



**Board of Directors' Annual Report**  
**For The Shareholders of Abdullah Al-Othaim Markets Co.**  
**For the fiscal year ended December 31, 2012**

**To: shareholders of Abdullah Al-Othaim Markets Co.**

The Board of Directors of Abdullah Al-Othaim Markets Company has the honor to present to you his Annual Directors' Report for the fiscal year ended December 31, 2012, which includes a summary of the of the company's performance, its strategic directions and some analysis, performance indicators, as well as mechanisms for applying corporate governance and disclosures related to the formation of the Board of Directors' functions and rewards , its sub-committees structure and functions, senior executives bonuses and the transactions made with related parties during the year. It includes also the Board of Directors disclosures and the compatibility with the corporate Governance regulations issued by Capital Market Authority (CMA).

On other side, this report also includes the Audited Financial Results, the Related Notes, and the Auditors' Report for the fiscal year ended 31st December 2012, and the Board will be pleased to receive and answer your questions related to the continent of this report during the Annual ordinary General Meeting (OGM) indicated above, looking for your kind approval to the report and the company's annual audited statements for the year 2012.

**Board of Directors of Abdullah Al-Othaim Markets Co**  
**February 2013**



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

Abdullah Othaim Markets Company is a major player in the supermarket industry and among consumers in the Kingdom of Saudi Arabia, the company introduced a good marketing experience through competitive pricing, and exceptional service, and quality.

The company's main activity is concentrated in the area of wholesale and retail food and consumer, as well as engaged in the leasing of real estate and we will clarify the details of these activities in the sector data item of this report.

## **Second : Company's Strategy, Plans ,Decisions and the Risks:**

### **A) Strategy and Plans:**

The Strategy of the Company is to increase 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. and introducing advanced new technologies in retail & wholesale trade, which included the launch of a pilot electronic service shopping " as a pilot project" via the company's network Internet, which were limited at the present time in Riyadh city, and contributed to the service in solving some of the difficulties faced by some customers to get their needs easily and conveniently.

### **B) Important Resolutions:**

To strengthen 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 2012 many Resolutions, the most important of which:

1. Approval of Company's strategic directions and key objectives and monitoring its implementation.
2. Approval of the Company's estimated budget for 2013.
3. recommendation to the Company's General Assembly of the shareholders to approve the amendment to Article (37) of the Company's Article Of association (AOA) to adopt cumulative voting method when voting for the appointment of members of the Board of Directors, where the General Assembly approved it accordingly.
4. Recommendation to the Company's General Assembly of the shareholders to approve distribution of cash dividend for fiscal year 2012, which represent 10% of the share capital by SR (22.5 Million) , SR (1) per share which represents 10% of the company's capital, where the General Assembly approved the said recommendation
5. The Board Of Directors was appointed for its second office term and the president of the Board was appointed , The Board sub committees were re-struction .



### **C) Risk:**

The Company's activity, financial position, operating results ,cash flows and its future forecasts may be affected negatively in the event of any of the following risks or any other risks not known at the present time:

1. Unfavorable fluctuations in oil prices or other factors affecting the indicators of the Saudi economy in general.
2. The company doesn't covers risks resulting from fluctuations in currency exchange rates, so the unfavorable fluctuations in exchange rates may affect the company's performance & its results.
3. Dangers of speculation and volatility in the goods prices and food's raw materials locally and Globally .
4. Risks related to competition.
5. It may also arise with the company's obligations for future capital expenditures, and there are no guarantees or assurances that the company will be able to secure those expenses in the event of their need for it in a timely manner or on favorable terms and acceptable to them, and pursues a company's policies and procedures private risk management and to ensure that the ongoing review of all activities the company's operational marketing, whether or productivity.
6. Un favorable changes in laws and regulations related to, as like other companies operating in the Kingdom vulnerable to any change in the laws and regulations.
7. Political & security instability, where it will affect the whole companies within the business sector in the region as a whole.
8. **Saudization:** Since most of the company labors are employed in the warehouses and branches, which depends heavily on expatriate labor, it may be difficult to replace them by Saudi employees, but the company based on its role to serve the society and to enhance the K.S.A governments directions in Saudization, the Company will continues its tireless efforts of in order to support localization project and rehabilitation of national cadres through the process of training and employment, and giving young people and young Saudis the opportunity to develop their skills process and continue on the path of progress and prosperity in their future careers

