



Board of Directors' Annual Report
For The Shareholders of Abdullah Al-Othaim Markets Co.
For the fiscal year ended December 31, 2013

To: shareholders of Abdullah Al-Othaim Markets Co.

The Board of Directors of Abdullah Al-Othaim Markets Company has the honor to present his Annual Report for the fiscal year ended December 31, 2013, which includes a comprehensive summary of the of the company's activities& its progress, operational and financial performance, and its strategic directions and some analysis, performance indicators, in pursuit of the company to achieve sustainable growth and profitable rates, and strengthening the company's leadership based on our vision & mission to provide high quality products at competitive prices to be accessible to everyone.

In recognition of the importance of disclosure and transparency, and in line with the required regulations issued by the concerned authorities, the Board of directors keen hard to enhance the company's practice to comply with corporate governance regulations issued by capital Market Authority and the requirements of disclosure and transparency.

On the other side, this report also includes the Audited Financial Results, the Related Notes, and the Auditors' Report for the fiscal year ended December 31, 2013, and the Board will be pleased to receive and answer your questions related to the contents of this report during the Annual General Assembly Meeting, looking for your kind approval to the report and the annual audited financial statements for the fiscal year 2013.

Board of Directors of Abdullah Al-Othaim Markets Co
February 2014



Firstly :Company's Profile & Main Activities:

Abdullah Al-Othaim Markets Company is a major player in the retail and wholesale food industry in the Kingdom of Saudi Arabia, the company introduced a good marketing experience through competitive pricing, exceptional service, and quality.

The company's main activity is concentrated in the area of wholesale and retail food , as well as engaged in real estate investment which is explained in details in the segmental information item (Six) of this report.

Secondly : Company's Strategy, Plans ,Decisions and the Risks:

a) Strategy and Plans:

The Company strategy is to directed to raise its market share in the grocery food market within the Kingdom of Saudi Arabia by opening new branches or developing its current branches to increase its sales. In addition to introducing advanced new technologies in retail & wholesale business, The Company opened (13) branches during 2013 in different cities across the Kingdom, which bringing its total number of branches across the K.S.A to (121) branches, In addition to expanding and developing some of the existing branches in order to provide better service to its esteemed customers. Also, the company intends to increase its branches during 2014 through opening more new branches and developing the existing ones, which is expected to contribute in the enhancing and increasing the company's sales and introducing new and advanced technologies in the retail business.

b) Important Resolutions:

To enhance the role of the Board of Directors in performing its responsibilities and duties, and to achieve distinguished performance, the Board of Directors has approved during the year 2013 many Resolutions. Following are the most important of which:

- Approving of Company's strategic directions and key objectives and monitoring its implementation.
- setting the performance objectives to be achieved and monitoring the implementation therefore, and the overall performance of the company.
- Determining the most appropriate capital structure of the company, its strategies and financial objectives and approving its annual budgets.
- Approving of the Company's budget for 2014.
- Appointing the Board Member's Mr. Youssef Bin Mohamed Al Gafari as Company's CEO, and Mr. Fahad Abdullah Al-Othaim as head of the Audit Committee.
- Approving the Company's corporate Governance Manual after the inclusion of some items, according to the Corporate Governance Regulation issued by the Saudi Capital Market Authority, and without prejudice to those regulations and follow up its implementation and its effectiveness.
- Approving the acquisition of agricultural Lands at Al Qassim Province by its subsidiary " Thamarat Al Qassim Company, "from a related party, and to present the transaction to the nearest General Assembly Meeting for ratification in accordance with rules and regulations.
- Amendment of the official working days of the company head office in pursuant to the royal decree to change the official working days and weekend for government departments and official authorities.
- Making a proposal to the Company's General Assembly of the shareholders which was held April 15th 2013 to approve cash dividends for the fiscal year 2012, as included in the meeting agenda for the said year.



c) Risk:

The Company's activity, financial position, operating results, cash flows and its future forecasts might be affected negatively if exposed to any of the following risks or any other unknown risks at the present time:

- As the company performance is linked to the economic situation in the Kingdom of Saudi Arabia and other countries to which it extends its activity, the spending of individuals, institutions and companies who are the targeted customers might be affected by such economic situation, as well as the financial institutions which the Company deals with .
- The sudden changes that might occur in the real estate market, which might affect the value of real estate buying and selling and consequently increase the leasing rates.
- Unfavorable fluctuations in oil prices or other factors affecting the indicators of the Saudi economy in general.
- The company doesn't cover risks resulting from fluctuations in currency exchange rates, so the unfavorable fluctuations in exchange rates might affect the company's performance & its results.
- Risks of speculations and volatility in the commodities prices and food's raw materials locally and Globally .
- Risks related to competition.
- Also, obligations related to future capital expenditures might rise, where no guarantees or assurances that the company will be able to pay those obligation on time or at favorable and acceptable terms. The Company is adopting certain policies and procedures for risk management and to ensure the ongoing follow-up to all company operations whether marketing or production.
- Unfavorable changes in the related laws and regulations . the Company like other companies operating in the Kingdom is exposed to any change in the laws and regulations.
- Political and security instability. The Company will be affected -as a part of the business- by political and security situation in the region as a whole.
- **Saudization:** Since most of the company labors are low level staff working in the warehouses and branches, which depends heavily on expatriate labors, it might be difficult to replace them with Saudi staff. But the Company based on its role to serve the society and to enhance the government directions in Saudization, it continues its efforts to support Saudization project and rehabilitation of national workers through the process of training and employment, and giving Saudi youths the opportunity to develop their practical skills and continue on the path of progress and prosperity in their future careers.

Thirdly: Company Investments:

The company has the following investments:

a) Equity Investments :

- The Company invests in Abdulla Al-Othaim Real Estate Investment & Development Company (A closed Saudi Joint Stock Company), it owns 13.65% of the share capital with an initial investment of SR 85,000,000. The main activity of the company is managing and operating shopping malls and entertainment centers in addition to real estate development, , where the Company share in the net profits of the investee for year 2013 amounted to SR 24,813,301, compared to 27,137,528 for the year 2012. The Company's share in cash dividends distributed during 2013 was SR 10,625,000.



