



**Board of Directors' Annual Report**  
**For The Shareholders of Abdullah Al-Othaim Markets Co.**  
**For the fiscal year ended December 31, 2014**

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

The Board of Directors of Abdullah Al-Othaim Markets Company has the honor to present his Annual Report for the fiscal year ended December 31, 2014, which includes a comprehensive summary of the of the company's activities& its progress, operational and financial performance, and its strategic directions and some analysis, performance indicators, in pursuit of the company to achieve sustainable growth and profitable rates, and strengthening the company's leadership based on our vision & mission to provide high quality products at competitive prices to be accessible to everyone.

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

On the other hand, this report also includes the Audited Financial Statements, accompanied with the related disclosures, and the Auditors' Report for the fiscal year ended December 31, 2014. Hence, the Board will be pleased to receive and answer your questions related to the contents of this report during the Annual General Assembly Meeting, looking for your kind approval to the report and the annual audited financial statements for the fiscal year 2014.

**Board of Directors of Abdullah Al-Othaim Markets Co.**  
**February 2015**



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

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

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

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

#### **a) Strategy and Plans:**

The Company strategy is to directed to maximize 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 diversify its investments through the complementary activities of the its main Activity, and introducing advanced new technologies in retail & wholesale business. The Company opened (8) branches during 2014 in different cities across the Kingdom, which bringing its total number of branches across the Kingdom to (129) branches. In addition to expanding and developing some of the existing branches in order to provide better service to its esteemed customers. Also, the company intends to increase its branches during 2015 through opening more new branches and developing the existing ones, which is expected to contribute in the enhancing and increasing the company's sales and introducing new and advanced technologies in the retail business.

#### **b) Important Resolutions:**

To enhance the role of the Board of Directors in performing its responsibilities and duties, and to achieve distinguished performance, the Board of Directors has approved during the year 2014 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 2015.
- Approving the Company's conflict of Interests Policy.
- 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 6th April 2014 to increase the company's capital from SR(225)millions to SR (450) million by offering bonus shares, with an increase of 100%, through capitalizing SAR 225 million from accounts of statutory and voluntary reserves and retained earnings. and amendment of Articles no (7), (35) and (36) of the company's bylaws.
- Making a proposal to the mentioned -above Extra-ordinary General Assembly of the shareholders to distribute cash dividends for the fiscal year 2013.
- Approving of partnership with "AGAD United Company for Investment" (one of the sister companies of ALBAIK Food Systems Company Ltd.) to establish a limited liability company with a share capital of SR (100) one Hundred Million Saudi Riyals to obtain license rights to open, operate and manage Al Baik restaurants in Al Qassim region, whereas Abdullah Al Othaim Markets Company will own 25% of the Company share capital.



**c) Risk:**

The Company's activity, financial position, operating results, cash flows and its future forecasts might be affected negatively if exposed to any of the following risks or any other unknown risks at the present time,; As the company performance is linked to the economic situation in the Kingdom of Saudi Arabia and other countries to which it extends its activity, the spending of individuals, institutions and companies who are the targeted customers might be affected by such economic situation, as well as the financial institutions which the Company deals with .

- The sudden changes that might occur in the real estate market, which might affect the value of real estate buying and selling and consequently increase the leasing rates.
- Unfavorable fluctuations in oil prices or other factors affecting the indicators of the Saudi economy in general.
- The company doesn't cover risks resulting from fluctuations in currency exchange rates, so the unfavorable fluctuations in exchange rates might affect the Company's performance & its results.
- Risks of speculations and volatility in the commodities prices and food's raw materials locally and Globally .
- Risks related to competition.
- Also, obligations related to future capital expenditures might rise, where no guarantees or assurances that the company will be able to pay those obligations on time or at favorable and acceptable terms. The Company is adopting certain policies and procedures for risk management and to ensure the ongoing follow-up to all company operations whether marketing or production.
- Unfavorable changes in the related laws and regulations . the Company, like other companies operating in the Kingdom, is exposed to any change in the laws and regulations.
- Political and security instability. The Company will be affected -as a part of the business- by political and security situation in the region as a whole.
- Saudization, Since most of the company 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.

**Thirdly: 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 13.654% of the share capital with an initial investment of SR 85,000,000. The main activity of the company is managing and operating shopping malls and entertainment centers in addition to real estate development, , where the Company share in the net profits of the investee for year 2014 amounted to SR 30,061,768 compared to 24,813,301 for the year 2013. The Company's share in cash dividends distributed during 2014 was SR 27,625,000.

The Company invests in subsidiaries located outside the kingdom of Saudi Arabia, (in Arab Republic of Egypt, Republic of Bosnia & Herzegovina and Turkish Republic) with an investment amount of SR 595,895 and none of these subsidiaries has started up its operations till the end of the year 2014.