### **Thirdly: Company's Investments:**

1. The Company invests in Abdulla Al-Othaim Real Estate Investment & Development Company (A closed Saudi Joint Stock Company), ownership ratio: 13.65% with an investment of SR 85,000,000, and its main activity in the sale and purchase of lands, and purchase lands for the construction of buildings and investing them through selling or renting for the benefits of the Company , management and maintenance , real estate development, management and operation complexes ,commercial, real estate and entertainment centers, where its share in the net profits for year 2012 amounted to SR 27,137,528, compared to 12,655,583 for 2011. The Company's share of cash dividends distributed during 2012 was SR 19,125,000.
2. Also the company invest in National Laboratories Co. Ltd (A limited liability company), ownership rate: 6% with an investment of SR 3,400,000. The company was incorporated in 2009 , its main activity is the management and operation of the laboratory analysis of food, medicines, gas, petroleum, petrochemical, and providing technical services . where its headquarterd located in Al Khobar. The



company's share of the accumulated losses of the National Laboratories Company since its incorporation until 30/9/2012 amounted to SR 929.491.

- Also it invests in portfolio investment securities available for sale, amounting to a market value of SR 576.338 as at 31/12/2012, a decrease of SR122.820, compared to last year.

#### Fourth :Summary of the Financial Results for the period 2008 to 2012:

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

Description	2012	2011	2010	2009	2008
Revenues	4.266.177	4.090.913	3.518.760	3.138.511	2.900.079
Cost of revenues	(3.940.929 )	(3.767.768)	(3.241.986)	(2.927.367)	(2.722.312)
Gross profit	325.248	323.145	276.774	211.114	177.767
General, administrative, and marketing expenses	(180.034)	(178.040)	(135.659)	(121.995)	(120.440)
Other income (losses), net	30.302	8.478	24.932	(9.276)	6.690
Zakat	(3.750)	(3.500)	(4.119)	(2.350)	(1.750)
Net Profit	171.766	150.083	161.929	77.523	62.267

##### \* Other income (losses) – net (thousands Riyals)

Description	Year ended Dec. 31,	
	2012	2011
Company's share in the net profit of the associated company	30.152	12.656
Income from sale of property and equipment	(614)	749
Others, net	764	(4.927)
Total	30.302	8.478

##### \* Main financial Indicators:

Description	2012	2011	2010	2009	2008
Return on revenues	4.03%	3.67%	4.60%	2.47%	2.15%
Return on shareholders' equity	25.24%	28.25%	36.10%	22.61%	20.82%
Return on assets	9.74%	9.00%	10.94%	6.26%	6.71%
Sales growth rate	4.10%	15.20%	11.66%	7.91%	24.91%
Net profit growth rate	14.40%	(7.30%)	108.90%	24.50%	4.16%
Earnings per share – Riyals	7.63%	6.67	7.2	3.45	2.77

The operating profit was SR 156.1 Million compared to SR157.6 Million with decline ratio of 0.95%. The decline of net operating profit in the current year compared with the previous year was due to the increase of operations expenses of which the labors cost during 2012.



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

Description	2012	2011	2010	2009	2008
Current assets	465.154	460.437	419.256	41.748	378.905
Current liabilities	941.053	942.621	830.207	630.587	756.799
Working capital	(475.899)	(482.184)	(410.951)	(213.107)	(377.894)
Investments in other associate companies	174.018	118.945	105.190	99.232	89.609
Property and equipment, net	1.124.254	1.096.233	962.284	720.771	612.186
Total assets	1.763.426	1.675.615	1.486.730	1.237.483	1.080.700
Current liabilities	941.053	942.621	830.207	630.587	756.799
Long term loans	100.859	166.231	179.120	242.182	8.797
Other liabilities	41.068	35.461	28.883	21.872	16.034
Total liabilities	1.082.980	1.144.313	1.038.210	894.642	781.632
Paid up capital	225.000	225.000	225.000	225.000	225.000
Reserves, retained earnings and unrealized profits	306.302	306.302	223.520	117.841	74.069
Total shareholders' equity	531.302	531.302	448.520	342.841	299.069
Total liabilities & shareholders' equity	1.763.426	1.675.615	1.486.730	1.237.483	1.080.700