- The Company invests in subsidiaries located outside the kingdom of Saudi Arabia, (in Arab Republic of Egypt, Republic of Bosnia & Herzegovina and Turkish Republic) with an investment amount of SR 823,422 and none of these subsidiaries has started up its activity till the end of the year 2013.

b) Investments in securities available for sale:

- The company invests SR 3,400,000 in National Laboratories Co. Ltd (A limited liability company), with ownership of 6% of the Company 'share capital'. The company was incorporated in 2009, whereas its main activity in managing and operating laboratories of food, medicines, gas, petroleum and petrochemicals, in addition to providing technical services in these fields. where its headquarterd located at Dammam city. The Company's share in the accumulated losses of the National Laboratories Company since its incorporation until 30/9/2012 amounted to SR 929,491, and the company's results until 30/9/2013 was close to the booked losses' in the accounting records.
- The Company has a portfolio of securities available for sale, with a market value of SR 635,588 as of 31/12/2013, which increased by SR135,588 as compared to last year.
- During the year 2013, the Company invested EUR 900,000 (SR 4.5 millions) with ownership 18% of the share capital of south European investment company (registered in Bosnia and Herzegovina). The company is engaged in real estate investment and development, Tourism services and in Renewable Energy sector. The company is also engaged in providing financial technical and administrative advisory services for various business.

Fourthly :Summary of the Financial Results for the period from 2009 to 2013:

A) Statement of income: (thousands Riyals):

Description	2013	2012	2011	2010	2009
Revenues	4,631,764	4,144,435	4,090,913	3,518,760	3,138,511
Cost of revenues	(3,808,816)	(3,420,289)	(3,767,768)	(3,241,986)	(2,927,367)
Gross profit	822,948	724,146	323,145	276,774	211,144
General, administrative, and marketing expenses	(658,140)	(578,932)	(178,040)	(135,659)	(121,995)
Other income (losses), net	32,167	30,302	8,478	24,932	(9,276)
Zakat	(4,600)	(3,750)	(3,500)	(4,119)	(2,350)
Net Profit Before NCI	192,375	171,766	150,083	161,929	77,523
NCI in the net loss of the subsidiary	130	0	0	0	0
Net Profit	192,505	171,766	150,083	161,929	77,523

The income statement for the year 2013 has been reclassified by reclassifying branches' direct expenses through eliminating it from the cost of sales and adding it to the selling and distribution expenses, rental revenues have been reclassified as well, therefore 2012 results has been reclassified accordingly.



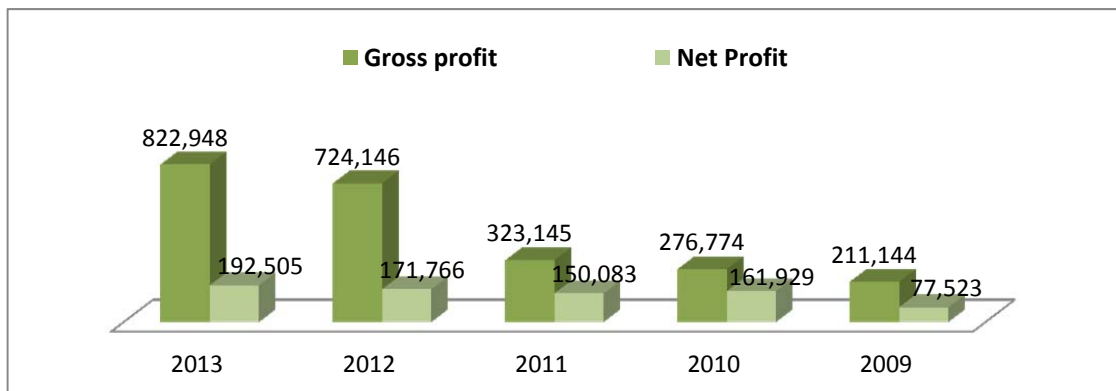
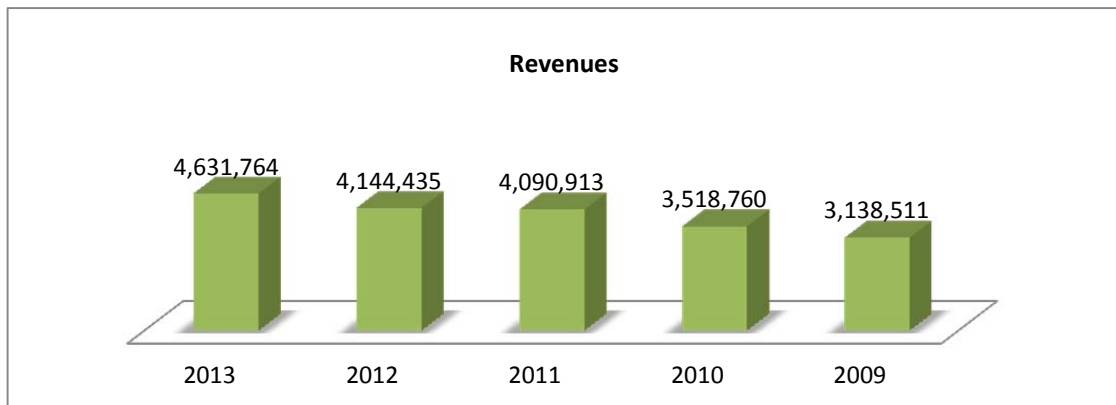
❖ **Other income (losses) – net (thousands Riyals)**

Description	2013	2012
Company's share in the net profit of the associated company	27,430	30,152
Income from sale of property and equipment	1,180	(614)
Others, net	3,557	764
Total	32,167	30,302

❖ **Main Financial Indicators:**

Description	2013	2012	2011	2010	2009
Return on revenues	4.16%	4.14%	3.67%	4.60%	2.47%
Return on shareholders' equity	23.90%	25.24%	28.25%	36.10%	22.61%
Return on assets	9.62%	9.74%	9.00%	10.94%	6.26%
Sales growth rate	11.56%	4.10%	15.20%	11.66%	7.91%
Net profit growth rate	12.07%	14.40%	(7.30%)	108.90%	24.50%
Earnings per share – Riyals	8.56	7,63	6,67	7,2	3,45

The operating profit for 2013 was SR 172.4 Million compared to SR 156,1Millions of the previous year with a growth rate of 10.42%. The increase in due to the growth of sales and the growth of annual progressive rebate.