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

- The company invests SR 3,400,000 in National Laboratories Co. Ltd (A limited liability company), with ownership of 6% of the Company share capital . The company was incorporated in 2009, whereas its main activity in managing and operating



laboratories of food, medicines, gas, petroleum and petrochemicals, in addition to providing technical services in these fields. where its headquarters located in Dammam city. The Company's share in the accumulated losses of the National Laboratories Company since its incorporation until 30/9/2014 amounted to SR 518,979.

- The Company has a portfolio of available for sale securities, with a market value of SR 538,688 as of 31/12/2014 , which increased by SR38,688 as compared to last year.
- During the second half of 2014, the Company invested 10 Million Saudi Riyals in Baitak IPO Fund which is managed by Saudi Kuwaiti Finance House. The investment recorded a decline of SR 87,700 as of 31/12/2014 .
- The Company invested EUR 900,000 (SR 4.5 millions) 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 business.

#### Fourthly :Summary of the Financial Results for the period from 2010 to 2014:

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

Description	2014	2013	2012	2011	2010
Revenues	5,304,701	4,630,807	4,144,435	4,090,913	<b>3,518,760</b>
Cost of revenues	(4,380,775)	(3,837,724)	(3,420,289)	(3,767,768)	<b>(3,241,986)</b>
Gross profit	923,926	822,948	724,146	323,145	<b>276,774</b>
General, administrative, and marketing expenses	(728,591)	(658,140)	(578,932)	(178,040)	<b>(135,659)</b>
Other income (losses), net	24,508	32,167	30,302	8,478	<b>24,932</b>
Zakat	(5,289)	(4,600)	(3,750)	(3,500)	<b>(4,119)</b>
Net Profit Before NCI	214,554	192,375	171,766	150,083	<b>161,929</b>
NCI in the net loss of the subsidiary	225	130	0	0	<b>0</b>
Net Profit	<b>214,779</b>	<b>192,505</b>	<b>171,766</b>	<b>150,083</b>	<b>161,929</b>

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

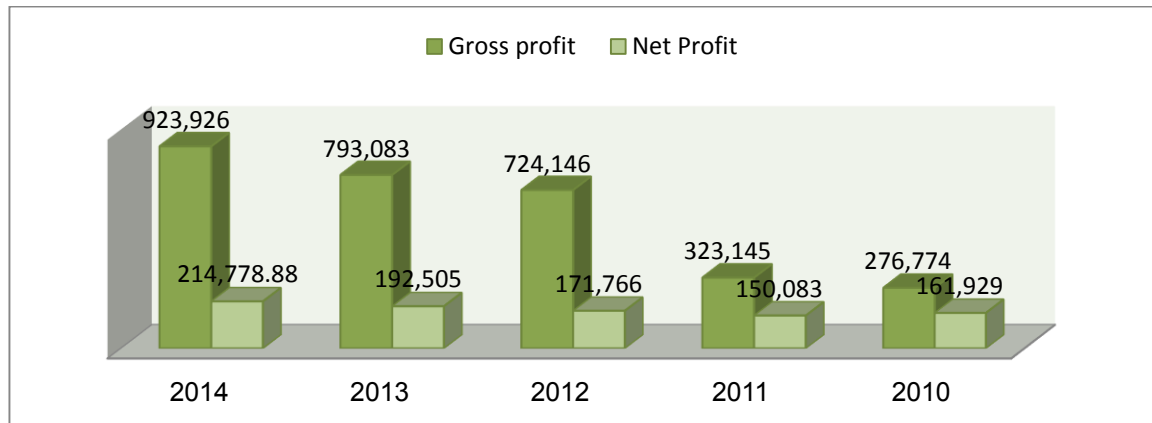
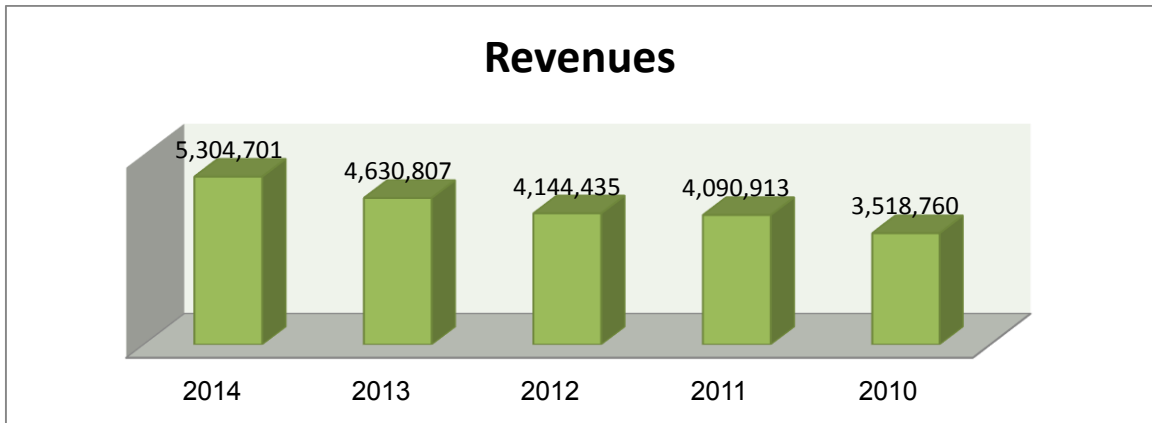
Description	2014	2013
Company's share in the net profit of the associated company	<b>20,330</b>	27,430
Income from sale of property and equipment	<b>(230)</b>	1,180
Others, net	<b>4,407</b>	3,557
<b>Total</b>	<b>24,508</b>	32,167