#### C) Cash Flows (Thousands of Riyals)

Description	Fiscal year ending on 31 Dec	
	2012	2011
Cash flows from operating activities	227.618	295.136
Cash flows used in investing activities	(138.700)	(209.415)
Cash flows from (used in) financing activities	(69.058)	(87.337)
Increase (decrease) in cash	19.859	(1.617)
Cash balance – January 1	43.619	45.236
Cash balance –December 31	63.749	43.619

#### Fifth : 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	267.556	6%
Eastern Region	529.117	12%
Northern Region	300.686	7%
Middle Region	3.098.927	73%
Western Region	69.891	2%

#### Six: 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, 2012 for each business segment:



Description/ Thousand Riyals	Retail wholesale		Real Estate rent		Total	
	2012	2011	2012	2011	2012	2011
Sales	4,405.198	3,942.797	-	-	4.105	3,942.797
Rent Revenues	93.770	84.979	67.208	63.136	160.9	148.115
Property and equipment. net	547.27	496.515	528.589	528.242	1.075	1,024.757
Total Net	279.521	294.840	27.726	28.305	325.2	323.145

### Seven: Human Resources Development Program:

To Enhance the company's role in Saudization programs, the company has worked to implement an integrated plan for resettlement and Saudization in accordance with its strategic plans derived from national trends to achieve ratios resettlement required, through the adoption of modern concepts in polarization, recruitment, training and motivation, and to achieve its targets the company implemented during 2012 the following mechanisms:

1. The adoption of cooperative training programs with local universities and institutes.
2. Application of the idea of ending employment training.
3. Develop effective training programs to develop skills and abilities have the trainee and increase the effectiveness of the labor market.
4. Put different stimulation systems to raise the rates of loyalty to the company.
5. Cooperation with institutions and government agencies sponsor for resettlement programs have been signed agreements with the Human Resources Development Fund for the training and employment of (1689) Saudis in various jobs.
6. Seasonal summer employment: where the company hired (183) Saudis during the summer vacation.
7. Opportunities for free theoretical and practical training through Othaim Academy completed training (2123) trainees of them (1511) from outside the company and (612) of the company's employees during 2012 and prepare them for the labor market in the retail sector.
8. Trained (770) Saudis men during the year 2012 and make them ready to the labor market in the retail sector.
9. Employed (1224) trainees to work in the company's retail sales.
10. Employment of (2548) Saudis during the year 2012.

### Eight: Marketing & Customer Care:

The company continued in the development processes of identity and the mechanism of the operating systems for Iktissab card, which was launched in 2011, and a center of communication and web site to serve Iktissab customers and activate the cards and manage communication with customers, and was highlighted by the results of the development of the identity of the Iktissab card its mechanisms which led to increase the need for the card, and increased the number of clients to 31.4% of the total number of company's customers in 2012 and also the company will continue its efforts for further development in this regard, also the company has developed loyalty program and building a customer base, in order to provide services marketing and promotion, an integrated call center with a free number: 920,000,702 was established ,



also The company launched the e-marketing online shopping via the company's website <http://www.othaimmarkets.com>.

#### **Nine: information Technology:**

Based on The company directions in IT filled to upgrade its services and provide all means to improve its performance level for the better and in line with its ambitious plans and to enhance its operations in the IT service and rehabilitation and development of distribution centers and its different sales outlets to respond effectively to the needs of its customers, the company and during the year 2012, executed the following:

- Adding additional means to serve customers through installing more than 200 device to inquire about the prices of all branches.
- Improving the company's main system performance JDA MMS and upgraded to the latest version.
- Prelude to getting to be "paperless" has completed many of the internal procedures and replace the paper forms and electronic models use the working sessions and electronic credits to the procurement procedures of administrative, human resources and technical services.
- Was also starting to use electronic archiving of financial documents linked to the financial system.
- Electronic link has been activated with the bank to use the transfer system of payments instead of using electronic checks
- Increase the means of communication and the flow of information between employees of companies Othaim integration between the phone system and the e-mail system and connect smart devices.
- Launch smart phone applications system for customers

#### **Ten: accounting standards:**

Company committed to all accounting standards issued by the Saudi Organization for Certified Public Accountants as the auditor's report, except what was stated in drawing attention of the Auditor on Note (6) attached to the consolidated financial statements for the fiscal year ending 2012 to the subsidiaries companies that were established and not perform any work during the year 2011, and it is not consolidated for that year.