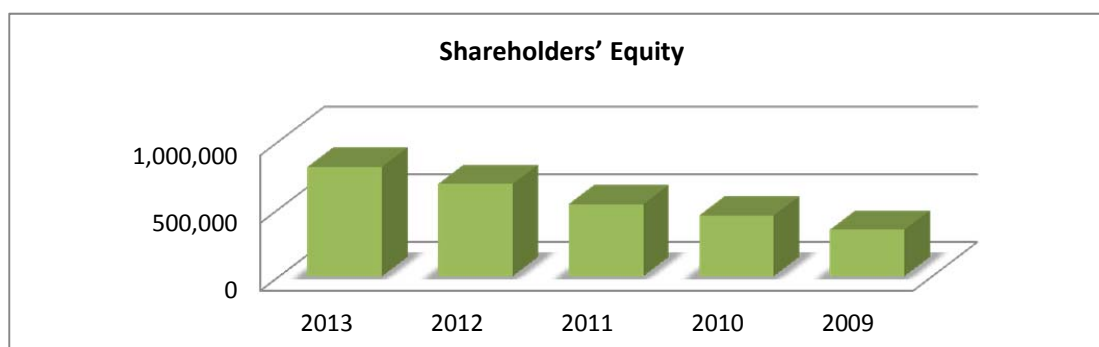
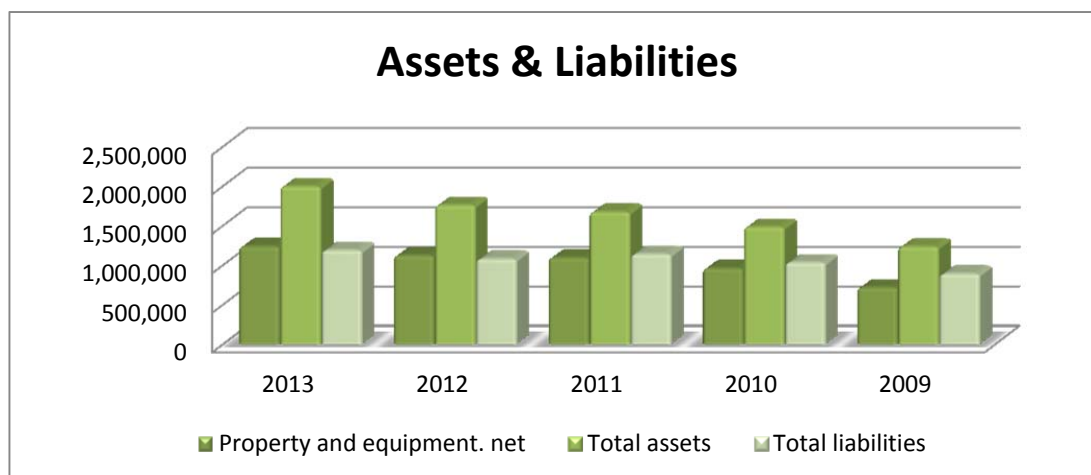


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B) Assets, Liabilities & Shareholders' Equity: (Thousands of Riyals):

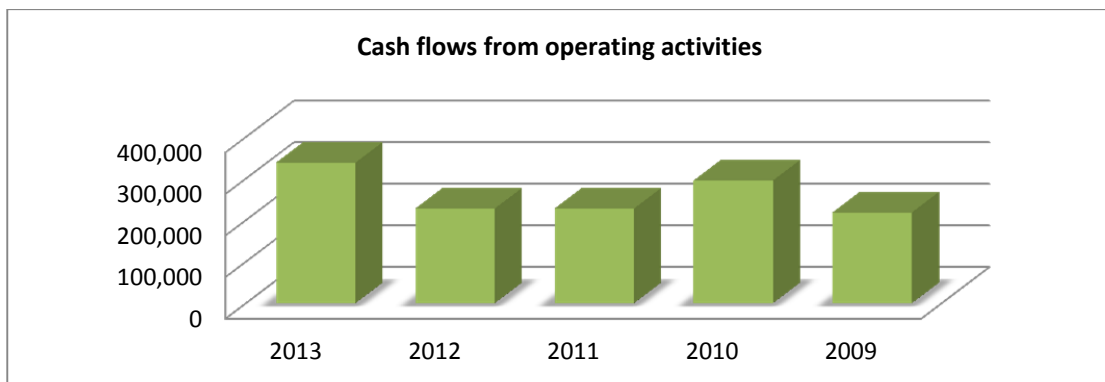
Description	2013	2012	2011	2010	2009
Current assets	568,647	465,154	460,437	419,256	41,748
Current liabilities	1,011,167	941,053	942,621	830,207	630,587
Working capital	(442,520)	(475,899)	(482,184)	(410,951)	(213,107)
Investments in other associate companies	193,567	174,018	118,945	105,190	99,232
Property and equipment. net	1,239,824	1,124,254	1,096,233	962,284	720,771
Total assets	2,002,038	1,763,426	1,675,615	1,486,730	1,237,483
Current liabilities	1,011,167	941,053	942,621	830,207	630,587
Long term loans	135,000	100,859	166,231	179,120	242,182
Other liabilities	48,491	41,068	35,461	28,883	21,872
Total liabilities	1,194,658	1,082,980	1,144,313	1,038,210	894,642
Paid in capital	225,000	225,000	225,000	225,000	225,000
Reserves. retained earnings and unrealized profits	580,511	455,446	306,302	223,520	117,841
Total shareholders' equity	807,380	680,446	531,302	448,520	342,841
Non-controlling interest	1,870	0	0	0	0
Total liabilities & shareholders' equity	2,002,038	1,763,426	1,675,615	1,486,730	1,237,483





C) Cash Flows (Thousands of Riyals)

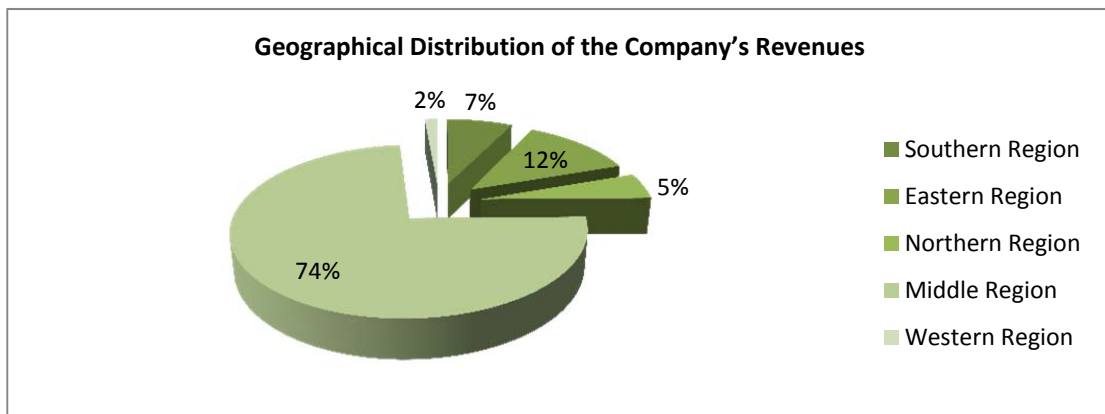
Description	2013	2012
Cash flows from operating activities	338,008	227,617
Cash flows used in investing activities	(197,047)	(138,700)
Cash flows from (used in) financing activities	(94,108)	(69,058)
Increase (decrease) in cash	46,853	19,859
Cash balance – January 1	63,478	43,619
Cash balance – December 31	110,331	63,478



