



**Board of Directors' Annual Report Presented To the Shareholders of  
Abdullah Al-Othaim Markets Co.  
For the fiscal year ended December 31, 2016**

**Board of Directors Report  
To: Shareholders of Abdullah Al-Othaim Markets Co.  
For the Fiscal Year Ended at 31/12/2016**

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, 2016, which includes a comprehensive summary of the of the Company's activities & its progress, operational and financial performance, and its strategic directions, in addition to some analyses and performance indicators, social responsibilities programs and human resources activities, in pursuit of the Company to achieve sustainable growth and profitable growth rates, and profitable returns 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 in compliance with corporate governance regulations issued by capital Market Authority and the requirements of disclosure and transparency.

**Board of Directors of Abdullah Al-Othaim Markets Co.**

**February 2017**



### **Firstly: Company's Profile & Main Activities:**

Abdullah Al-Othaim Markets Company is a major player in the wholesale and retail 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 investments, which is explained in details in the segmental information item (Seven) in this report.

### **Secondly: Company's Strategy, Plans, and Decisions:**

#### **a) Company's General Framework Strategy and Plans:**

The Company strategy is directed toward maximizing its market share in the grocery food market within the Kingdom of Saudi Arabia by opening new branches or renovating the existing branches in order to increase its sales, and diversify its investments through the complementary activities of its main business, and introducing advanced new technologies in retail & wholesale business. During 2016G The Company opened (19) branches in different cities across the Kingdom, taking into consideration that it has closed down two branches, one in Riyadh and the other one in Al Qassim area which has been replaced by a new branch to end up the year with (159) branches across the Kingdom. In addition, the Company has expanded and refurbished some of the existing branches in order to provide better service to its esteemed customers. Also, the Company expects to increase its branches during 2017G by opening (26) new branches, which is expected to contribute in increasing the Company's sales and enhancing its market share in addition to introducing new and advanced technologies in the retail business. The Company strategy also considers expanding the investment in the Arab Republic of Egypt, through the conservative expansion plan in the Egyptian market. The Company has opened (15) branches in Egypt during 2016G, with a total investment of SR. 29,254,741 by the end of December 2016.

#### **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 2016G 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 2017G.
- Approving the expansion strategy in different sites and cities through capturing the right opportunities that will contribute in increasing its expansion, proliferation and raise its market share.
- Approving the recommendation to the Company's Extra-Ordinary General Assembly of the shareholders which was held on 27 March 2016G to distribute cash dividends for the financial year 2015G.
- Approving the annual report prepared by the audit, nomination and remuneration committees for the year 2016G.
- Approving the conversion plan to International Financial Accounting Standards and the announcements of the implementation stages in compliance with the resolutions issued by the Saudi Organization for Certified Public Accountants.
- Accepting the resignation submitted by the Audit Committee's member Mr. Khalid Al-Sulaei.



- Accepting the resignation of the CEO Mr. Yousef Mohammed AL-Ghafari and appointing the board member Mr. Abdulaziz Abdullah Al-Othaim in his position as the Company CEO as of 27/12/2016G
- Approving the recommendation to the Company's general ordinary assembly of the shareholders to sell the shopping mall owned by the Company in Ha'el city to a related party with the Chairman of the Board Mr. Abdullah Saleh Al-Othaim and the board member Mr. Fahd Abdullah Al-Othaim.

### Thirdly: 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.

#### 1- **Strategic Risk:**

- 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, including but not limited to imposing fees on empty lands by municipalities and government authorities and other similar risks.
- 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 .
- Unfavorable fluctuations in oil prices or other factors affecting the indicators of the Saudi economy in general. For instance, the increase of energy prices.
- Political and security instability. As the Company will be affected -as a part of the business sector- by political and security situation in the region as a whole.

#### 2- **Liquidity Risk:**

- The Company obligations related to future capital expenditures might rise, where no guarantees or assurances that the Company will be able to pay those obligations on time or at favorable and acceptable terms.

#### 3- **Credit Risk:**

- Credit refers to customer's failure to pay his debts to the Company, and because the Company in its main activity (retail business) adopts the policy of not selling in credit, therefore, these risks will not affect it, but the Company has a real estate activity in which the lessee might be unable to pay his obligations.
- Risks of funding rates and fluctuations in funding rates might negatively affect in the Company's performance results.

#### 4- **Operating Risks:**

- The Company does not cover risks resulting from fluctuations in currency exchange rates, so the unfavorable fluctuations in exchange rates might affect the Company's performance & its results. For instance, the fluctuation of Egyptian pound exchange rates as the Company has business activity in Egypt through its branches existing there.
- Risks of speculations and volatility in the commodities prices and food's raw materials locally and globally.
- Risks related to competition.
- **Risks related to reputation:** The Company may incur loss as a result of negative publicity, mistrust or failure to comply with applicable laws and regulations, and these shall be managed within the operating risks depending on their nature.
- **Risks related to legal affairs:** The Company may face risks due to (legal disputes) with the parties with which the Company deal in general such as (employees, customers, suppliers, insurance companies and government agencies), as a



reserve for these issues will be created to handle legal disputes instituted against the Company after thorough study of the cases.

- 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, including but not limited to imposing fees on expatriates and imposing value-added tax.
- **Risks related IT (technology):** those might affect the continuity of operational transactions within the Company, as the Company creates alternative technological environment for the continuity of its operations in case it is encountering any technology-related risks, through Business Continuity Plan and Disaster Recovery Plan.
- **Human Resources Risks (Saudization):** Since most of the Company workers 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, 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 continuing their path of progress and prosperity in their future careers.

The Company maintains risk management policy, stating and specifying the strategic objectives and procedures to be followed in order to achieve such objectives, as well as laying a clear general framework in implementing the mechanisms and operation to be followed, which might work for determining and evaluating the risks latent in the overall Company operations, and the mechanism of monitoring and hedging of the same, besides having in place a mechanism to analyze them and define the type of reports which will be presented to the higher management to take the appropriate decision thereof. The policy is intended to establish an overall clear framework for risk management based on the best practices (COSO ERM FRAMEWORK), in addition to creating and developing a common concept of risks, as well as evaluating the exposure of different departments to risk and mechanism of taking appropriate actions to alleviate them and helping such departments within the Company to enhance the controls and monitoring procedures to alleviate and/or eliminate potential risks which might have negative impacts or resulting in financial losses.

The board of directors supervises the mechanism of implementing a general framework for risk management within the process of improving and strengthening the Company's internal controls through implementing policies and procedures aiming to defining, remedying and monitoring operational and non-operational risks in all of the Company activities. Among the most important tools used in defining and measuring risks is Risk Control Self-Assessment (RCSA) and Key Risk Indicators (KRIs) and gathering and analysis of the nature of losses (quantitative and qualitative), arising from these risks, besides establishing minimum and maximum rates of the same within the frame of Risk Appetite Statement and monitoring of the same.