## Eleven: Loans & Murabaha

### A) Short Term Murabaha:

The company has facilities with a number from local banks in the form of short term Murabaha to finance the working capital, where the unutilized balance of these Murabaha as of Dec 31, 2012 was SR 191.8 million, these facilities are secured by personal guarantee of one of the shareholders & detailed as follows (value With SR):

Description	Arab National Bank	Bank Al Bilad	Saudi Hollandi Bank	SAMBA	National Bank
Short loans limits	50.000.000	50.000.000	20.000.000	75.000.000	75.000.000
Loan balance as at 31/12/2011	25.000.000	0	10.000.000	0	26.306.225
Loan balance as at 31/12/2012	0	0	20.000.000	35.000.000	22.817.171
Facilities Agreement's Expiry date	14/01/2013	21/04/2013	22/10/2012	29/01/2013	01/08/2013
Revolving facilities Loans					
Loan period	Up to 90 days	Up to 360 days	Up to 360 days	Up to 360 days	Up to 120 days
First installment date			10/02/2013	13/01/2013	07/01/2013
Last installment date			17/02/2013	27/01/2013	11/03/2013
Purpose of the loan	Working Capital Financing				
Guarantees	Personal guarantees	Lands mortgages	Lands mortgages	Personal guarantees	Lands mortgages

### B) Short Term Loans & Murabaha:

Also the company has long loans & facilities from some local Banks detailed as follows (value With SR):

Description	Samba	Bank Al Bilad	Saudi Hollandi Bank 1	Saudi Hollandi Bank 2
Total Loan	50.000.000	286,057.983	44.000.000	100.000.000
Paid Installments	13.636.364	205.964.382	32.999.999	20.000.000
Paid in year 2012	13.636.364	57.416.662	14.666.667	20.000.000
Loan balance as at 31/12/2011	36.612.614	80.093.601	11.089.100	80.548.000
Profits - deferred loans	248.977	1.198.986	89.100	548.000
Net loan balance	36.363.636	78.894.633	11.000.000	80.000.000
Loan date	13/03/2012	08/2009	19/09/2010	13/11/2011
Loan period	33 months	58 months	3 years	5 years
Payment method	Installments every 3 months	monthly installments	Installment every 3 months	Installment every 3 months
Installment (SR)	4.545.455	4.784.722	3.666.667	5.000.000
First installment date	13/06/2012	08/2009	18/12/2010	13/02/2012
Last installment date	05/12/2014	05/2014	31/06/2013	17/10/2016
Purpose of the loan	Financing New Branches	Financing Dammam Mall	Financing new branches	
Guarantees	Personal guarantees	Lands mortgages	Personal guarantees	Lands mortgages





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

Period	2012	2011
Less than a year	105.399.512	103.346.086
From one year to two years	60.858.757	84.427.626
From two years to five years	40.000.000	81.802.964
Total	206.258.269	269.576.676

**Twelve: payments to governmental bodies:**

The Below table shows Summary of payments made to the Government during 2012 compared to 2011 (SR):

Period	2012	2011
Zakat and Tax	3.770.048	3.712.420
GOSI	16.276.855	14.774.204
Visas and Passports	11.667.814	10.950.541

**Thirteen: The Company's Subsidiaries:**

The Below table shows the company's Subsidiaries in the KSA, 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.	Haly Holding Co	KSA	Retail & Wholesale	KSA,	100%	SR 100
3.	International Center for Marketing *	KSA	Retail & Wholesale	KSA,	95.4%	SR 130
4.	Seven Services Co.	KSA	Import& Export	KSA,	100%	SR 100
5.	Bait Al Watan Co.	KSA	Import& Export	KSA	100%	SR 100
6.	Marafiqu Operation Co.	KSA	General Contracting & Maintenance	KSA	100%	SR 500
The financial statements of the above-mentioned companies has been consolidated within the Abdullah Al Othaim Markets Company for the year 2012.						

**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 of after deducting all the general expenses and the other costs as per the following:

- A. (10%) of net profits shall be set aside to form a statutory reserve, and the ordinary general assembly has the right to stop this this appropriation whenever the said reserve reaches half of the capital.
- B. 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.
- C. Then a down payment not less than 5% of the paid up capital is to be paid to the shareholders.