Fifthly : Geographical Distribution of the Company's Revenues:

- The company has no activities or revenues outside the Kingdom of Saudi Arabia, where the revenues within the Kingdom are distributed as follows:

Region	Revenues/ in SR	Ratio
Southern Region	333,420	7%
Eastern Region	567,508	12%
Northern Region	232,550	5%
Middle Region	3,381,837	74%
Western Region	64,647	2%
Total	4,579,962	100%





Sixthly: Segmental information:

The Company's activities are focused on retail and wholesale of food stuff and carries out its operations in the Kingdom of Saudi Arabia, in addition to constructing commercial malls and investing in their sales or leases. Some selected information was summarized as at December 31, 2013 for each business segment as follows (Thousands of Riyals):

Description/ Thousand Riyals	Retail wholesale		Real Estate rent		Total	
	2013	2012	2013	2012	2013	2012
Sales	4,579,962	4,105,198	-	-	4,579,962	4,105,198
Rent Revenues	-	-	93,194	81,678	93,194	81,678
Property and equipment. net	711,508	579,663	511,387	532,714	1,222,895	1,112,377
Total Net	771,147	684,910	51,802	39,237	822,949	724,147

Seventhly: Human Resources Development Program:

To Enhance the company's role in Saudization programs, the company has worked to implement an integrated plan for Saudization in accordance with its strategic plans derived from national trends to achieve the required nationalization ratios, through the adoption of modern concepts in attraction, recruitment, training and motivation, and to achieve its targets the company implemented during 2013 the following mechanisms:

1. Setting a clear career path according to certain terms and conditions to achieve the career ambitions of the Saudi youth.
2. Implementing training programs for Saudi youth in management, supervisory and marketing fields to develop skills and capabilities to be qualified for labor market.
3. Developing different incentive schemes to attract Saudi youth and promoting their loyalty and belongingness to the Company.
4. Activation of the idea of training ended with employment.
5. Applying Coop training programs with universities and local institutions.
6. Strategic agreements have been signed with institutions and governmental agencies who sponsoring Saudization programs, and in this regard many agreements have been signed with the Human Resources Development Fund to train and employ (1,331) Saudi youth in various jobs.
7. Seasonal summer employment: where the company hired (182) Saudis during the summer vacation.
8. Giving opportunities to Saudi youth for free theoretical and practical training through Othaim Training Academy which completed during 2013 the training of (3,840) trainees. (3,015) of them are non-staff and (825) are staff. And they became qualified to work in the retail sector.
9. Hiring (2,320) trainees to work in the Company.
10. Hiring (2,681) Saudis during the year 2013.

Eighthly: Marketing & Customer Care:

In line with The company's policy to mitigate its customer from the effects of the continuing inflation in food prices, the company adopted an effective weekly and seasonal festivals plan, which covered the Supermarkets , corners and the wholesale stores across the Kingdom, through which gives shoppers a real discounts and distinguished offers which contributes in lowering the cost of consumer goods such as



food stuff and varieties of meat, vegetables, fruit and fresh bakery products as well as electrical and electronic appliances.

Also, the company adopted an ambitious plan in all its branches across the Kingdom to achieve its customer's satisfaction, which contributes in building a good mental image . In addition to that, the Company has adapted the means of social communication, e-mail and the Company's website to be effective methods and alternative to costly traditional media, and to ensure efficient access to all segments of the targeted consumers with the lowest cost.

The Company continued the development processes of its loyalty card (Iktissab) in the areas of identity, terms and operating systems , which was initially launched in 2011. also the Company established a call center, web site and smart phones application to better serve Iktissab customers, activate their cards and communicating with them around the hour. This development resulted in , increase the need for the card, and increased the number of Iktissab customers to 41.7% of the total number of customers during 2013, and the Company will continue its efforts for further development in this regard. Also the Company has developed loyalty program and building a customer data base. The Company also continued the enhancement process of its marketing services, through the integrated call center with the unified number: 920000702 which was established previously.

Ninthly : IT Technology:

The Company believes in the important role of the IT in enhancing and promoting the performance. Therefore, a new IT strategy was approved for the next five years. The Strategy focuses on governance and development of processes in addition to customer care. Following are the major achievements during 2013 :

- Developing a new technique to receive goods in the central warehouses by using the hand held scanners.
- Rationing suppliers delivery schedule through developing a reservation system to supply goods to Central warehouse on prescheduled times.
- Developing a variance reporting system, where variances in inventory and operations against a preset indicators are reported and sent to the concerned authority to take the necessary corrective action.
- Using the remote working system to enable customer service female employees serving the customers (from home) through the latest technology.
- Initial Launching of the operating system for Zed Pastries factory on Microsoft Dynamics AX platform, which includes; financial, warehouses and manufacturing systems.
- Activation of non-commercial procurement system for administrative affairs Dept. with a work flow through the intranet system.
- Developing the technical support for the branches and users across the company through the unified center of complains and technical support.

Tenthly: Accounting Standards:

The Company complied to all accounting standards issued by the Saudi Organization for Certified Public Accountants, as stated in the auditor's report.

Eleventh: Loans & Murabaha

A) Short Term Murabaha:

The Company has facilities from a number of local banks in the form of short term Murabaha loans to finance the working capital. The unutilized balance of these facilities



as of Dec 31, 2013 was SR 225.3 million. These facilities are secured by personal guarantee of one of the shareholders & detailed as follows (value in SR):

Description	Arab National Bank	Saudi Hollandi Bank	SAMBA	National Bank
Short loans limits	50,000,000	20,000,000	75,000,000	75,000,000
Loan balance as at 31/12/2012	0	20,000,000	35,000,000	22,817,171
Loan balance as at 31/12/2013	10,031,430	20,000,000	0	14,550,282
Facilities Agreement's Expiry date	14-01-2014	22-10-2013	29-01-2013	01-08-2014
Revolving facilities Loans				
Loan tenure	Up to 90 days	Up to 360 days	Up to 360 days	Up to 120 days
First installment date	12-01-2014	19-01-2014	13-01-2013	28-12-2013
Last installment date	12-01-2014	19-01-2014	27-01-2013	28-03-2014
Purpose of the loan	Working Capital Financing			
Guarantees	Personal guarantees	Lands mortgages	Personal guarantees	Personal guarantees

B) Long Term Loans & Murabaha:

Also the Company has long term loans & facilities from some local Banks detailed as follows (value in SR):