❖ **Main Financial Indicators:**

Description	2014	2013	2012	2011	2010
Return on revenues	4.05%	4.16%	4.14%	3.67%	<b>4.60%</b>
Return on shareholders' equity	22.55%	23.90%	25.24%	28.25%	<b>36.10%</b>
Return on assets	9.11%	9.62%	9.74%	9.00%	<b>10.94%</b>
Sales growth rate	14.70%	11.56%	4.10%	15.20%	<b>11.66%</b>
Net profit growth rate	11.57%	12.07%	14.40%	-7.30%	<b>108.90%</b>
<b>Earnings per share – Riyals</b>	<b>4.77</b>	<b>4.28</b>	<b>3.82</b>	<b>3.34</b>	<b>3.60</b>

- The operating profit for 2014 was SR 201.3 Million compared to SR 172.4 Millions for the previous year with a growth rate of 16.76%. The increase was due to the growth of sales and the growth of annual progressive rebates.
- Earnings per share's has been restated for the years 2010 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.

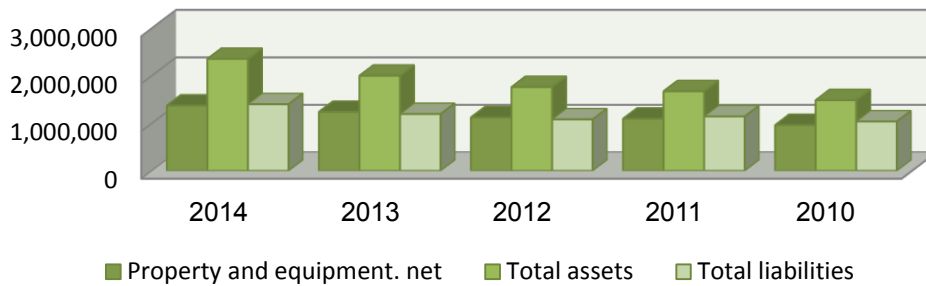




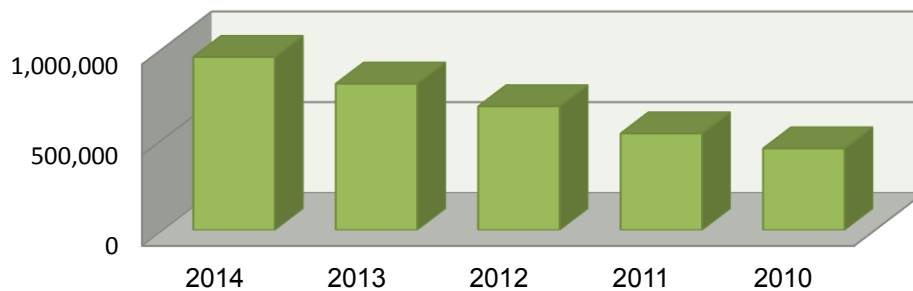
**B) Assets, Liabilities & Shareholders' Equity: (Thousands of Riyals):**

Description	2014	2013	2012	2011	2010
Current assets	786,143	568,647	465,154	460,437	<b>419,256</b>
Current liabilities	1,219,385	1,011,167	941,053	942,621	<b>830,207</b>
Working capital	(433,242)	(442,520)	(475,899)	(482,184)	<b>(410,951)</b>
Investments in other associate companies	196,288	193,567	174,018	118,945	<b>105,190</b>
Property and equipment. net	1,372,782	1,239,824	1,124,254	1,096,233	<b>962,284</b>
Total assets	2,355,213	2,002,038	1,763,426	1,675,615	<b>1,486,730</b>
Current liabilities	1,219,385	1,011,167	941,053	942,621	<b>830,207</b>
Long term loans	125,000	135,000	100,859	166,231	<b>179,120</b>
Other liabilities	56,579	48,491	41,068	35,461	<b>28,883</b>
Total liabilities	1,400,964	1,194,658	1,082,980	1,144,313	<b>1,038,210</b>
Paid in capital	450,000	225,000	225,000	225,000	<b>225,000</b>
Reserves. retained earnings and unrealized profits	502,605	580,511	455,446	306,302	<b>223,520</b>
Total shareholders' equity	952,605	805,511	680,446	531,302	<b>448,520</b>
Non-controlling interest	1,645	1,870	0	0	<b>0</b>
Total liabilities & shareholders' equity	2,355,213	2,002,038	1,763,426	1,675,615	<b>1,486,730</b>