## 2. Appropriations & Distribution for year 2012:

Description	Percentage of Profits	Amount
Retained earnings from last year	-	236.667.477
Net profits	100%	171.766.230
Statutory reserve	10%	(17.176.623)
Cash Dividends	13.10%	(22.500.000)
Retained earnings for next year	214.69%	368.757.084

## Fifteenth: Corporate Governance & Transparency:

Based on the Company's keenness to strengthen the relationship with its shareholders, stakeholders and the community, and the importance of corporate governance and believing in applying transparency and disclosures principles and 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 shareholders and investors by including such rights and in this connections the company re communicate all the important & major developments that occurred ,through publishing the financial reports, announcements the material information on the Tadawul website, daily newspapers, and in the company's website, also the company giving utmost importance to communicate it its shareholders and response 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 31/12/2012:

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
Folated 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 2012:

#	Names	Nationality	Shares # at the beginning of 2012	Ownership at the beginning of 2012	Shares # at the end of 2012	% by the end of 2012
1.	Abdullah Al Othaim Holding Co.	Saudi Co	6.225.000	27.6%	6.225.000	0
2.	Abdullah Saleh Ali Al Othaim	Saudi	1.3450.000	6.0%	1.350.000	0



## Sixteen: 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 Article Of Association 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 choosing the Board members, and by which the election of the current Board members began with effect from 03.10.2012 for a period of three years, below are the names classification, and joint stock companies membership:

#	Board Member's Name	Capacity	Joint Stock Companies board membership
1.	Abdullah Saleh Al-Othaim (Chairman)	Non-executive	- Abdulla 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. (Wala'a). - Takween Co. - Abdul-Aziz Mohamed Al Namlah Holding Group
4.	Saleh Mohammad Al-Othaim	Non-executive	- L'Azurde Company for Jewelry
5.	Fahad Abdullah Al-Othaim	Non-executive	- Abdulla Al-Othaim Real Estate Investment & Development Co.
6.	Youssef Mohammad Al-Gafari	Non-executive	- Abdulla Al-Othaim Real Estate Investment & Development Co.
7.	Sabah Mohammad Al-Mutlaq	Independent	- Mawten Real Estate Co. - Mushaid Arabia Co.
8.	Abdullah Ali Al Dubaikhi	Independent	- Al Issah Industries Co. - Daam Real Estate Development Co.

### B. Board of Directors' Meetings:

Strengthen the role of the Board of Directors and to draw plans and follow up the implementation strategy of the company and other functions in accordance with the company AoA and corporate governance regulation and the Charter of administrative controls of the company, the Board of Directors held company (7) meetings during the fiscal year 2012, and the below table shows the record board members attendance:

No	Board Member's Name	Meetings, No							Attendance
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	
1.	Abdullah Saleh Al-Othaim	√	√	√	√	√	√	√	(7)
2.	Abdul Salam Saleh Al Rajhi	√	√	√	√	√	√	√	(7)
3.	Abdul-Aziz Saleh Al-Rebdi	√	√	x	√	√	√	√	(6)
4.	Saleh Mohammad Al-Othaim	√	√	√	√	√	√	√	(7)
5.	Fahad Abdullah Al-Othaim	√	√	x	√	√	√	√	(7)
6.	Youssef Mohammad Al-Gafari	√	√	√	√	√	√	√	(7)
7.	Sabah Mohammad Al-Mutlaq	x	√	x	√	√	√	x	(4)
8.	Abdullah Ali Al Dubaikhi*	Not applicable				x	√	√	(2/3)



- following its election by the Shareholders for the new term, the Board, held in 17/11/1433H Correspondent to 03/10/2012 its first meeting which began from the mentioned date, and formed its sub committees, and appointed its members as detailed in this report.
- Abdul-Aziz Saleh Al Othaim, resigned from the Board of Directors as CEO of the company and its membership in the Board of Directors. The Board accepted his resignation with mediate effect from the date of 02.07.2012, where he did not attend any meeting of the Board until his resignation.
- Abdullah Ali Al Dubaikhi started his membership as of 03/10/2012, whereas the rest of the Board Members, as most other elected members of the Board for the current term were among the membership of the Board of the previous office term.