#### **Fourthly: Company Investments:**

The Company has the following investments:

##### **a) Equity based 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 nominal investment value of SR 136, 538,500 due to increase of the share capital of the investee to SR 1,000,000,000. The company main activity 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 the year 2016G amounted to SR 29,771,431 compared to SR 32,306,403



for the year 2015G. The Company's share in cash dividends distributed by the investee during 2016G was SR 28,673,086 compared to SR 27,625,000 for the year 2015G.

- The Company invested in the Al-Wousta Food Services Company (a limited liability Company) with ownership of 25% and an investment amount of SR 25,000,000. The Company was incorporated in 2015G, whereas its main activity is the management & operation of restaurants. The Company's share in the net loss of the investee for the year 2016G amounted to SR 71,048 compared to net loss amounted to SR 651.142 for the year 2015G.

#### b) Investments in available for sale securities:

- The Company invests SR 3,400,000 in National Laboratories Co (A limited liability Company) with ownership of 6% of the Company share capital. The Company was incorporated in 2009G, whereas its main activity is managing and operating laboratories of food, medicines, gas, petroleum and petrochemicals, in addition to providing technical services in these fields. The Company headquarters is located in Dammam city. The Company's share in the accumulated losses of the National Laboratories Company since its incorporation until 30/9/2016G amounted to SR 999,246.

The Company has a portfolio available for sale securities in the Saudi listed Companies, with a market value of SR 504,908 as of 31/12/2016G, which recorded a decrease in its value of SR 60,750 as of 31/12/2016G compared increase of its value of SR 26,970 for the year 2015G.

- The Company has a portfolio in Baitak IPO Fund, which is managed by Saudi Kuwaiti Finance House with investment amount of SR 10 million, with a market value as of 31/12/2016G of SR 7,480,500, the investment recorded a decrease in its value by SR 1,593,200 compared to a decrease of SR 838,600 for the year 2015G.
- The Company has invested EUR 900,000 (SR 4.5 million) to acquire 18% of the share capital of South Europe 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 businesses and the Company net profits of its cash dividends distributed for the year for the year 2016 G was SR 345.928 compared to 367,958 for the year 2015G.

### Fifthly: Summary of the Financial Results for the period from 2012 to 2016:

#### A) Statement of income: (thousands Riyals):

Description	2016	2015	2014	2013	2012
Revenues	7,240,684	6,098,018	5,304,701	4,630,807	4,144,435
Cost of revenues	(5,900,068)	(5,037,330)	(4,380,775)	(3,837,724)	(3,420,289)
Gross profit	1,340,616	1,060,688	923,926	822,948	724,146
General, administrative, and marketing expenses	(1,122,611)	(859,962)	(728,591)	658,140)	(578,932)
Investments profits, income and other expenses , net	8,019	33,749	24,508	32,167	30,302
Zakat	(8,366)	(5,323)	(5,289)	(4,600)	(3,750)
Net Profit Before NCI	217,659	229,153	214,554	192,375	171,766
NCI in the net loss of the subsidiaries	12,373	1,723	225	130	0
Net Profit	230,032	230,875	214,779	192,505	171,766

The operating profit was SR 235.2 Million compared to SR 209.8 Million for the previous year with a growth rate of 12.11%. The Increase was due to the growth of sales and the growth of annual progressive rebates.



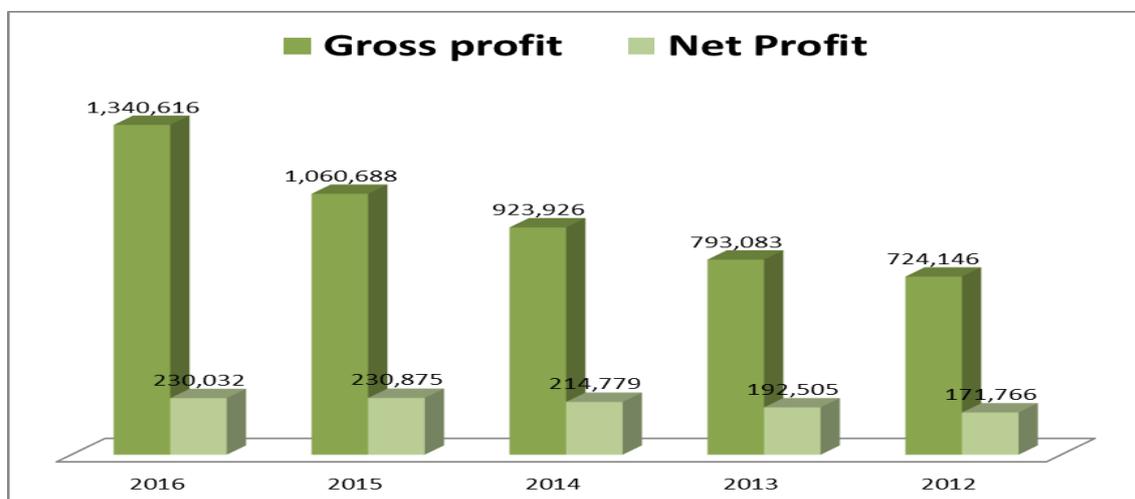
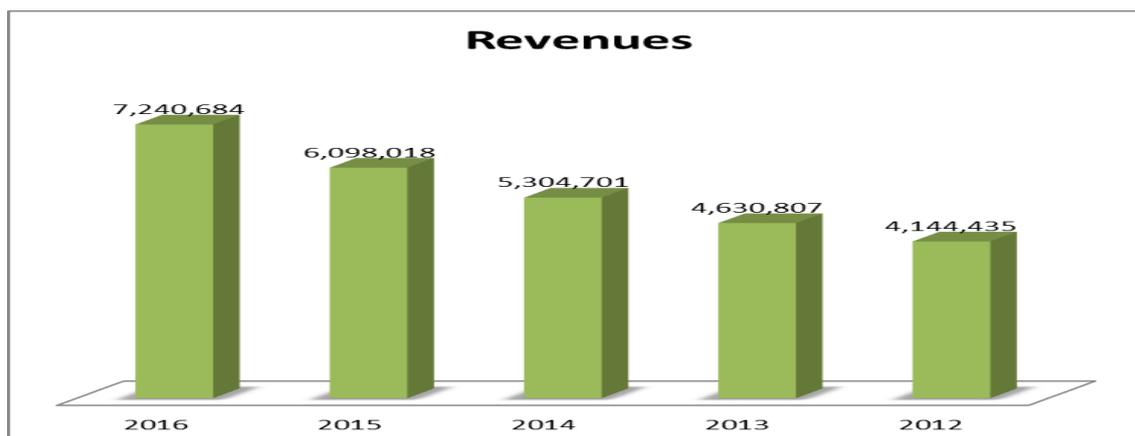
- **Other income (losses) – net (thousands Riyals)**