### Assets & Liabilities



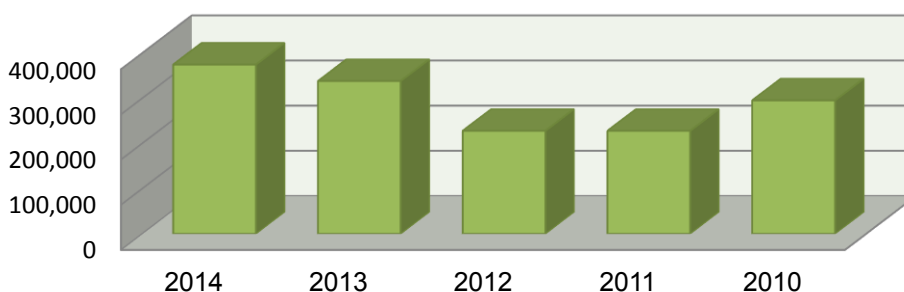
### Shareholders' Equity



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

Description	2014	2013
Cash flows from operating activities	374,471	338,008
Cash flows used in investing activities	(218,969)	(197,047)
Cash flows from (used in) financing activities	(82,344)	(94,108)
Increase (decrease) in cash	73,159	46,853
Cash balance – January 1	110,331	63,478
Cash balance – December 31	183,489	110,331

### Cash flows from operating activities

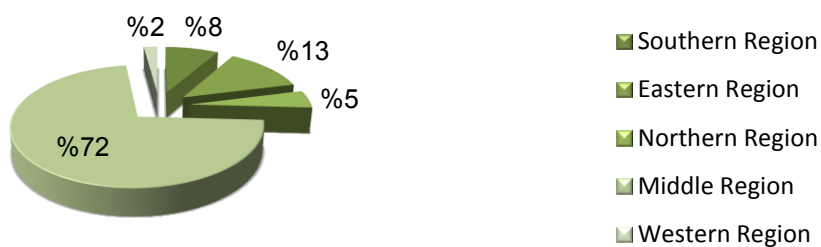


### Fifthly : Geographical Distribution of the Company's Revenues:

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

Region	Revenues/ in SR	Ratio
Southern Region	434,925	8%
Eastern Region	667,611	13%
Northern Region	254,824	5%
Middle Region	3,783,775	72%
Western Region	110,767	2%
Total	5,251,902	100%

### Geographical Distribution of the Company's Revenues





### Sixthly: Segmental information:

The Company's activities are focused on retail and wholesale of food stuff and carries out its operations in the Kingdom of Saudi Arabia, in addition to constructing commercial malls. Some selected information for the two years ended at December 31, 2013 & 2014 for each business segment are summarized below (Thousands of Riyals):

Description/ Thousand Riyals	Retail wholesale		Real Estate rent		Total	
	2014	2013	2014	2013	2014	2013
Sales	5,251,902	4,579,962	-	-	5,251,902	4,579,962
Rent Revenues	-	-	95,930	93,194	95,930	93,194
Property and equipment. net	865,533	711,508	492,908	511,387	1,358,442	1,222,895
Total Net	871,127	741,280	52,798	51,802	923,926	793,082

### Seventhly: Human Resources Development Program:

To Enhance the company's role in Saudization programs, the company has worked to implement an integrated plan for Saudization in accordance with its strategic plans derived from national trends to achieve the required nationalization ratios, through the adoption of modern concepts in attraction, recruitment, training and motivation. And to achieve its targets, the company implemented during 2014 the following mechanisms:

- Agreements has been signed to enable 500 disabled to work in the Company in the jobs that fit their health status.
- Based on the company's social role, an agreement has been made with "Tarahum" program to employ a number of prisoners' family members and charities members.
- An agreement has been signed with "Duroob" program in collaboration with the General Organization for Training and the Human Resources Development Fund and the Ministry of Labor to train 1500 Saudi youth to be qualified for the labor market, and supporting the role of training ended by employment.
- 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.
- Continue to activate and update career path to achieve career aspirations for Saudi youth.
- Developing different incentive schemes to attract Saudi youth and promoting their loyalty and belongingness to the Company.
- Applying cooperative training program with universities and local institutions.
- Strategic agreements have been signed with the Human Resources Development Fund to train and employ (1,343) Saudi youth in various jobs.
- Seasonal summer employment: where the company hired (163) Saudis during the summer vacation.
- Giving opportunities to Saudi youth for free theoretical and practical training through Othaim Training Academy which completed during 2014 the training of (3,781) trainees. (3,241) of them are non-staff and (540) are staff. And they became qualified to work in the retail sector.
- Hiring (2,113) trainees to work in the Company's retail sales points.
- During the year, the company hiring (2,264) Saudis youth.

### Eighthly: Marketing & Customer Care:

In order to touch closely the consumer needs and in consideration to the seasonal demand and the various events, holidays and seasons, a comprehensive marketing plan has been designed to cover all marketing events for Abdullah Alothaim markets Company such as weekly festivals and promotions, mega campaigns and other events





during the year 2014 which will provide the customers with all their appropriate requirements & needs for each week & day and will help the markets in maximizing its sales. Also the Company and in line with its policy to mitigate its customers from the effects of the continuing inflation in food prices, the Company adopted an effective weekly and seasonal festivals plan, which covers the Kingdom, through which, the Company gives shoppers a real discounts and distinguished offers which contributes in lowering the cost of consumer goods such as food stuff and varieties of meat, vegetables, fruit and fresh bakery products as well as electrical and electronic home appliances.