Description	Samba1	Samba2	Saudi Hollandi Bank	Arab National Bank	Bank Al Bilad
Total Loan	50,000,000	75,000,000	100,000,000	75,000,000	286,057,983
Paid Installments	31,818,182	10,000,000	40,000,000	5,000,000	286,057,983
Paid in year 2013	18,181,818	10,000,000	20,000,000	5,000,000	80,093,601
Loan balance as at 31/12/2013	18,304,830	65,444,857	60,408,000	70,484,118	0
Profits - deferred loans	123,011	444,857.3	408,000	484,118	0
Net loan balance	18,181,818	65,000,000	60,000,000	70,000,000	0
Loan date	13-03-2012	25-4-2013	13-11-2011	30-09-2013	01-08-2009
Loan tenure	33 months	45 months	5 years	45 months	58 months
Payment method	Installments every 3 month	Installments every 3 months	Installments every 3 months	Installments every 3 month	monthly installments
Installment (SR)	4,545,455	5,000,000	5,000,000	5,000,000	4,784,722
First installment date	13-06-2012	25-07-2013	13-02-2012	27-12-2013	01-08-2009
Last installment date	05-12-2014	09-01-2017	17-10-2016	09-06-2017	10-07-2013
Purpose of the loan	Financing New Branches				Financing Dammam Mall
Guarantees	Personal guarantees	Personal guarantees	Lands mortgages	Personal guarantees	Lands mortgages

The following table shows the loan maturities (SR):

Period	2013	2012
Less than a year	78,181,818	105,399,512
From one year to two years	60,000,000	60,858,757
From two years to five years	75,000,000	40,000,000
Total	213,181,818	206,258,269



Twelfth: payments to governmental bodies:

The Below table shows Summary of payments made to the Government during 2013 compared to 2012(SR):

Period	2013	2012
Department of Zakat and Income Tax	2,482,720	3,770,048
GOSI	19,260,783	16,276,855
Visas and resident permits	21,631,837	11,667,814

Thirteenth : The Company's Subsidiaries:

The Below table shows the company's Subsidiaries, country of incorporation, core businesses, ownership, and its capital:

Ser.	Company name	Country Based	Main Activities	Country presence	Ownership % (Direct & indirect)	Capital As per Nominal Share Value in Million
1)	Haley Holding Co.	KSA	Retail & Wholesale	KSA,	100%	SR 100
2)	Universal Marketing Center Co.	KSA	Retail & Wholesale	KSA,	100%	SR 100
3)	Seven Services Co.	KSA	Import & Export	KSA,	100%	SR 100
4)	Bayt Al Watan Co.	KSA	Import & Export	KSA	100%	SR 100
5)	Marafique Al Tashgheel Co.	KSA	General Contracting & Maintenance	KSA	100%	SR 500
6)	Thamarat Al Qassim Co.	KSA	Agricultural & poultry	KSA	90%	SR 20M

The financial statements of the above-mentioned companies has been consolidated with Abdullah Al Othaim Markets Company for the year 2013.

Fourteenth: Dividends Distribution:

1. Company policy for dividends:

The company is complying with the provisions of Article (46) of the bylaws for the appropriation of its annual net profit after deducting all the general expenses and the other costs as per the following:

- (10%) of net profit shall be set aside to form a statutory reserve, and the ordinary general assembly has the right to stop this appropriation whenever the said reserve reaches half of the capital.
- The ordinary general assembly has the right to form another discretionary reserve not exceeding 20% of net profit according to a recommendation from the board of directors and allocate it for certain purposes.
- Then, a dividends payment not less than 5% of the paid up capital is to be paid to the shareholders.

2. Appropriations & Distribution for year 2013:

Description	Percentage of Profits	Amount
Retained earnings from last year	-	368,757,084
Net profits	100%	192,505,543
Statuary reserve	10%	19,250,556
Cash Dividends	35%	67,500,000
Retained earnings for next year	246.5%	474,512,071



Fifteenth: Corporate Governance & Transparency:

Based on the Company's keenness to strengthen the relationship with its shareholders, stakeholders and the community, the Company realizes the importance of corporate governance and believes in applying transparency and disclosures principles. And in order to enhance the corporate Governance regulations issued by CMA, the company would like to disclose, besides its financial results, performance and CSR activities, the following information:

1. Shareholders' Rights and Communication :

The Company pays special attention to the rights of the shareholders and stakeholders by keeping them aware of all substantial developments that occurs ,through publishing the financial reports, announcements and material information on the Tadawul website, in daily newspapers, and on the company's website. also the company is giving utmost importance to communicate with its shareholders and responds to theirs questions through easy communication channels and follow up via a dedicated shareholders' affairs.

2. Company's equity Profile and floating Shares as of 31/12/2013:

Details	Value in Riyals/ No of Shares
Company authorized capital	SR 225,000,000
Issued shares (all company's shares are ordinary shares)	22,500,000 Shares
Floated shares (as per Tadawul)*	16,275,000 Shares
Paid-up capital	SR 225,000,000
Nominal Value per Share	SR 10
Paid up value per Share	SR 10

3. Major Shareholders:

Below a List of Major Shareholders who owned 5% shares and above, their nationalities, ownership changes during the year 2013:

#	Names	Nationality	Shares # at the beginning of 2013	Ownership at the beginning of 2013	Shares # at the end of 2013	% Change by the end of 2013
1.	Al Othaim Holding Co.	Saudi Co.	6,225,000	27.6%	6,225,000	0
2.	Abdullah Saleh Ali Al Othaim	Saudi	1,350,000	6.0%	1,350,000	0

Sixteenth: Disclosure related to Board of Directors & Executive Management:

A. Formations of the Board of Directors', classification of Members & their Joint stock companies Memberships:

Article Seventeen of the Company bylaws identified the formation of Company's Board of Directors by (8) members to be appointed by the General Assembly for a period not exceeding three years, the company's Extraordinary Assembly approved the cumulative voting as method for electing the Board members, and by which the current Board members were elected accordingly for the second session which began from 03.10.2012 for a period of three years. Below are the names, classification, and joint stock companies memberships:



#	Board Member's Name	Capacity	Joint Stock Companies board membership
1.	Abdullah Saleh Al-Othaim (Chairman)	Non-executive	- Abdullah Al-Othaim Real Estate Investment & Development Co.
2.	Abdul Salam Saleh Al Rajhi	Independent	- Wasatah Capital Co.
3.	Abdul-Aziz Saleh Al-Rebdi	Independent	- Al-Obeikan Glass Co. - Saudi United Cooperative Insurance Co. - Takween development Co. for industry. - Abdulmohsen Al- Hokair Group for entertainment and tourism - Al Hammadi Development & Investment Co.
4.	Saleh Mohammad Al-Othaim	Independent	- L'Azurde Company for Jewelry. - Amana Cooperative Insurance Co. - Dar Alkhiyoul General Contracting Co.
5.	Fahad Abdullah Al-Othaim	Non-executive	- Abdullah Al-Othaim Real Estate Investment & Development Co. - Dar Alkhiyoul General Contracting Co.
6.	Youssef Mohammad Al- Gafari	Executive	- Abdullah Al-Othaim Real Estate Investment & Development Co. - Abdullah Saad Abu MutiCo. for libraries.
7.	Sabah Mohammad Al-Mutlaq	Independent	- Mawten Real Estate Co. - Mushaid Arabia Co.
8.	Abdullah Ali Al Dubaikhi	Independent	- Al Issa Industries Co. - United farmers Co.