Description	2016	2015
Company's share in the net profit of the associated Company	26,361	27,252
Gains and losses of sale fixed assets-net	(1,756)	7
Others, net	(16,586)	6,490
Total	8,019	33,749

- **Key Financial Indicators:**

Description	2016	2015	2014	2013	2012
Return on revenues	3.18%	3.79%	4.05%	4.16%	4.14%
Return on shareholders' equity	19.63%	22.45%	22.55%	23.90%	25.24%
Return on assets	7.00%	8.47%	9.11%	9.62%	9.74%
Sales growth rate	18.82%	14.93%	14.70%	11.56%	4.10%
Net profit growth rate	%-0.37	7.49%	11.57%	12.07%	14.40%
Earnings per share – Riyals*	5.11	5.13	4.77	4.28	3.82

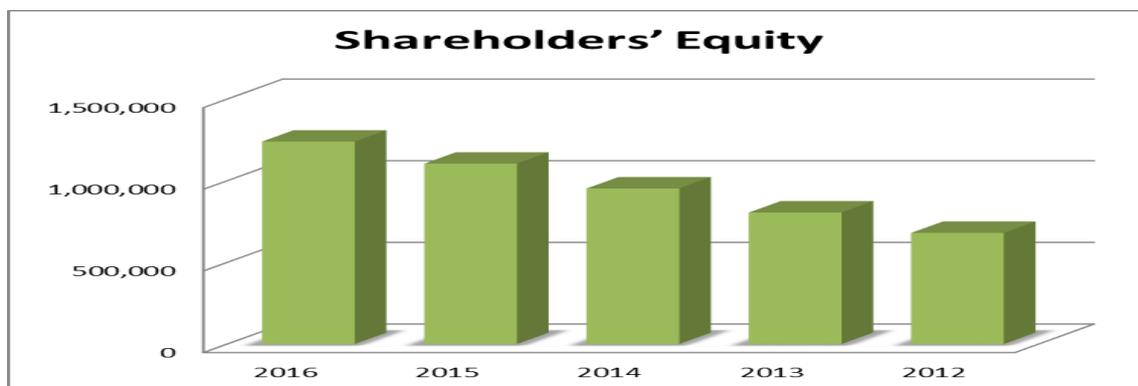
\* Earnings per share's has been restated for the years 2012 up to 2013 for the purpose of comparison due to the Increase in the Company's capital from 22.5 million shares to 45 million shares which was approved by the Shareholders in the Extra-ordinary General Assembly Meeting held on 6<sup>th</sup> April 2014.





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

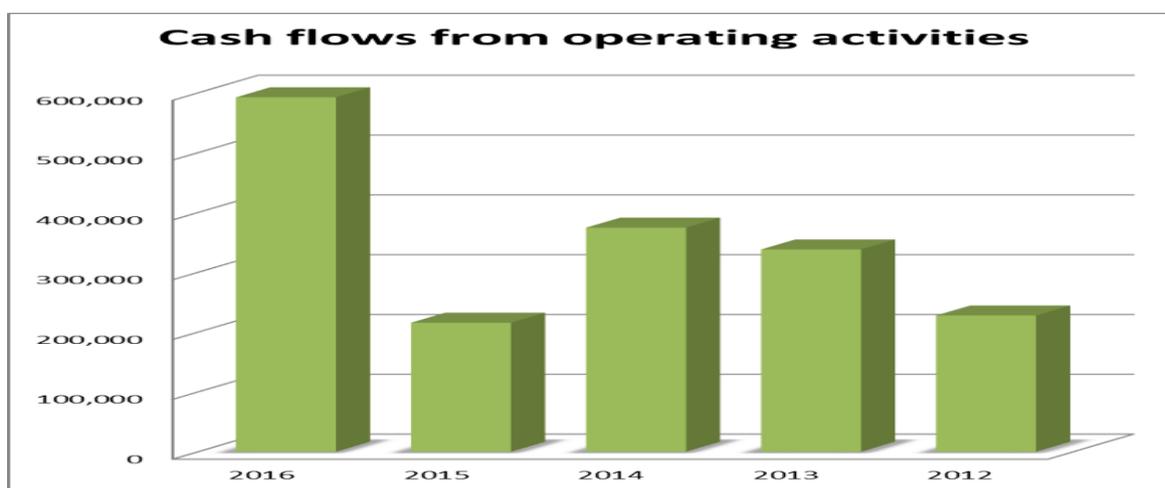
Description	2016	2015	2014	2013	2012
Current Assets	1,268,542	1,200,772	786,143	568,647	465,154
Current Liabilities	1,685,849	1,451,977	1,219,385	1,011,167	941,053
Working Capital	(417,307)	(251,205)	(433,242)	(442,520)	(475,899)
Investments in other associates	187,525	186,290	196,288	193,567	174,018
Fixed assets	2,022,316	1,707,112	1,372,782	1,239,824	1,124,254
Total assets	3,478,383	3,094,174	2,355,213	2,002,038	1,763,426
Current liabilities	1,685,849	1,451,977	1,219,385	1,011,167	941,053
Long-term loans	412,287	399,500	125,000	135,000	100,859
Other liabilities	82,678	69,945	56,579	48,491	41,068
Total liabilities	2,180,814	1,921,422	1,400,964	1,194,658	1,082,980
Paid up capital	450,000	450,000	450,000	225,000	225,000
Reserves, retained earnings and unrealized profits	789,576	654,636	502,605	580,511	455,446
Total shareholders' equity	1,239,576	1,104,636	952,605	805,511	680,446
Non-controlling interest	57,993	68,116	1,645	1,870	0
Total liabilities & shareholders' equity	3,478,383	3,094,174	2,355,213	2,002,038	1,763,426





### C) Cash Flows (Thousands Riyals)

Description	2016	2015
Cash flows from operating activities	592,386	215,555
Cash flows used in investing activities	(509,143)	(396,654)
Cash flows from (used in) financing activities	(104,156)	326,630
Increase in cash	(20,913)	145,531
Cash balance – January 1	329,426	183,489
Cash balance added due to consolidating companies during the year	-	406
Effect of change in exchange rate to translate the financial statements of subsidiaries	5,402	-
Cash balance – December 31	313,915	329,426