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. 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.

The Company continued the development processes of its loyalty card (Iktissab) in the areas of identity, terms and operating systems , which was initially launched in 2011. also the Company established a call center with the unified number: 920000702 which was established previously, web site and smart phones application to better serve Iktissab customers, to maintain the relationships through the receiving their observations and know their satisfaction toward the provided service & meets their needs to provide them with the highest value and activate the cards throughout the day. This development resulted in , increase the need for the card, and increased the number of Iktissab customers to 55.24.% of the total number of customers during 2014, and the Company will continue its efforts for further development in this regard to provide its customers with the consumer goods with a high level of quality and satisfy them permanently and continuously also monitoring , developing and coordinate the work for raising the efficiency of performance and continuous improvement of the quality of product and service offering to our valued customers.

#### **Ninthly : IT Technology:**

The Company believes in the important role of the IT in enhancing and promoting the performance. And based on the company's strategy & future directions, the IT department focus on the projects which supports the direction of the company and raise the work efficiency, such as developing of each of "the fleet management system, smart reporting system (BI) for the business sector, company's & Iktissab new web site on the Internet, electronic remittance system with the Bank (B2B), also completed the development of enterprise management system for Zod factory, Thamrat Al Qassim ERP system, the integrated laboratory for the test environment and evaluating systems, the implementing of control systems over the information networks of the branches and also the servers systems in headquarters, implementing change management solution within IT department, security project information for the company's electronic systems, the servers infrastructure of information networks and software, development of the employees violations system, automation of the first phase of the project management office procedures. portal development for suppliers, the second phase of Iktissab loyalty system, also the initial operating system for Alothaim Connect (new internal gate), and the development for bank's letters of guarantee (LG), and application of the mobile - second version of Iktissab.

#### **Tenthly: Accounting Standards:**

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



## Eleventh: Loans & Murabaha

### A) Short Term Murabaha:

The Company has facilities from a number of local banks in the form of short term Murabaha loans to finance the working capital. The unutilized balance of these facilities as of Dec 31, 2014 was SR 252 million (These facilities are secured by personal guarantee of one of the Board Member and mortgage of lands owned by the company). detailed as follows (value in SR):

Description	Arab National Bank	Saudi Hollandi Bank	SAMBA	National Bank	ALBILD BANK
Short term loans limits	50,000,000	20,000,000	75,000,000	75,000,000	50,000,000
Loan balance as at 31/12/2013	10,031,430	20,000,000	-	14,550,282	-
Loan balance as at 31/12/2014	-	-	-	17,999,510	-
Facilities Agreements Expiry date	16-02-2015	14-07-2015	31-03-2015	01-09-2015	04-09-2015
Revolving facilities Loans					
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	-	-	-	03-01-2015	
Last installment date	-	-	-	12-01-2015	
Purpose of the loan	Working Capital Financing				
Guarantees	Personal guarantees	Lands mortgages	Personal guarantees	Personal guarantees	Personal guarantees

### B) Long Term Loans & Murabaha:

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

Description	Samba	Saudi Hollandi 1	Arab National Bank	Saudi Hollandi 2
Total Loan	75,000,000	100,000,000	75,000,000	100,000,000
Paid Installments	30,000,000	60,000,000	25,000,000	10,000,000
Paid in year 2014	20,000,000	20,000,000	20,000,000	10,000,000
Loan balance as at 31/12/2014	45,308,200	40,273,000	50,326,094	90,610,237
Profits - deferred loans	308,200	273,000	326,094	610,237
Net loan balance	45,000,000	40,000,000	50,000,000	90,000,000
Loan date	25-04-2013	13-11-2011	30-09-2013	30-09-2014
Loan tenure	45 months	5 years	45 months	45 months
Payment method	Quarterly Payments	Quarterly Payments	Quarterly Payments	Quarterly Payments
Installment (SR)	5,000,000	5,000,000	5,000,000	10,000,000
First installment date	25-07-2013	13-02-2012	27-12-2013	30-12-2014
Last installment date	09-01-2017	17-10-2016	09-06-2017	20-03-2017
Purpose of the loan	Financing New Branches			
Guarantees	Personal guarantees	Lands mortgages	Personal guarantees	Lands mortgages

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

Period	2014	2013
Less than a year	117,999,510	78,181,818
From one year to two years	100,000,000	60,000,000
From two years to five years	25,000,000	75,000,000
Total	242,999,510	213,183,831



### Twelfth: payments to governmental bodies:

The Below table shows Summary of payments made to the Government as 31/12/2014 (SR):

Period	2014	2013
Department of Zakat and Income Tax	3,102,136	2,482,720
GOSI	20,968,381	19,260,783
Visas and resident permits	20,474,586	21,631,837