### C. Executive Board Team:

The Company's Senior Executive Team role is to implement the strategies, plans and policies approved by the Board of Directors. It also monitors the performance of company and ensures their adherence to plans, policies, regulations, and ethical standards of The Company. The. Below are the Senior Executives named and their positions:

No	Name	Position
1.	Marwan Ahmed Ibrahim	Vice President Finance
2.	Bandar Sulaiman Albohiry	Board of Director's Secretary
3.	Bahauddin Barakat Al Shurbeni	Operation Executive Vice President,
4.	Abdel-Salam Mohmmmed Bdeir	Executive President - CEO - Retail Division

### 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	1,000	-	12,650	-	11,650	1165%
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	0	-	1,000	-	1,000	100%



## 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. 20. Board of Directors & Senior Executives remunerations for 2012: (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	0	-	4.271.771
Allowances	-	57.000	
Periodic & annual bonuses	-	1.107.500	750.000
Incentive plans	-	0	-
Any compensations or other benefits in kind paid monthly or annually	-	0	-
Total	0	1.164.500	

\* The amounts collected by the five senior executives include all amounts collected by 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 while transportation allowance is SR 1,500 for each meeting.

## F. 21. 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

Lessor's 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*	Housing & facilities	219,600	01-01-2009	18	Annual
Abdullah Al-Othaim Real Estate Investment & Development Co*	Al Ahsa Hyper Mall	2,590,170	01-12-2007	20	Annual
Abdullah Al-Othaim Real Estate Investment & Development Co*	Khuraiss 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	37.501	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	2,995,600	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 for Onaizah Branch	103,000	01-01-2012	5	Semiannual
Abdullah Al-Othaim Real Estate Investment & Development Co*	Onaizah Branch	580.645	09-05-2012	5	Semiannual
Al-Othaim Holding Co.	Trademark fees			5	Annual

## 2. B) Lease Contracts of sites to related parties

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 flat	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	35,250	01-01-2010	1	Semiannual
Abdullah Al-Othaim Real Estate Investment & Development Co*	Al-Shifaa Entertainment center Housing	19,000	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
Abdullah Al-Othaim Real Estate Investment & Development Co*	Al-Sweidi Entertainment center Housing	67,000	01-01-2009	1	Semiannual



### **Seventeen: 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 committee has met three times during the year 2012 with the presence of the following members:

- |                                   |            |
|-----------------------------------|------------|
| 1. Youssef Bin Mohammad Al-Gafari | – Chairman |
| 2. Dr. Saud Bin Mohammad Al-Nimr  | – Member   |
| 3. Saleh Bin Mohammad Al-Othaim   | – Member   |

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

The Committee has also during the year 2012, reviewed the main risks facing the company and solutions and treatments required to ensure the safety of the company's operations, also reviewed the effectiveness of the internal control systems of the company and overseeing the audit work, and in this regard the Committee examines the procedures & internal control systems of the company and its effectiveness through reports been filed to the committee by the internal Audit Control Dept. for the company during the year, whereas the review process in a manner periodic and continuous, and in the light of what has been studied show that screening has included all acts and activities of the company and management of different, and that the test results that were internal control systems at the level of the company and its management and operations have shown that no significant deficiencies in internal control systems and safety requires 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 committee has met four times during the year 2012 with the presence of the following members:

1. Abdullah Bin Saleh Al-Othaim – Chairman
  2. Fahad Bin Abdullah Al-Othaim – Member
  3. Bandar Bin Sulaiman Al Bohiry – Member
- It worth mentioned that Mr. / Abdul Aziz Saleh Al Othaim – Ex-committee member has resigned from his post as CEO of the company on 02.07.2012, and therefore his resignation from the committee as mentioned earlier in this report, he attended the first meeting of the committee, and has Bandar Suleiman Al Bohiry has been appointed as a member in the vacant seat , where he attended two meetings since his appointment, the rest of the members attended all meetings of the Committee held during the year.