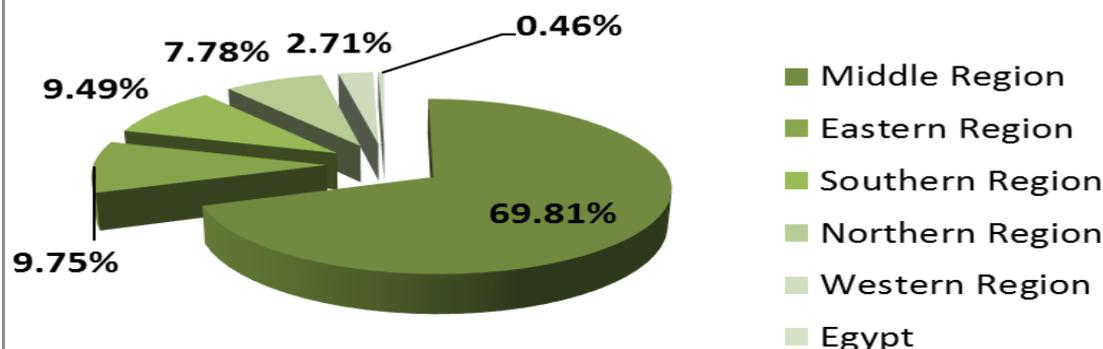
### Sixthly: Geographical Distribution of the Company's Revenues:

- The revenues are distributed as follows ( in thousands Riyals):

Region	2016		2015	
	Revenues	Ratio	Revenues	Ratio
Central Region	5,054,612	69.81%	4,327,071	70.96%
Eastern Region	706,257	9.75%	656,129	10.76%
Southern Region	687,140	9.49%	524,511	8.60%
Northern Region	563,396	7.78%	414,952	6.80%
Western Region	196,321	2.71%	175,354	2.88%
Arab Republic of Egypt	32,958	0.46%	-	0.00%
Total	7,240,684	100%	6,098,018	100%



## Geographical Distribution of the Company's Revenues 2016



### Seventhly: Segmental Information:

The Company's activities are focused on wholesale and retail of groceries and foodstuff. It carries out its operations in the Kingdom of Saudi Arabia, in addition to real-estate activity. Some selected information for the two fiscal years 2016 & 2015 for each business segment are summarized below (Thousands of Riyals):

Description/ Thousand Riyals	Retail and wholesale		Real Estate Investment		Total	
	2016	2015	2016	2015	2016	2015
Sales	7,171,729	6,035,802	-	-	7,171,729	6,035,802
Rental Revenues	-	-	123,569	111,198	123,569	111,198
Total profit	1,271,661	998,472	68,956	62,216	1,340,617	1,060,688
Property and equipment.net	1,338,431	1,226,962	674,374	467,994	2,012,805	1,694,956

### Eighthly: Human Resources Development:

Complementing the national role pursued by the Company in accordance with its human resources development policy, and to achieve its vision in the nationalization of jobs based on the expansion plan, and in order to achieve the required Saudization ratios, the Company has implemented advanced ideas and methods for attracting, hiring and training of Saudi staff. The Company took positive steps during the year 2016 to achieve these objectives as follows:

- Continue to activate and update career path to achieve career aspirations for Saudi youth.
- Provide real employment opportunities for women through (remote working system), according to the vision of the Ministry of Labor in line with the nature and specificity of women in Saudi society.
- Working to provide suitable job opportunities to persons with disability, as there are more than (155) employees on jobs from this segment.
- Making agreements to employ orphans, prisoners' kids, members of social charitable fund and charitable societies.
- Setting various incentive programs and systems to increase the rate of attracting Saudi youths and leverage the rate of loyalty.



- Applying cooperative training program with Universities and local Institutes, at a rate of (10) trainees in different administrative sections and disciplines.
- Strategic agreements have been signed with the Human Resources Development Fund to train and employ (1,475) Saudi youth in various jobs.
- Summer seasonal hiring and training: (199) Saudi youths have been trained during summer vacation and have been distributed over 105 branches.
- Giving opportunities to Saudi youth for free theoretical and practical training through Othaim Training Academy, which completed during the year 2016 the training of (5,771) trainees. (4,693) of them are non-staff and (1078) are staff. Therefore, they became qualified to work in the retail sector.
- Hiring (2,563) trainees to work in the Company's retail sales points.
- During the year, the Company hiring (3,028) Saudis youth.

### **Ninthly: Marketing & Customer Care:**

In order to touch closely the consumer needs and in consideration of the seasonal demand and various events, holidays and seasons, a comprehensive marketing plan has been designed to cover all marketing activities for AL-Othaim Markets such as weekly festivals and promotions, mega campaigns and other events during the year 2016G which provided the customers with all their needs each week & day and helped the markets maximize its sales and achieve targets. The Company adopted an effective weekly and seasonal festivals plan, through which, Al-Othaim markets offer shoppers real discounts and distinguished prices which contributes in lowering the cost of consumer goods, foodstuffs, meats, vegetables, fruits, fresh baked goods, electrical and household appliances, electrical and electronic equipment.

In accordance with Al-Othaim markets vision to provide consumers with basic quality consumer goods at acceptable prices; the markets continued to adopt and develop a variety of Private Label products covering basic food needs as well as non-food products at the same international brands quality but at lesser cost, this strategy was clearly reflected on the marketing strategy supporting the Private Label by effective road-shows, printed material, social media and other activities that supported the growth in the PL market share.

In order to improve the consumer experience in the Company's markets & branches and to add modern & professional touch on the mental image of the customers, the Company has developed the internal identity layout of all its branches and corners to have a uniform modern, practical and elegant layout. The Company established a special department for public relations management within the markets to deal with government agencies and private sector entities, to enhance the image of the markets in the area of social responsibility and strongly reinforce this image. Also it adapted social media, email and the Company's website to be effective methods and alternative to the costly traditional expensive media to ensure efficient access to all segments of the consumers with the lowest cost.

Also the marketing strategy supported the Company aggressive expansion operations to reach out for the consumers where-ever they are in the kingdom, effective marketing campaigns were launched to support the new openings and ensure they hit the ground running from the first day.

The Company continued the development process of its loyalty program (Iktissab) which was initially launched in 2011. The development process includes the identity, the procedures and the operating systems in addition to upgrading the call center with the unified number: 920000702, which was established previously. Also, the development includes the Company web site and smart phones applications and interactive messages to better communicate with our customers and to maintain good relations through receiving their observations and to explore their satisfaction toward the provided service and consequently, fulfil their needs and activate the cards around the hour. This development resulted in increasing the demand on the card, and increased the number



of Iktissab members to 51.60% of the total number of customers during 2016. Therefore, the Company will continue its efforts for further developments in this regard to provide its customers with high quality consumer goods and ensure their satisfactory by the continuous monitoring, developing and coordinating the work to promote the efficiency of the performance and continuous improvement of the quality of product and service offered to our valued customers.