B. Board of Directors' Meetings:

To enhance the role of the Board of Directors in drawing plans and following up the implementation of the Company strategies and other functions in accordance with the company's bylaws and Companies corporate governance regulation and the company's CG Manual, the Board of Directors held company (4) meetings during the fiscal year 2013, and the below table shows the board members attendance:

No	Board Member's Name	No of Meeting				Attendance
		(1)	(2)	(3)	(4)	
1.	Abdullah Saleh Al-Othaim	√	√	√	√	(4)
2.	Abdul Salam Saleh Al Rajhi	√	√	√	√	(4)
3.	Abdul-Aziz Saleh Al-Rebdi	√	x	√	√	(3)
4.	Saleh Mohammad Al-Othaim	√	√	√	√	(4)
5.	Fahad Abdullah Al-Othaim	√	√	√	√	(4)
6.	Youssef Mohammad Al-Gafari	√	√	√	√	(4)
7.	Sabah Mohammad Al-Mutlaq	√	√	√	√	(4)
8.	Abdullah Ali Al Dubaikhi	√	√	√	√	(4)

C. Executive Board Team:

The Company's Senior Executive Team role is to facilitate follow-up and implementation of strategies and plans approved by the Board of Directors, as well as the company's operations to ensure the achievement of the company's performance indicators. Below are the Senior Executives named and their positions:



No	Name	Position
1.	Youssef Mohammad. Al- Gafari	CEO
2.	Marwan Ahmed Ibrahim	Vice President Finance
3.	Bahauddin Barakat Al Sherbeni	Vice President, Operations
4.	Bandar Sulaiman Albohiry	Board of Director's Secretary

D. Description of any interest in shares and instruments of the company debt:

1. Interest of Board of Directors' Members & their wives and minor children:

No	Interest owner	Beginning of the year		Ending of the year		Net change	%Change
		Shares	Debt instruments	Shares	Debt instruments		
1.	Abdullah Saleh Al-Othaim	1,350,000	-	1,350,000	-	-	-
2.	Abdul Salam S. Al Rajhi	12,650	-	20,830	-	8,180	6.64%
3.	Abdul-Aziz Saleh Al-Rebdi	1,000	-	1,000	-	-	-
4.	Saleh M. Al-Othaim	1,000	-	1,000	-	-	-
5.	Fahad Abdullah Al-Othaim	1,000	-	1,000	-	-	-
6.	Youssef M. Al- Gafari	1,000	-	1,000	-	-	-
7.	Sabah M Al-Mutlaq	1,000	-	1,000	-	-	-
8.	Abdullah A. Al Dubaikhi	1,000	-	1,000	-	-	-

2. Interest of Senior Executives & their wives and minor children:

No	Interest owner	Beginning of the year		Ending of the year		Net change	%Change
		Shares	Debt instruments	Shares	Debt instruments		
1	Bahauddin B. Al-Sherbini	6,216	-	6,216	-	0	0

E. Board of Directors & Senior Executives remunerations for 2013: (SR)

Description	Executive Board Members *	Non-Executive Board Members	Five Senior Executives with highest bonuses & compensations from the company, including the CEO and CFO if they are not among them
Salaries & compensations	733,500	-	4,160,558
Allowances	-	45,000	-
Periodic & annual bonuses	510,000	1,220,000	1,705,133
Incentive plans	-	-	-
Any compensations or other benefits in kind paid monthly or annually	-	-	-
Total	1,243,500	1,265,000	5,865,691

* The amounts paid to the five senior executives include all amounts paid to the senior members in the Board of Directors, including the Chief Executive Officer and the Chief Finance Officer. According to the Board of Directors' remuneration policy the annual bonus for each board member of is SR 150 thousand except the chairman whose bonus is SR 170 thousand, while transportation allowance is SR 3,000 for each meeting. The committees membership bonus is SR 25 thousand for each member, while transportation allowance is SR 1,500 for each meeting.

F. Board of Directors' Interests

Related to the board members Abdullah Saleh Al-Othaim and Fahad Abdullah Al-Othaim.



1. Lease Contracts of sites from related parties(SR):

Lessor's / Company/ Name	Contract Description	Lease value	Start of lease	Contract period	Payment term
Abdullah Al-Othaim Real Estate Investment & Development Co.	Braidah Branch	1,277,100	01-06-2007	20	Annual
Abdullah Al-Othaim Real Estate Investment & Development Co.	Braidah Branch Housing	219,600	01-01-2009	18	Annual
Abdullah Al-Othaim Real Estate Investment & Development Co.	Al Ahsa Hyper Mall	2,159,850	01-01-2007	20	Annual
Abdullah Al-Othaim Real Estate Investment & Development Co.	Khurais Hyper Mall	1,718,640	01-03-2008	20	Annual
Abdullah Al-Othaim Real Estate Investment & Development Co.	Rabwa Mall Branch	752,880	01-08-2009	10	Annual
Abdullah Al-Othaim Real Estate Investment & Development Co.	Archive store	50,000	01-04-2012	1	Annual
Abdullah Al-Othaim Real Estate Investment & Development Co.	Archive store	21,300	01-02-2010	1	Annual
Abdullah Al-Othaim Real Estate Investment & Development Co.	Dammam Hyper Mall	2,922,507	01-01-2011	18	Annual
Abdullah Al-Othaim Real Estate Investment & Development Co.	Braidah Branch – Akirsha	1,050,000	01-01-2012	5	Semiannual
Abdullah Al-Othaim Real Estate Investment & Development Co.	Housing Branch- Akirsha	103,000	01-01-2012	5	Semiannual
Abdullah Al-Othaim Real Estate Investment & Development Co.	Onaizah Branch	900,000	09-05-2012	5	Semiannual
Al-Othaim Holding Co.	Trademark fees	10,000	27/01/2008	5	Annual