### Thirteenth : The Company's Subsidiaries:

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

Se r.	Company name	Country Based	Main Activities	Country presence	Ownership % (Direct& indirect)	Capital As per Nominal Share Value in Thousands SR
1)	Haley Holding Co.	KSA	Retail & Wholesale	KSA,	100%	SR 100
2)	Universal Marketing Center Co.	KSA	Retail & Wholesale	KSA,	100%	SR 100
3)	Seven Services Co.	KSA	Import& Export	KSA,	100%	SR 100
4)	Bayt Al Watan Co.	KSA	Import& Export	KSA	100%	SR 100
5)	Marafique Al Tashgheel Co.	KSA	General Contracting & Maintenance	KSA	100%	SR 500
6)	Halley Holding- Turkey	Turkey	Import& Export	Turkey	100%	SR 63
7)	Halley Holding- Bosnia	Bosnia	Brokerage& Commercial services	Bosnia	100%	SR 5
8)	AlOthaim Markets-Egypt	Egypt	Retail & Wholesale	Egypt	100%	SR 567
9)	Thamarat Al Qassim Co.	KSA	Agricultural & poultry	KSA	90%	SR 20,000

### Fourteenth: Dividends Distribution:

#### 1. Company policy for dividends:

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

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

#### 2. Appropriations & Distribution for year 2014:

Description	Percentage of Profits	Amount
Retained earnings from last year	-	474,512,073
Net profits	100%	214,778,883
Statuary reserve	10%	(21,477,889)
Cash Dividends	31%	(67,500,000)
Bonus Shares	55%	(119,137,076)
Retained earnings for next year	224%	481,175,991



## Fifteenth: 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 2014 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 :

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

### 2. Company's equity Profile and floating Shares as of 31/12/2014:

Details	Value in Riyals/ No. of Shares
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)*	32,550,000 Shares
Paid-up capital	SR 450,000,000
Nominal Value per Share	SR 10
Paid up value per Share	SR 10

The Company's General Assembly which was held on 06/04/2014 approved increasing the company's capital from SR(225) Million to SR(450) Million, through issuing bonus shares for its shareholders, with an increase of 100%.

### 3. Major Shareholders:

Below a List of Major Shareholders who owned 5% shares and above, their nationalities, ownership changes during the year 2014:

#	Name	Nationality	Shares # at the beginning of 2014	Ownership at the beginning of 2014	Shares # at the end of 2014	% Change by the end of 2014
1.	Al Othaim Holding Co.	Saudi Co.	6,225,000	27.6%	12,450,000	%100
2.	Abdullah Saleh Ali Al Othaim	Saudi	1,350,000	6.0%	2,700,000	%100

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

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

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



#	Board Member's Name	Capacity	Joint Stock Companies board membership
1.	Abdullah Saleh Al-Othaim (Chairman)	Non-executive	- Abdullah Al-Othaim Real Estate Investment & Development Co.
2.	Abdul Salam Saleh Al Rajhi	Independent	- None
3.	Abdul-Aziz Saleh Al-Rebdi	Independent	- Al-Obeikan Glass Co. - Saudi United Cooperative Insurance Co- Wala for insurance - Takween development Co. for industry. - Abdulmohsen Al- Hokair Group for entertainment and tourism - Al Hammadi Development & Investment Co.
4.	Saleh Mohammad Al-Othaim	Independent	- Amana Cooperative Insurance Co. - Dar Alkhiyoul General Contracting Co.
5.	Fahad Abdullah Al-Othaim	Non-executive	- Abdullah Al-Othaim Real Estate Investment & Development Co. - Dar Alkhiyoul General Contracting Co.
6.	Youssef Mohammad Al- Gafari	Executive	- Abdullah Al-Othaim Real Estate Investment & Development Co. - Abdullah Saad Abu Muti Co. for libraries. - Riyadh Foods Services Company.
7.	Sabah Mohammad Al-Mutlaq	Independent	- Mawten Real Estate Co. - Mushaid Arabia Co.
8.	Abdullah Ali Al Dubaikhi	Independent	- Al Issa Industries Co. - United farmers Co.

#### B. Board of Directors' Meetings:

To enhance the role of the Board of Directors in drawing plans and following up the implementation of the Company strategies and other functions in accordance with the company's bylaws and Companies corporate governance regulation and the company's CG Manual, the Board of Directors held company (4) meetings during the fiscal year 2014, and the below table shows the board members attendance:

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

#### C. Executive Board Team:

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



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

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

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

No	Interest owner	Beginning of the year		Ending of the year		Net change	%Change
		Shares	Debt instruments	Shares	Debt instruments		
1.	Abdullah Saleh Al-Othaim	1,350,000	-	2,700,000	-	1,350,000	100%
2.	Abdul Salam S. Al Rajhi	20,830	-	41,660	-	20,830	100%
3.	Abdul-Aziz Saleh Al-Rebdi	1,000	-	2,000	-	1,000	0%
4.	Saleh M. Al-Othaim	1,000	-	1,000	-	-	0%
5.	Fahad Abdullah Al-Othain	1,000	-	2,000	-	1,000	100%
6.	Youssef M. Al- Gafari	1,000	-	2,000	-	1,000	100%
7.	Sabah M Al-Mutlaq	1,000	-	2,000	-	1,000	100%
8.	Abdullah A. Al Dubaikhi	1,000	-	2,000	-	1,000	100%