#### **Tenthly: Information Technology (IT):**

The Company believes in the important role of the IT in enhancing and supporting the Company performance. And based on the Company's strategy & future directions, the IT division has focused on the projects which support the direction of the Company and raise the work efficiency, such as office platform (MS Office 365), which comprise all new applications: professional network for staff communications (Yammer), (Tasks), (Planner) search engine (Delve),(Video Library), offer presentation programs (Sway) and (Social Engagement) ma and cloud automation has been used in all of the Company's applications from Microsoft comp[any

As for the accomplished programming projects, these include total quality control system and trademark control system, the second phase of vendor Contract Management System, branch signboard management system and warehouse Management System for each section (non-food section, Abha branch, Jeddah branch), automation of branch receiving system by scanners (implemented in four branches, budgeting application, non-commercial procurement system for marketing and RDD departments, delivery requests for Zod factory. Also, the Company established the financial and administration systems including the Infrastructure system at Mueen Recruitment Company and Mahd Attatweer Investment Company. And launching Abdullah Saleh Alothaim & Sons Charity Foundation, automation of lawsuits follow up system, establishment and activation of items, activation of drivers coupons at external warehouses, management of hiring and interview procedures and visa follow up system for Mueen Recruitment Co.)

Also smart report system (BI) has been developed to cover the needs of new departments such as finance, Zod factory, management charitable societies and human resources management system. As for infrastructure, the alternative site for disaster management was built at exit (6) and (27) new branches have been equipped with technological equipment as well as equipping (6) warehouses with radio communication network.

#### **Eleventh: Conversion Plan to Adopt International Accounting Standards:**

In accordance with the decision issued by the Saudi Organization of Certified Public Accountants "SOCPA", which requires all companies listed in the Saudi Stock Market to adopt the international standards as of 01/01/2017, the Board of Directors has approved an early plan to adopt international accounting standards. The plan will be implemented at several stages as follows:

**Phase One:** During which an external consultant to manage conversion to international accounting standards, which is Joint Accountants firm Jordan since they have the necessary experience in this field and an internal team has been trained in order to be responsible for supervising the conversion plan and its implementation. The most important steps taken during this stage are as follows:

- 1- Conducting a study about the applicable accounting policies in the Company.
- 2- Conducting a comparative study for all the international accounting standards approved by the "SOCPA" and the standards that are still under study by the "SOCPA" and match them with the existing accounting standards and policies applied by the Company, to explore and account for the consequences of application of the international standards on the financial statements and reflect them in a manner that matches with the approved international standards.



- 3- Preparing a technical analysis of the expectations and the required amendments to the financial policies of the Company and making the necessary recommendations thereon.

**Phase Two:** During this phase, the accounting policies for preparing the Company financial statements approved by the board of directors on 30/11/2016 and considered as enforced as of 1/1/2017, have been made. The key features of these accounting policies are as follows:

- 1- They match with the international accounting standards.
- 2- Approving the early implementation of the international financial reporting standard No. 9 "financial instruments".
- 3- Approving the early implementation of the international financial reporting standard No. 15 "revenues from contracts made with customers".

**Phase Three:** During this phase the practical implementation steps of the approved accounting policies have been taken so that the Company will be ready to comply with the specified date of implementation and accordingly the Company did the following:

- 1- Contracting with an actuarial expert for the purpose of calculating the end of service gratuity provision as per the international financial reporting standard No. 19 "employees benefits".
- 2- Contracting with professional experts in the field of real estate valuation for disclosing the fair value of investment real estates as per the requirements of the international financial standard No. 40 "investment real estate".
- 3- Preparing the initial consolidated balance sheet (management) in accordance with the international accounting standards at 1/1/2016 in order to be available as comparative data within the Company financial statements (the group) for the year 2017, as per the international accounting standard No. 1 (presentation of financial statements), the requirements of the international financial reporting No. 1 (application of the international financial reporting standards for the first time). It is worth mentioning that re-presentation of the initial Company consolidated balance sheet (the group) as at 1/1/2016, shall be considered as an essential part of conversion and it is also aimed at stating the financial impact of conversion.
- 4- Work goes on to prepare the initial consolidated financial statements (internally) for the whole periods of the year 2016 in accordance with the international standards of financial reporting. They will be presented to the external conversion consultant and will be completed during the statutory defined period.

**Key Impacts of conversion:** The key impacts of conversion to adopt the international accounting standards on the consolidated balance sheet as at 1 January 2016, are as follows:

- a- The application of the international accounting standard No. 19 (employees benefits) resulted into the increase of end of service gratuity provision by 3,3 million Riyals based on the actuarial study of calculating the provision. In return, the retained profits has been decreased by the same amount on 1/1/2016.
- b- The application of the international accounting standard No. 10 (consolidated financial statements) resulted into excluding financial statements of one of the subsidiaries from the consolidated statements of the group, and adjusting the investment therein in accordance with the international accounting standard No. (28) (Investment in associates), as the conditions of consolidating the financial statements are not applicable to it as per the conditions of the international reporting standard No. 10 (the consolidated financial statements).
- c- The application of the international accounting standard No. 40 (real estate investments) resulted in re-indexing some of the real estate investments items and property, equipment and machineries.



The Company announces the stages of its conversion to adopt the international standard accounting standards via "Tadawal" website upon occurrence of any conversion event. The last announcement thereof was on 8/2/2017, where it announces its readiness to prepare the financial statements in accordance with the international accounting standards for the first quarter of the year 2017 during the statutory specified period and there are no serious obstacles that might affect the Company ability to prepare the financial statements in accordance with the international standards.

## Twelfth: Loans & Murabaha

### A) Short Term Murabaha:

The Company has facilities from a number of local banks in the form of short-term Murabaha loans (all are comply with Sharia regulations) to finance the working capital. The unutilized balance of these facilities as of Dec 31, 2016 was SR 340 million, detailed as follows (value in Thousands SR):

Description	Arab National Bank	Alawwal Bank	SAMBA	National Bank	ALBILD BANK
Short term loans limits	50,000	40,000	75,000	75,000	100,000
facilities balance as at 31/12/2015	20,061	-	-	-	-
facilities balance as at 31/12/2016	-	-	-	-	-
Facilities Agreements Expiry date	31/12/2016	2/8/2017	21/12/2016	29/9/2017	26/4/2017
Type of facilities	Short term				
Loan tenure	Up to 90 days	Up to 180 days	Up to 90 days	Up to 120 days	Up to 180 days
First installment date					
Last installment date					
Purpose of the loan	Working capital Financing				
Guarantees	Promissory Note	Promissory Note	Promissory note	Promissory note	Promissory note



## B) Long Term Loans & Murabaha:

The Company has long term loans & facilities from some local Banks (comply with Sharia Regulations) detailed as follows (value in thousands SR):