2. Lease Contracts of sites to related parties(SR)

Lessor's Name	Contract Description	Lease Value	Start of lease	Contract period	Payment term
Al-Othaim Holding	Admin. offices	710,050	01-01-2010	5	Semiannual
Al-Othaim Holding	Residential apartment	25,000	01-01-2006	5	Semiannual
Abdullah Al-Othaim Real Estate Investment & Development Co	Al-Shifa Entertainment	102,150	01-01-2006	5	Annual
Abdullah Al-Othaim Real Estate Investment & Development Co	King Road Entertainment center	417,225	01-01-2006	5	Annual
Abdullah Al-Othaim Real Estate Investment & Development Co.	Al-Sweidi Entertainment center	496,650	01-01-2006	5	Annual
Abdullah Al-Othaim Real Estate Investment & Development Co.	Al-Methnab Entertainment center	135,000	06-04- 1428H	5	Annual
Abdullah Al-Othaim Real Estate Investment & Development Co.	Management offices	742,500	01-01-2010	5	Semiannual
Abdullah Al-Othaim Real Estate Investment & Development Co.	Dammam Mall	34,932,000	01-01-2011	18	Semiannual
Abdullah Al-Othaim Real Estate Investment & Development Co.	Al-Sulay Housing	45,000	01-01-2010	1	Semiannual
Abdullah Al-Othaim Real Estate Investment & Development Co.	Al-Shifaa Entertainment center	21,000	01-01-2009	1	Semiannual
Abdullah Al-Othaim Real Estate Investment & Development Co.	Al-Sweidi Entertainment center Housing	74,138	01-01-2009	1	Semiannual
Abdullah Al-Othaim Real Estate Investment & Development Co.	King Road Entertainment center Housing	40,000	01-01-2009	1	Semiannual



3. Lease Contracts of lands to related parties:

Purchase contract has been made for the interest of Thamarat Al Qassim Company, (a subsidiary - owned indirectly by 90%), which bought agricultural lands with total area of (1,691,993 m²) located at Al Qassim province from a related party at SR 6.5 per square meter with a total value of (10,997,955) , the sale price of the lands was executed at a lower than market price according to the valuations conducted by three real estate evaluators. The purpose of the purchase of the lands is to be used in the company agricultural activities, that are carried out by its subsidiary which is specialized in the agricultural and livestock trading activities.

Seventeenth: Board of Directors' Committees

The company has two committees: Audit Committee and the Nomination & remuneration Committee for the purpose of promoting a transparency and professional culture at all levels. The scopes and duties of these committees are as follows:

1) Audit Committee

The Audit Committee's roles are supervising the Internal Audit Department, examining the internal control system and the internal audit reports in addition to giving recommendation to the Board of Directors on the appointing and terminating the external auditors, as well as determining their fees and follow up their work, study the audit plan and the reports of the external auditors and study the interim and annual financial statements before being presented to the Board of Directors, study the observed accounting policies, and make recommendations to the Board of Directors in this regard. The following table summarizes the committee member's names and numbers of meetings attended during the year 2013:

#	Name of Committee Member	Position	1ST Meeting	2nd Meeting	3rd Meeting	4th Meeting	Numbers of Attendance
1)	Fahad Bin Abdullah Al-Othaim*	chairman	x	x	√	√	(2)
2)	Youssef Bin M. Al- Gafari*	(Ex- Chairman)	√	√	x	x	(2)
3)	Dr. Saud Bin M. Al Nimr	Member	√	√	√	√	(4)
4)	Saleh M. Al-Othaim	Member	√	√	√	√	(4)

*Committee's changes during 2013:

Based on Compensation Nominations Committee recommendations to the board of Director in its meeting held on 08/07/2013 regarding the appointment of Mr. Youssef Mohammad. Al- Gafari (Ex- Committee chairman) as chief Executive Officer (CEO) of the company, upon which he submitted his resignation from the committee membership, followed by the appointment of Mr. Fahad Abdullah Al-Othaim instead of him, who attended all the meeting since he appointed as committee member & chairman which is (2) meetings.

▪ The Results of Reviewing the Efficiency of the Internal Control Procedures

The Committee has also during the year 2013, reviewed the company's internal system control to ensure its efficiency, also reviewed the main operational, financial and administrations risks that may faces the company and made the required analysis, solutions and treatments to ensure the safety of the company's operations, also studied the weaknesses & strength aspects of internal control systems which is implemented in a periodic and continuous a manner, and as a result of annual review of the internal control procedures and the company's internal audit Dept. reports and achievements, it showed that the examination was comprehensive and covered all the company's



activities, operations and its various departments, and as a result of the examination conducted for the internal control system at the level of the company reflects there is no significant deficiencies in the internal control systems need to be disclosed.

2) Nomination & remuneration Committee

The duties of the Nomination & remuneration Committee is making recommendations to the Board of Directors about the candidates for the board membership and continuous revision for the proper qualifications of the board members and review the Board of Directors' structure and submit the recommendations in this regard to determine the points of weakness and strength of the Board of Directors, suggest their solution, ensure, on annual basis, the independency of the independent members, develop clear policies for the compensations and bonuses of three Board of Directors' members and senior executives in a way that reflects the performance, review the allowances and bonuses of the employees and approve and assess the plans and policies related thereto. The committee chairman may request increase of the members, when necessary. The following table summarizes the committee member's names and numbers of meetings attended during the year 2013:

#	Name of Committee Member	Position	1ST Meeting	2nd Meeting	3 rd Meeting	4 th Meeting	Numbers of Attendance
1)	Abdullah Bin Saleh Al-Othaim	chairman	√	√	√	√	(4)
2)	Fahad Bin Abdullah Al-Othaim	Member	√	√	√	√	(4)
3)	Bandar Bin Sulaiman Al Bohairy	Member	√	√	√	√	(4)

Eighteenth: The Company's Role in Supporting Social Responsibility Programs:

Based on the company's role in the social responsibility, the Company pays full attention to the distinct and broad in various community service activities, and offers many programs and continuing in various fields, where the Company contributed and supported a number of programs, including the following:

- a. **Al Othaim Training & Development Academy:** Al Othaim Training & Development Academy for free, was established under the supervision of the General Organization for Technical and professional Training in the year 1420H, and managed to train and qualify since its establishment up to date more than (34,501) A young Saudis "men and women", where Al Othaim companies & other companies of the private sector benefited from these programs. Also, the Academy signed a number of partnerships, including training partnership for children of the charitable Society of orphans (Insan), which aims to train orphans sponsored by the society, in addition to that, the Academy trained a number of people with special needs and employ them in a various branches of the company, in addition to many social programs that aims to serve community, the spending of the company to support the Academy during the year was SR 1,522,105 .
- b. **Charities And National Events :** The company contributed in a number of social projects and charities and participated in events and the national festivals, where the company issuing charity cards (Sanabel Al Khair card) to meet the demand from donors and their eagerness to donate and to ensure the delivery of their donations to the beneficiaries directly and in a proper way, which is an interesting option for charities and men of righteousness and donors to provide support to the needy and to ensure spending their donations on basic needs.