The Company's General Assembly which was held on 06/04/2014 approved increasing the company's capital from SR(225) Million to SR(450) Million, through issuing bonus shares for its shareholders, with an increase of 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	-	12,432	-	6,216	100%

#### E. Board of Directors & Senior Executives remunerations for 2014: (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	1,467,000	0	5,207,751
Allowances	-	42,000	-
Periodic & annual bonuses	660,000	1,070,000	1,635,000
Incentive plans	-	-	-
Any compensations or other benefits in kind paid monthly or annually	-	-	-
Total	2,127,000	1,112,000	6,842,751

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



## F. Board of Directors' Interests

Related to the board chairman/ Abdullah Saleh Al-Othaim and Board Member/ Fahad Abdullah Al-Othaim:

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

Lessor's / Company/ Name	Contract Description	Lease value	Start of lease	Contract period	Payment term
Abdullah Al-Othaim Real Estate Investment & Development Co.	Braidah Branch	1,277,100	01-06-2007	20	Annual
Abdullah Al-Othaim Real Estate Investment & Development Co.	Braidah Branch Housing	219,600	01-01-2009	18	Annual
Abdullah Al-Othaim Real Estate Investment & Development Co.	Al Ahsa Hyper Mall	2,159,850	01-12-2007	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	572,880	01-08-2009	10	Annual
Abdullah Al-Othaim Real Estate Investment & Development Co.	Archive store	50,000	01-04-2012	1	Annual
Abdullah Al-Othaim Real Estate Investment & Development Co.	Archive store	21,300	01-02-2010	1	Annual
Abdullah Al-Othaim Real Estate Investment & Development Co.	Dammam Hyper Mall	2,922,507	01-01-2011	18	Annual
Abdullah Al-Othaim Real Estate Investment & Development Co.	Braidah Branch – Akirsha	1,086,000	01-01-2012	5	Semiannual
Abdullah Al-Othaim Real Estate Investment & Development Co.	Housing Branch- Akirsha	35,000	01-01-2012	5	Annual
Abdullah Al-Othaim Real Estate Investment & Development Co.	Onaizah Branch	900,000	09-05-2012	5	Semiannual
Al-Othaim Holding Co.	Trademark fees	10,000	01/07/2006	5	Annual

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

Lessor's Name	Contract Description	Lease Value	Start of lease	Contract period	Payment term
Al-Othaim Holding *	Admin. offices	710,050	01-01-2010	5	Semiannual
Al-Othaim Holding *	Residential apartment	25,000	01-01-2006	5	Semiannual
Abdullah Al-Othaim Company For Tourism & Entertainment .*	Al-Shifa Entertainment	102,150	01-01-2006	5	Semi annual
Abdullah Al-Othaim Company For Tourism & Entertainment .*	King Road Entertainment center	417,225	01-01-2006	5	Semiannual
Abdullah Al-Othaim Company For Tourism & Entertainment .	Al-Sweidi Entertainment	1,000,000	16-03-1435H	10	Semiannual
Abdullah Al-Othaim Company For Tourism & Entertainment .*	Al-Methnab Entertainment	135,000	06-04-1428H	5	Semi annual
Abdullah Al-Othaim Real Estate Investment & Development Co.	Management offices	742,500	01-01-2015	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-Shifaa Entertainment	17,250	01-01-2009	1	Semiannual
Abdullah Al-Othaim Real Estate Investment & Development Co.*	Al-Sweidi Housing	73,040	01-01-2009	1	Semiannual
Abdullah Al-Othaim Real Estate Investment & Development Co.	King Road Entertainment Housing	37,500	01-01-2009	1	Semiannual
Al-Othaim Holding *	Management offices	710,050	01/01/2010	5	Semiannual

\*Renewable automatic for similar periods.



## Seventeenth: Board of Directors' Committees

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

### 1) Audit Committee

The Audit Committee's roles are supervising the Internal Audit Department, examining the internal control system and the internal audit reports in addition to giving recommendation to the Board of Directors on the appointing and terminating the external auditors, as well as determining their fees for the year 2014, and follow up their work, study the audit plan and the reports of the external auditors and study the interim and annual financial statements before being presented to the Board of Directors, study the observed accounting policies, and make recommendations to the Board of Directors in this regard. The following table summarizes the committee member's names and numbers of meetings attended during the year 2014:

#	Name of Committee Member	Position	1ST Meeting	2 <sup>nd</sup> Meeting	3 <sup>rd</sup> Meeting	4 <sup>th</sup> Meeting	5 <sup>th</sup> Meeting	Numbers of Attendance
1)	Fahad Bin Abdullah Al-Othaim	chairman	√	√	√	√	√	(5)
2)	Dr. Saud Bin.M. Al Nimr	Member	√	√	√	√	√	(5)
3)	Saleh M. Al-Othaim	Member	√	√	√	√	√	(5)

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

During 2014, 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.