Description	ANB	Alawwal Bank 1	Alawwal Bank 2	Alawwal Bank 3	Alawwal Bank 4	Samba 1	Samba 2	NCB 1	NCB 2
Total Loan	75,000	100,000	100,000	88,000	112,000	75,000	184,400	106,000	200,000
Paid Installments in 2016	20,000	20,000	20,000	17,600	22,400	20,000	36,880	35,332	-
Total Paid installments	65,000	100,000	50,000	-	39,200	70,000	46,100	53,000	-
Loan balance as at 31/12/2016	10,094	0	50,454	71,087	73,501	5,052	139,675	53,515	201,842
Deferred interests	94	0	454	687	701	52	1,375	515	1,842
Loan net Balance	10,000	0	50,000	70,400	72,800	5,000	138,300		
Loan date	30-09-2013	13-11-2011	30-06-2014	29-10-2015	30-03-2015	25-04-2013	2-8-2015	29-04-2015	12-12-2016
Loan tenure	45 months	5 years	5 years	5 years	5 years	45 months	5 years	3 years	5 years
Installment	5,000	5,000	5,000	4,400	5,600	5,000	9,220	8,833	10,000
First installment date	27-12-2013	13-02-2012	30-09-2014	27-01-2016	28-06-2015	25-07-2013	2-11-2015	30-07-2015	12-03-2017
Last installment date	29-06-2017	17-10-2016	20-11-2019	30-12-2020	01-06-2020	08-01-2017	1-07-2020	30-04-2018	01-02-2022
Purpose of the Loan	Financing New Branches								
Collaterals	Promissory note	Real Estate Guarantee	Real Estate Guarantee	Real Estate Guarantee	Real Estate Guarantee	Promissory note		Real Estate Guarantee	Real Estate Guarantee

### The following table shows the loan maturities (SR):

Period	2016	2015
Less than a year	192,932	196,251
From one year to two years	154,548	147,231
From two years to five years	257,740	252,287
<b>Total</b>	<b>605,220</b>	<b>595,751</b>

### Thirteenth: payments to governmental bodies (SR):

Details	2016	2015
Department of Zakat and Income Tax	3,607,258	4,767,478
GOSI-already paid	26,409,134	22,030,228
Visas , resident and work permits-paid	20,692,538	17,322,847
<b>Total</b>	<b>50,708,930</b>	<b>44,120,553</b>

### Fourteenth: The Company's Subsidiaries:

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

No.	Company name	Country of Incorporation	Legal Form	Main Activities	Country of Operations	Ownership % (Direct & indirect)	# of Shares	Share Nominal Value -SR	Capital As per Nominal Value
1)	Haley Holding Co.	KSA	LLC	Companies Managements	KSA	100	10,000	100	1,000,000
2)	Universal Marketing Center Co.	KSA	LLC	Import & Re-exports	KSA	100	10,000	100	1,000,000
3)	Seven Services Co.	KSA	LLC	Import & Export	KSA	100	10,000	100	1,000,000
4)	Bayt Al Watan Co.	KSA	LLC	Import & Export	KSA	100	500,000	100	50,000,000
5)	Marafiq Al Tashgheel Co.	KSA	LLC	General Contracting & Maintenance	KSA	100	500	1,000	500,000



6)	AlOthaim Markets-Egypt	Egypt	Closed J.S. Co	Wholesale & Retail	Egypt	100	400,000	46,12	18,448,758
7)	Rawafid Alkhayrat Operation and Maintenance	KSA	LLC	General Contracting & Maintenance	KSA	100	500	1,000	500,000
8)	Thamarat Al Qassim Co.	KSA	LLC	Agricultural & poultry	KSA	90	200,000	100	20,000,000
9)	Riyadh Food Industries Co.	KSA	Closed J.S. Co	Industrial & commercial Services	KSA	55	10,000,000	10	100,000,000
10)	Mueen Recruitment Co.	KSA	Closed J.S. Co	Man power Services	KSA	68	10,000,000	10	100,000,000
11)	Rafif Tourism and Travels Co.	KSA	LLC	Tourism and Travel	KSA	75	100,000	10	1,000,000

## Fifteenth: 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 Create 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 the net profit based on a recommendation by the board of directors and use it for a certain purpose/ purposes.
- Then, out of the balance a dividends payment of no less than 5% of the paid-up Capital is to be paid to the shareholders.

### 2. Appropriations & Distribution for year 2016:

Description	Percentage of Profits	Amount/ SR
Retained earnings from last year	-	610,213,817
Net profits	100%	230,032,106
Statuary reserve	10%	23,003,210
Cash Dividends for the year 2015G	39%	90,000,000
Retained earnings for next year	317%	727,242,713

## Sixteenth: Corporate Governance & Transparency:

Based on the Company's keenness to strengthen the relationship with its shareholders, stakeholders and the community, protecting their rights, and believing in the importance of corporate governance issued by CMA and other related regulations and in order to enhance its principles and the internal audit operation, the Company continued during the year 2016G its commitments in applying the corporate governance regulations issued by CMA and other related regulations and the Company's Governance Manual. The Company would like to disclose, besides its financial results and performance, the following information

### 1. Shareholders' Rights and Communication :

Based on the Company keenness & attention to the rights of the shareholders and stakeholders as included in the Company's bylaws, the Company has included these rights to the Company's governance manual. The Company also is keen to keep its shareholders aware of all substantial developments within the Company through publishing the financial reports, announcements and material information on the Tadawul website, or in the daily newspapers, as well as on the Company website. Also, the Company is giving utmost importance to communicate with its shareholders and responds to their questions through easy communication channels and follow up via a dedicated shareholders' affairs.



## 2. Company's equity Profile and floating Shares as of 31/12/2016G:

Details	Explanation
Company authorized capital	SR 450,000,000
Issued shares (all Company's shares are ordinary shares)	45,000,000 Shares
Floated shares (as per Tadawul)	29,485,450 Shares
Paid-up capital	SR 450,000,000
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 2016G:

#	Name	Nationality	Shares # at the beginning of 2016G	Ownership at the beginning of 2016G	Shares # at the end of 2016G	Ownership at the end of 2016G	% Change by the end of 2016G
1.	Al Othaim Holding Co.	Saudi	12,450,000	%27.6	12,450,000	%27.6	%0
2.	Abdullah S. Ali AL-Othaim	Saudi	2,700,000	%6	2,700,000	%6	%0
3.	General Organization of social Insurance	Saudi	2,866,472	6,37%	2,866,472	%6.37	%0

Concerning the declaration of movements in major shareholders ownership, the Company confirms that it has not received any written notification during 2016G from any of its list major shareholders indicating any change or movement in their ownership percentage. Disclosed information is based on the Saudi Stock Exchange (Tadawul) records.

