.



## 2022 Outlook

In the coming year, we will continue to capitalise on the major update of our systems and team that was successfully delivered in 2021, as we seek to capitalise on the positive momentum in the improved trading environment of late 2021. Supported by our investments in our modern trade partners, with in-store branding set to be rolled out in an additional 24 stores and increased participation in retailer promotional programmes, Baladna is poised to grow at above market rates and achieve increased household penetration.

Our focus to ensure the freshest products available at all times in stores will be maintained, giving our consumers the best possible experience, as freshness on shelf is key driver within the dairy category. In the modern trade Deli segment, where our market share is above 50% and growing, we will accelerate growth through the efforts of our dedicated sales team, as we further develop key relationships with the Deli Section Heads and ensure full distribution of our growing cheese portfolio.

Traditional Trade is also a priority for our business, as it represents a large portion of our retail sales and is a key customer channel for top ups. Our enhanced sales

system will increase the availability of our products in this channel, focusing on core staples such as milk, yoghurt, juice and cheese. We will also target improvements of our operational efficiency in this channel by 10% in 2022.

Beyond the borders of Qatar, we will build on the successes of 2021 to continue to drive increasing exports in the year ahead. We seek to double our exports by expanding our product portfolio through these newly appointed distributor network.

Finally, the FIFA World Cup set to kick off towards the end of 2022, which will see over one million visitors descend on Qatar. This global event represents an outstanding opportunity to drive growth in the second half of the year for our HORECA team. There has already been a boost in sales, as the majority of tenders and contracts were secured for the event in 2021, but we have established a dedicated, cross-functional team to ensure that we maximise the full potential of this unique opportunity. Our HORECA channel will also benefit from the launch of our new eCommerce Sales App in early 2022, which will provide our HORECA customers with a user-friendly tool to order our products in real time with greater speed and efficiency.



## Operating Review

# New Products

2021 was a year of unprecedented challenges. Despite the challenging environment Baladna successfully launched 44 new products under our main Baladna brand and our value Awafi line including 11 Fresh dairy products, 6 long life products 10 cheese products and 17 juices.

We continue to target greater penetration by launching juice in different size in both Baladna and Awafi. Another major product development was releasing Karak Latte and Espresso Latte in Coffee category to capitalize on impulse sales opportunities.

### New Product Launch in 2021

Product Category	Q1 2021	Q2 2021	Q3 2021	Q4 2021
Fresh dairy	-	8	1	2
Long-life dairy and Cream	-	6	-	-
Cheese	4	3	3	-
Juices	8	3	6	-
<b>Total</b>	<b>12</b>	<b>20</b>	<b>10</b>	<b>2</b>

### Product Development: A Strategic Function

Developing new products is crucial to ensuring the success and sustainability of our business and supporting the food security of our nation. Therefore, Baladna's New Product Development Programme is integrated into the business and is staffed by a highly experienced team of product experts experience in leading regional and multinational food and beverage companies.

# Baladna



Our Baladna family is growing

# Awafi



New members of the Awafi Family



## Operating Review

# Covid-19 Impact And Response

The global Covid-19 pandemic continued to affect the global and Qatari economies, albeit to a lesser extent when compared to the previous year.

Robust control measures were implemented during 2020 and these were maintained throughout 2021. The controls included:

- Temperature screening our facilities and personal protection equipment (PPE) sourced and distributed to all.
- Remote working was encouraged for all suitable roles across our operations, and we continued with a variety of remote operational functions including team meetings, data access and business approval processes.
- Recruitment was also initiated in order to source local replacements for personnel who were unable to return to work.

Our COVID-19 Business Continuity Plan remains in place in readiness for possible future escalation in international and/or local COVID cases caused by new variants of the virus.

### COVID-19 Business Continuity Plan: A Phased Approach

Taking Control	Core Protection	Strategic Realignment	Operational Reorganisation	Monitoring and Control
COVID-19 Crisis Team formed under a dedicated Coordinator	All visits/external projects may be cancelled based on current conditions	Additional staff accommodation identified	Strengthened existing protocols	Retain robust controls
All travel (inbound / outbound controlled based on current conditions)	Critical staff retained on-site; all others to work remotely if required	Plans developed for rapid decentralization of accommodation if required	Additional protection established at our farms and factory	Resume external projects under new controls
Continual COVID-19 awareness training initiated				Supporting customers with re-opening plans
PPE equipment secured and purchased; associated protocols implemented, as well as temperature and ETHERAZ checks				