The company has also contributed in supporting many charities by offering discounts to those associations. The total value of the discount provided by the company to these charities during 2013, was SR 9,816,061. Also the company participated and sponsored some activities and national events in most regions of the Kingdom.

- c. Donation of the Rest of Halala (riyal fractions):** The company continued its initiative " Donate the rest of Halala" As the first retailer launched it in an automated technique through the point of Sale since 2008, and it believes in the promotion and assurance of the culture of social responsibility and its commitment to serve the society, for this reason, a special system for the project has been developed and considered as one of the leading project which was appreciated by Company customers. During the year 2013 many of the charities in the Kingdom had benefited from the project. The total customers donation through this project in 2013 amounted SR 777,315.
- d. Supporting Prince Salman Association for Disability Research:** The company contributed in supporting the various programs offered by Prince Salman Association for Disability Research, in order to achieve the noble objectives of the Association , the company support to the Association during the year amounted SR 500 thousand.
- e. Program of visiting hospitals patients:** The society friend program was initiated in year 1427H, under the patronage of the Director General of Health Affairs in Riyadh, in cooperation with the "Committee of Patient's Friends" in the Chamber of Commerce, Where the company has continued its visits to the inpatient in a number of hospitals, and gave them gifts in the form of purchase cards of Al-Othaim Markets in addition to the Symbolic gifts. This initiative comes under the responsibility programs where the company used to organize such visits in various hospitals in the Kingdom which aims to raise the morale of the patients and mitigate suffering and psychological health, as well as such visits reinforce social cohesion and fraternal solidarity which is encouraged by our religion.
- f. One Million square meter Cleaning Campaign in cooperation with Riyadh Municipality :** To enhance its participation with the Municipality of Riyadh City in the terrestrial environmental education program which conducted annually by the Municipality of Riyadh region, the company involved in the awareness campaign (Million Square Meters' cleaning campaign- sixth round) under the slogan (Barr with no waste), which aims to raise up the social awareness of the importance of cleanliness terrestrial environment and develop a love of teamwork and enhance the value of volunteer work in the community. The company's participation came within the framework of its interest in servicing community, and an extension of its participation with the Municipality, which began with the project to preserve the environment (waste bags campaign) in addition to its previous participation's campaigns for the Million Square Meters' cleaning campaign, organized by the Municipality in Thumamah and Janadriah areas.
- g. Support the Syrian People:** in line with the National Saudi Campaign to support Syrian Brothers and in cooperation with the "Taibah global association", the Company supported the affected Syrian brothers in Syria through sending various food items, in addition to its participation in supporting Syrians refugee's camps outside Syria (in Turkey, Jordan and Lebanon) and providing them with clothes & food items. The Company's support comes as a continuation path of fraternal and humanitarian work, and a support to the Syrian people in its ordeal, beside the importance of concerted efforts and provide all needed help and support.



- h. To enhance the spirit of brotherhood and humanitarian cooperation and responding to the charitable initiatives and the Saudi Arabia humanitarian positions from both the governmental and the people toward helping and relieving the affected people , the company has & through the International Islamic Relief Organization in Riyadh, and in cooperation with the Association of Social Solidarity in Somalia provided support charity for those affected by the Somali people by the floods and cyclones that hit the north-eastern Somalia, where the Company presented all what they need to alleviate the effects of the floods and cyclones, which included support multiple varieties of food supplies and cold prevention materials.

Nineteenth : Board of Directors' Declarations:

The Board of Director declared that:

- The Company's accounts were prepared in a proper manner.
- The internal control system was established on a proper basis and is being implemented efficiently.
- There is no doubt about the company's ability to continue its operations.

Twenty: The implemented provisions of the Corporate Governance regulation as well as the provisions which have not been implemented, and the justifications for not implementing them:

The company is implementing the provisions of the Corporate Governance Regulation issued by the Capital Market Authority, except the following:

Article 15/C/6: The Company did not use the performance criteria for the bonus of the Board of Directors' members.

Article 17: The Company's bylaws did not show the methods for the Board of Directors' bonus, and the Nomination & Remuneration Committee undertook the development of the bonus policy for the Board of Directors' members.

Twenty one: Board of Directors' Recommendations

1. Approve the Final (audited) accounts and the Auditor report for the fiscal year ended December 31, 2013.
2. Approval of the Board of Directors Annual Report for the fiscal year ended December 31, 2013.
3. Approval of the acquittal of the Board members for the fiscal year ended December 31, 2013.
4. Approval of the Board Of Directors Recommendation to the distribution of cash dividends of SR (67.5) Million for the fiscal year 2013, at SR(3) per share, which represents 30% of the Company capital as per the share par value.
5. Approval of the increase in Company capital from SAR 225 Million to SR 450 Million, with an increase of 100% by offering (1) bonus share for every (1) share owned , which increasing the Company's shares from 22.5 Million shares, to 45 Million shares and amendment article seven of the company Bylaws according to the proposed in capital increase.
6. Approval of the contracts and businesses took place during 2013 between the Company and Al Othaim Holding Company and Abdullah Al Othaim Real Estate Investment and Development Company as related parties to the Chairman of the Board Mr. Abdullah Saleh Al Othaim and the Board Member Mr. Fahad Abdullah Al-Othaim and give approval for the next year.



7. Approval of its Board of Director Resolution to buy agricultural Lands by Thamarat Al Qassim Company, (a subsidiary owned indirectly by 90%), with total area of (1,691,993)sqm located at Al Qassim Province from a related party at SR 6.5 per square meter with a total value of SR(10,997,955)according to the valuations conducted by three real estate independent evaluators.
8. Approval of the appointment of the Company auditors proposed by the Audit Committee amongst the nominated firms to audit the Company financial statements and review the interim quarterly financial statements for the fiscal year 2014 and determine their fees.
9. Approval of the recommendation for the payment of remuneration to the board members of SR (150)thousand for each Board members, and SR(170)thousand for the Board Chairman, and SR (3,000) attendance allowance for each meeting , and SR (25)thousands for each committee members and SR(1.5) thousands attendance allowance for the fiscal year 2013 per each meeting as included in Board of Director annual report for the fiscal year ended December 31, 2013.

Conclusion

At the end of our report, the Board of Directors of Abdullah Al-Othaim Markets Co. expresses its gratitude and appreciation for the company's employees, shareholders, suppliers, banks, and government authorities for their support and cooperation, and your company shall, God willing, continue the journey of success, growth and future expansion in line with the outlined plans and targets and to achieve continuous growth rate in the profits.

Abdullah Saleh Al-Othaim

Chairman