## Seventeenth: 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 third session which started from 03.10.2015G 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 S. Al-Othaim (Chairman)	Non-executive	- <b>None listed:</b> Abdullah Al-Othaim Real Estate Investment & Development Co.
2.	Bandar N. Al Tamimi (GOSI Rep.)*	None-Executive	- None
3.	Saleh M. Al-Othaim	Independent	- <b>None Listed:</b> Dar Alkhoyool General Contracting Co
4.	Abdul Salam S. Al Rajhi	Independent	- None
5.	Abdulaziz S. Al-Rebdi	Independent	- <b>None listed:</b> Al-Obeikan Glass Co. - <b>Listed:</b> Advanced Takween Industrial Co., Abdul Mohsen Alhokair Tourism and Development Group, Alhammadi Development and Investment Co
6.	Fahad Abdullah Al-Othaim	Non-executive	- <b>None listed:</b> Abdullah Al-Othaim Real Estate Investment & Development Co., Dar Alkhoyool General Contracting Co., Biddayah Home Finance Co. Saudi Kuwaiti Finance House Co..
7.	Abdulaziz Abdullah Al Othaim	Executive	- <b>None Listed:</b> Riyadh Foods Services Co., Mueen Recruitment Co.
8.	Youssef M. Al- Gafari	Executive	<b>None Listed:</b> Abdullah Al-Othaim Real Estate Investment & Development Co. Abdullah Saad Abu Muti Co. for libraries, Riyadh Foods Services Co., Mueen Recruitment Co.

Mr. Youssef M. Al-Gafari his members' classification changed from executive to non-executive due to his resignation from his position as Company CEO as of 27/12/2016G.



## 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 of the Company held (5) meetings during the fiscal year 2016G, and the below table shows the board members attendance for the board meetings during 2016:

No.	Board Member's Name	Meeting Number & date					No of attendance
		(1) 22 Feb.	(2) 09 May	(3) 26 Sept.	(4) 16 Nov.	(5) 27 Dec.	
1	Abdullah Saleh Al-Othaim	√	×	√	√	√	(4)
2	Bandar N. Al Tamimi	√	√	√	√	√	(5)
3	Saleh M. Al-Othaim	√	√	√	√	√	(5)
4	Abdul Salam S. Al Rajhi	√	√	√	√	√	(5)
5	Abdulaziz S. Al-Rebdi	√	√	√	√	√	(5)
6	Fahad Abdullah Al-Othaim	√	√	√	√	√	(5)
7	Abdulaziz A. Al-Othaim	√	√	√	√	√	(5)
8	Youssef M. Al-Gafari	√	×	√	√	√	(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.	Abdulaziz A. Al-Othaim	CEO
2.	Marwan A. Ibrahim	Vice President, Finance
3.	Bahauddin B. Al Sherbeni	Vice President, Operations
4.	Bandar S. Albohry	Board of Director's Secretary

## A. 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	2,700,000	-	2,700,000	-	0	%0
2.	Bandar N. Al Tamimi*	2,866,472	-	2,866,472	-	0	0%
3.	Saleh M. Al-Othaim	1,000	-	1,000	-	0	%0
4.	Abdul Salam S. Al Rajhi	41,660	-	2,000	-	39,660	%95.2
5.	Abdulaziz S. Al-Rebdi	2,000	-	2,000	-	0	%0
6.	Fahad Abdullah Al-Othaim	2,000	-	2,000	-	0	%0
7.	Abdulaziz A. Al-Othaim	1,000	-	1,000	-	0	%0
8.	Youssef M. Al-Gafari	2,000	-	2,000	-	0	%0

\*The Board Member representing the Organization of general social Insurance. And the shares ownership refer to the Organization, and the representative member does not own any shares in the Company. The Company has also approved the shares details as recorded in the share ownership register for the above mentioned periods and did not receive any notice from any of the concerned parties regarding the change of ownership of any of them during the year.



## B. 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	12,432	-	12,432	-	0	%0

## E- Board of Directors & Senior Executives remunerations for 2016: (SR)

Description	Executive Board Members *	Non-Executive Board Members	Independent 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	2,613,000	0	0	5,581,179
Allowances	-	57,000	54,000	0
Periodic & annual bonuses	1,310,000	550,000	475,000	2,590,000
Incentive plans	0	0	0	0
Any compensations or other benefits in kind paid monthly or annually	0	0	0	0
Total	3,923,000	607,000	529,000	8,171,179

\*According to the Board of Directors' remuneration policy, the annual bonus for each board member for 2016G based on the Company's performance is SR (150) thousand for each, while transportation allowance is SR (3), thousands for each meeting. The committee's membership bonus is SR (25) thousand for each member, while transportation allowance is SR (1,500) for each meeting. Bonuses are paid to executive board members based on a policy linked achieving a number of targeted indicators, including sales, expansion of business, operating gains and work environment.

## C. Related Parties transactions:

**First:** Interests Related to the board chairman/ Abdullah Saleh Al-Othaim and Board Member/ Fahad Abdullah Al-Othaim as follows:

### 1. Lease & rental Contracts with Al Othaim Holding Company:

Type of contract	Contract Description	Lease value	Start of lease	Contract period/year	Payment term
Rental	Trademark*	10,000	1/7/2006	5	Annually
Lease	Administrative offices	710,050	1/1/2015	5	Semi-annual
Lease	Administrative offices*	182,000	1/1/2014	1	Semi-annual
Services	Sale of air tickets from a subsidiary	2,941,456	10/4/2016	1	-

### 2. Lease & rental Contracts with Abdullah Al-Othaim Real Estate Investment & Development Co

Type of contract	Contract Description	Lease Value	Start of lease	Contract period /year	Payment term
Rental	Buraidah Branch	1,277,100	1/6/2007	20	Annual
Rental	Buraidah branch housing	219,600	1/1/2009	18	Annual
Rental	Hyper Mall Alahsa	2,159,850	1/1/2007	20	Annual
Rental	Khurais Hyper Mall	1,718,640	1/3/2008	20	Annual
Rental	Alrabwa Branch Mall	770,880	1/8/2009	10	Annual
Rental	Archive warehouse *	50,000	1/4/2015	1	Annual
Rental	Archive wrehouse*	21,300	1/2/2015	1	Annual
Rental	Dammam Hyper Mall	1,922,400	1/1/2011	18	Annual
Rental	Buraidah Branch – Okairesha	1,086,000	1/1/2012	5	Semi-annual
Rental	Branch Housing – Okairesha	35,000	1/1/2012	5	Annual
Rental	Onaiza Branch Housing	900,000	9/5/2012	5	Semi-annual
Rental	Araar Branch 85	2,022,680	3/5/2016	10	Semi-annual
Lease	Admin. Offices	742,500	1/1/2015	5	Semi-annual
Lease	Dammam Mall	34,932,000	1/1/2011	18	Semi-annual
Services	Sale of air tickets from a subsidiary	239,232	30/4/2016	1	-



### 3. Rental Contracts with Abdullah Al-Othaim Company For Tourism & Entertainment:

Type of Contract	Contract Description	Lease Value	Start of lease	Contract period/year	Payment term
Lease	Shifa entertainment center 16*	102,150	1/1/2015	5	Semi-annual
Lease	Agba entertainment center	417,225	1/1/2010	5	Semi-annual
Lease	Swuaidi entertainment center	1,000,000	16/3/1435H	10	Semi-annual
Services	Sale of air tickets from a subsidiary	170,733	30/4/2016	1	-

\*Renewable automatic for similar periods.