### 2) Nomination & remuneration Committee

The duties of the Nomination & remuneration Committee is making recommendations to the Board of Directors about the candidates for the board membership and continuous revision for the proper qualifications of the board members and review the Board of Directors' structure and submit the recommendations in this regard to determine the points of weakness and strength of the Board of Directors, suggest their solution, ensure, on annual basis, the independency of the independent members, develop clear policies for the compensations and bonuses of three Board of Directors' members and senior executives in a way that reflects the performance, review the allowances and bonuses of the employees and approve and assess the plans and policies related thereto. The committee chairman may request increase of the members, when necessary. The following table summarizes the committee member's names and numbers of meetings attended during the year 2014:

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





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

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

**a. Al Othaim Training & Development Academy:** Al Othaim Training & Development Academy for free, was established under the supervision of the General Organization for Technical and professional Training in the year 1420H, and managed to train and qualify since its establishment up to date more than (38,282) A young Saudis "men and women", where Al Othaim companies & other companies of the private sector benefited from these programs. Also, the Academy signed a number of partnerships, including training partnership for children of the charitable Society of orphans (Insan), which aims to train orphans sponsored by the society , in addition to that, the Academy trained a number of people with special needs and employ them in a various branches of the company, in addition to many social programs that aims to serve community, the spending of the company to support the Academy during the year was SR 1,313,130 .

**b. Charities And National Events :** The company contributed in a number of social projects and charities and participated in events and the national festivals, where the company issuing charity cards (Sanabel Al Khair card) to meet the demand from donors and their eagerness to donate and to ensure the delivery of their donations to the beneficiaries directly and in a proper way, which is an interesting option for charities and men of righteousness and donors to provide support to the needy and to ensure spending their donations on basic needs.

The company has also contributed in supporting many charities by offering discounts to those associations. The total value of the discount provided by the company to these charities during 2014, was SR 10,836,550. Also the company participated and sponsored some activities and national events in most regions of the Kingdom.

**c. Donation of the Rest of Halala (riyal fractions):** The company continued its initiative " Donate the rest of Halala" As the first retailer launched it in an automated technique through the point of Sale since 2008, and it believes in the promotion and assurance of the culture of social responsibility and its commitment to serve the society, for this reason, a special system for the project has been developed and considered as one of the leading project which was appreciated by Company customers. During the year 2013 many of the charities in the Kingdom had benefited from the project .Also a new charities had been added to expand the scope of benefits, and the total customers donation through this project in 2014 amounted SR 813,446.

**d. Supporting Prince Salman Association for Disability Research:** The company contributed in supporting the various programs offered by Prince Salman Association for Disability Research, in order to achieve the noble objectives of the Association , the company support to the Association during the year amounted SR 500 thousand.

**e. Program of visiting hospitals patients:** The society friend program was initiated in year 1427H, under the patronage of the Director General of Health Affairs in Riyadh, in cooperation with the "Committee of Patient's Friends" in the Chamber of Commerce, Where the company has continued its visits to the inpatient in a number of hospitals, and gave them gifts in the form of purchase cards of Al-Othaim Markets in addition to the Symbolic gifts. This initiative comes under the responsibility programs where the company used to organize such visits in various hospitals in the Kingdom which aims to raise the morale of the patients and mitigate suffering and psychological health, as well as such visits reinforce social cohesion and fraternal solidarity which is encouraged by our religion. also been



2,000 pieces of good level has been prepared, particularly for the sick and the elderly people, providing them with dirt for tayammum to perform the five daily prayers, and it was distributed to a number of hospitals in the Kingdom.

- f. 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, income limited people and others with a total amount of SR2,030,014.
- g. Providing special discount for military and security men up to 10% of the their purchases value at all Alothaim markets branches in the Kingdom on the occasion of the celebration of the National Day with a total amount of SR 3,568,405.
- h. In response to the directives of the Custodian of the Two Holy Mosques King Abdullah bin Abdulaziz Al Saud – Abdullah Al-Othaim Markets Company continued its support to our brothers in Syria with several trucks loaded with food with a value of SR 682,740 in line with the Saudi national campaign to support our brothers in Syria, which is supervised by His Royal Highness Prince Mohammed bin Nayef bin Abdulaziz, the interior minister .The Company's support comes as a continuation path of fraternal and humanitarian work, and a support to the Syrian people in its ordeal, beside the importance of concerted efforts and provide all needed help and support.
- i. **In-kind donations to charity:** Abdullah Al Othaim Markets Company providing in-kind donations in the form of clothes to charity with amount of SR 602,278.

#### **Nineteenth : Board of Directors' Declarations:**

The Board of Director declared that:

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

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

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

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

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

#### **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**