#### **Sixth: 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 contribution and support of a number of programs, including as follows:

- 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 1420, and managed to train and qualify more than (30.661) A young Saudis "man and woman", where Al Othaim companies & a number of private sector companies benefited from them, also the Academy held a number of partnerships, including partnership training and caring for children charitable Society for orphans (human), which aims to train orphans sponsored by the society , in addition to 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 estimated spending size of the company's to support the Academy during the year, approximately one Million Riyals.
- b. Charities And National Events :** The company contributes in a number of social projects and charities and participating in events and the national vestivals, where the company issuing cards charity (Sanabel Al Khair card) to meets the demand from philanthropists and their eagerness to donate and to ensure the handing over thiers donations to the beneficiaries dieectly and in proper way, which deed is an interesting option for charities and men of righteousness and philanthropy and philanthropists to provide support to the needy and to ensure exchange donation on basic needs, During the year 2012; the company has also contributed in supporting many charities by offering discounts to those associations, with an estimated volume discount provided by the company for these associations, approximately SR 9 Million, also the company participated and take care of some events and national festivals in most regions of the Kingdom.





- c. Donation of the Rest of Halal:** The company continued its initiative " Donation with the **rest** of Halal" As the first retailer launched it in an automated fashion through point of Sale since 2007, and it believes in the promotion and consolidation of the culture of social responsibility and its commitment to serve the society, a special program for the project has been designed and considered as one of the leading project which is appreciate of great interest by Company's clients, during the year 2012 many of the charities in the Kingdom has benefited from the project. The total customers donation through this project in 2012, approximately SR 700 Thousand.
- d. Support Prince Salman Associations Center for Disability Research:** The company contributes in supporting the various programs offered by the Association of Prince Salman Center for Disability Research, through support in order to serve the objectives of the Assembly noble programs, the company's support to the Association during the year, amounted to SR 500 thousand.
- e. Program of visits hospital's patients:** The friend society program was initiated in year 1427H, under the auspices of Director General of Health Affairs in Riyadh, in cooperation with the Committee of Friends patients Chamber of Commerce, This program aims to visit three thousand patients in hospitals IN KSA annually, and the objectives of this program will also involve the company's employees in social responsibility programs offered to become an active part of society.
- f. Care of the environment:** Based on the company's belief to strengthen its social programs , which urges to contributes to the environment's care, the company in collaboration with the General Administration of cleanliness honestly Riyadh and the Secretariat of the Qassim region, Ahsa, Dammam and implementing several programs awareness and educational interesting environment<sup>25</sup>.
- g. One Million Cleaning Campaign:** Million square meters Cleaning campaign in collaboration with the Secretariat of the city of Riyadh: The company involved in the awareness campaign cleanly terrestrial environment (Million Square Meters' cleaning campaign- second cycle) which organized by the Riyadh Municipality annually under the slogan (Bur no waste), in order to raise 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.
- h. Support the Syrian People:** According to the company's duty of religious and humanitarian response to the directions of the Custodian of the Two Holy Mosques to support our brothers in Syria, the company has extended a helping hand through its contribution to support the Syrian people through none food items valued at more than 1.2 million.

#### **Corporate Governance.**

The company is implementing the provisions of the Corporate Governance Regulation as issued by the Capital Market Authority, except for 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 which was approved by the General Assembly of shareholders.



## 26. Board of Directors' Declarations

- The Company's Board of Directors declares that the accounts were prepared in a proper manner.
- The Company's Board of Directors declares that the internal control system was prepared on a proper principles and is being implemented effectively.
- The Company's Board of Directors confirms that there is no doubt about the company's ability to continue its activity.

## 27. Board of Directors' Recommendations

1. Approval of the annual consolidated financial statements & the Auditors' Report for the fiscal Year 2012.
2. Approval of the Board of Directors' Annual Report for the fiscal year 2012.
3. The acquittal of the directors for the fiscal year 2012.
4. Approval of the Board Of Directors Recommendation to the distribution cash dividends of SR (67.5) Million for the year 2012, at SR (3) per share, which represents 30% of the Company's capital as per the share value.
5. Approval of the Rental & lease Contracts between the company and Al Othaim Holding Company with a total amount of SR 745,050 and Abdullah Al Othaim Company for Investment and real estate development with a total amount of SR 48,333,207, 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 permission for the next year.
6. Approval of the appointment of the Auditor among the candidates nominated by the Company's audit committee to audit the company's accounts for the financial year 2013 and determine their fees.
7. Approval to pay a remunerations to the members of the Board of Directors of SR (1,164,500) for the fiscal year that ended on 31/12/2012.

## 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**