**Second:** Interests Related to the board Member Mr. Bandr N. Al Tamimi- representative of General Organization for Social Insurance:

Type of Contract	Contract Description	Lease Value	Start of lease	Contract period/year	Payment term
Rental	Lands For Investments	5,562,500	16-01-1424H	26	Annual

### **Eighteenth: 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 committees have been reappointed by the board in his third session as of 3/10/2015, the details of which 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 for the year 2016, 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 committee has been appointed for the current Board tenure consisting of (4) members and the committee member Mr. Khalid M. Al Solai has resigned on 16/11/2016, bringing the number of committee members to three members. The following table shows the committee membership and meetings held during 2016:

#	Name of Committee Member	Position	Meeting						# of Attendance
			(1) 20 JAN.	(2) 14 Feb.	(3) 20 Apr..	(4) 26 July..	(5) 27Dec.	(6) 19 Oct.	
1)	Fahad A. Al-Othaim	chairman	√	√	√	√	√	√	(6)
2)	Saleh M. Al-Othaim	Member	√	√	√	√	√	√	(6)
3)	Abdulaziz Al Nowaiser	Member	√	√	√	√	√	√	(6)
4)	Khalid M. Al Solaie*	Member	√	√	√	<b>Not applicable</b>			(3)

\*Resigned from the committee membership on 16/11/2016

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

During 2016, the Committee has reviewed the Company's internal control system to ensure its efficiency, also reviewed and analyzed the main operational, financial and administrative risks that may face the Company and proposed solutions and treatments to ensure the properness of the Company's operations, in addition to studying the weaknesses and 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. Risks management and the systems and procedures to ensure that risks are managed within the scope of their specified limits, have been accomplished in time and full



transparency, ensuring the soundness of the Company operating, financial and business transactions.

## 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 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 comprises (4) members. The following table summarizes the committee member's names and numbers of meetings attended during the year 2016:

#	Name of Committee Member	Position	1ST Meeting 16 Feb	2nd Meeting 16 Nov.	Numbers of Attendance
1)	Abdullah S. Al-Othaim	chairman	√	√	(2)
2)	Bandar N. Al Tamimi	Member	√	√	(2)
3)	Fahad A. Al-Othaim	Member	√	√	(2)
4)	Bandar S. Al Bohairy	Member	√	√	(2)

### **Eighteenth:**

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 vocational Training in the year 1420H, and managed to train and qualify since its establishment up to date more than (47,437) 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 disabled people and employed them in a various branches of the Company, in addition to many social programs that aim to serve community, the spending of the Company to support the Academy during the year 2016G was SR 1,351,289.00 compared to SR 1,010,963.00 for the year 2015G.

**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 continued 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 2016G, was SR (12,934,567.00) compared to SR (13,201,013.00) for the year 2015G. Also, the Company participated and sponsored some activities and national events in most regions of the Kingdom, including sponsoring the second international conference of date palms hosted



by Al Qassim University, in addition to its participation in the campaign under the slogan "no Hajj without vaccination", in cooperation with ministry of health represented in the national expanded vaccination program. The Company has also contributed material donation of SR (300,000) for children with disability as part of its national initiative for safe driving sponsored by the society (May Allah give you better than what donated).

The international foundation of late King Abdullah for humanitarian works has honored the Company for its active participation in the campaign "twit for humanity" launched by the foundation in August 2016 on the occasion of the universal Day of human being, in addition to the participation of many orphan and disabled children in the inauguration ceremony of three branches during 2016.

- c. Donation of the Rest of Halala (riyal fractions):** The Company continued in 2016G as the first retailer its initiative " Donate the rest of Halala" that launched 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 2016 many of the charities in the Kingdom had benefited from the project .Also a new charities had been added to expand the scope of benefits, and the total customers donation through this project in 2016G amounted SR (989,326.00) compared to SR( 935,359.00) for the year 2015G.
- d. Program of visiting patients at hospitals:** 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 AlOthaim Markets in addition to token 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 pain and psychological suffering, as well as such visits reinforce social cohesion and fraternal solidarity which is encouraged by our religion. Also, 2,000 pieces of good level have been prepared, particularly for the sick and the elderly people, providing them with earth for tayammum to perform the five daily prayers, and it was distributed to a number of hospitals in the Kingdom
- e. Iktissab Cooperative program:** A largest charitable initiative adopted by the Company in collaboration with Iktissab & the Alothaim Foundation charity under the name (Iktissab Cooperative program) has been launched to serve many categories, including employees of the Social charities and fund charitable and retirees, the disabled and divorcees and widows, orphans and the children and families of martyrs and released, people with limited income and others with a total amount of SR (2,225,691.00) Compared to SR (1,853,232.00) for the year 2015G.
- f. Support to Militants:** The Company during the year provided special discount for military and security men up to 10% of the their purchases value at all Al-Othaim Markets branches in the Kingdom with a total amount of SR (138,711.00) compared to SR (843,916.00) for the year 2015G.



### **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-first:** The implemented provisions of the Corporate Governance regulation as well as the provisions, which have not been implemented:

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

#### **Article 17 of the corporate Governance Regulations:**

the Company's bylaws did not include performance criteria for the bonus of the Board of directors as the Company is using an independent policy governing the calculation and payment of Members bonus mechanism to facilitate updating the policy without having to modify the Company's bylaws, and to be more flexible to keep up with any developments in the regulations and the other factors affecting the bonus amount of the board member.

#### **Article 12 (i) of the Corporate Governance Regulations:**

No Juristic personality, who is entitled by the Company bylaws to appoint its representatives to the board of directors, has voted for electing other Board members due to non-existence of any Juristic personality in the Board of directors.

#### **Article 6 (d) of the Regulations of governance:**

None of the Investors, who are Juristic personality and who acts on behalf of others, has disclosed their voting policy or the actual voting in their annual reports, and how do they deal with any material conflict of interests that may affect the practice of their basic rights related to their investments.

In Conclusion 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, with God will, continue the journey of success, growth and future expansion in line with the outlined plans and targets and achieve continuous growth rate in the profits.

**Abdullah Saleh Al-Othaim**  
**Chairman**

**Disclaimer:** In case of any contradiction or discrepancy in translation between the English version and the Arabic version of this report, the Arabic text shall prevail.