



**Board of Directors' Annual Report**  
**For The Shareholders of Abdullah Al-Othaim Markets Co.**  
**For the fiscal year ended December 31, 2011**

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

The Board of Directors of Abdullah Al-Othaim Markets Co. is pleased to submit its Annual report to the company's shareholders for the fiscal year ending on 31/12/2011.

**1. Company's Main Activities**

The current main activity of the Company is the wholesale and retail trade of food and consumer materials. The company also practices the leasing activity, where the company has established a shopping mall in the Eastern Province and was leased in full during the year 2011.

**2. Company's Plans & Resolutions**

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. During the year 2011 The company opened 13 branches in the cities of Riyadh, Al Ahsa, Al-Qassim, Khamis Mushait, Jizan, Ar'ar) and renewed 3 branches thoroughly in addition to adding new departments in 8 branches. The company also intends to open 12 new branches during the year 2012.

The company signed a memorandum of understanding on 26/8/2010 with Abdulla Al-Othaim Real Estate Investment & Development Company to acquire its shares. The Board of Directors decided in its meeting held on 18 June 2011 to sign an agreement to acquire all shares of the other shareholders in Abdulla Al-Othaim Real Estate Investment & Development Company (An associate company) amounting to 53,753,500 shares, where the deal will be financed by issuing 7,253,303 new shares of Abdullah Al-Othaim Markets Co in favor of the selling shareholders in Abdulla Al-Othaim Real Estate Investment & Development Company. The agreed share price of Abdulla Al-Othaim Markets Company between the two parties was SAR 97.75 which represents the closing market price on 18/6/2011. Accordingly, the swap rate would be one share of Abdulla Al-Othaim Markets Company against 7.4109 shares of Abdulla Al-Othaim Real Estate Investment & Development Company.

This agreement is subject to the approval of the regulatory authorities and the General Assembly of the shareholders.

### 3. Company's Investments

The Company invests part of its assets in the following companies:

- 1- Abdulla Al-Othaim Real Estate Investment & Development Company (A closed Saudi Joint Stock Company), ownership ratio: 13.65% with an investment of 85,000,000 Riyals, where its share in the net profits for year 2011 was 12,655,583 Riyals, compared to 14,458,932 Riyals in year 2010.
- 2- National Laboratories Co. Ltd (A limited liability company), ownership rate: 6% with an investment of 3,400,000 Riyals. The company was incorporated in 2009 and the company is still in the development stage.
- 3- During the year, the company established four limited liability companies in the Kingdom of Saudi Arabia, with capital of 100,000 Riyals each, and these companies were acquired in full directly and indirectly. The investment in these companies was recorded at cost, where the first audited financial statements for these companies will be issued at the end of 2012.
- 4- Investments in securities available for sale amounting to 500,000 Riyals, and the unrealized profits were 199,158 Riyals during the fiscal year 2011G, which were reported in shareholders' equity.

### 4. Board of Directors' Resolutions

The Company made several resolutions in the board meetings in year 2011G, mainly:

- 1- Board of Directors' resolution to approve the bylaws of the Audit Committee.
- 2- Board of Directors' resolution to approve the opening of a representation office for the company in Egypt to facilitate the business formalities.
- 3- Board of Directors' resolution to approve the company's acquisition of the full shares of other shareholders in Abdulla Al-Othaim Real Estate Investment & Development Company.
- 4- Board of Directors' resolution to buy two parcels of land, one in Al-Barrieh District in the Industrial Zone in Riyadh with area of 433 thousand square meters and the other in Al-Andalus District in Riyadh with area of 4 thousand square meters.
- 5- Board of Directors' resolution to approve the investment in the Saudi listed companies according to the investment regulations for the companies listed in the Saudi capital market.
- 6- Board of Directors' resolution to approve the company's budget for year 2012G.

## 5. Summary of the Financial Results for the period 2007 to 2011

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

Description	2011	2010	2009	2008	2007
Revenues	4,090,913	3,518,760	3,138,511	2,900,079	2,320,140
Cost of revenues	(3,767,768)	(3,241,986)	(2,927,367)	(2,722,312)	(2,165,992)
Gross profit	323,145	276,774	211,144	177,767	154,148
General, administrative, and marketing expenses	(178,040)	(135,659)	(121,995)	(120,440)	(94,311)
Other income (losses), net *	8,478	24,932	(9,276)	6,690	1,690
Zakat	(3,500)	(4,119)	(2,350)	(1,750)	(1,748)
Net Profit	150,083	161,929	77,523	62,267	59,779

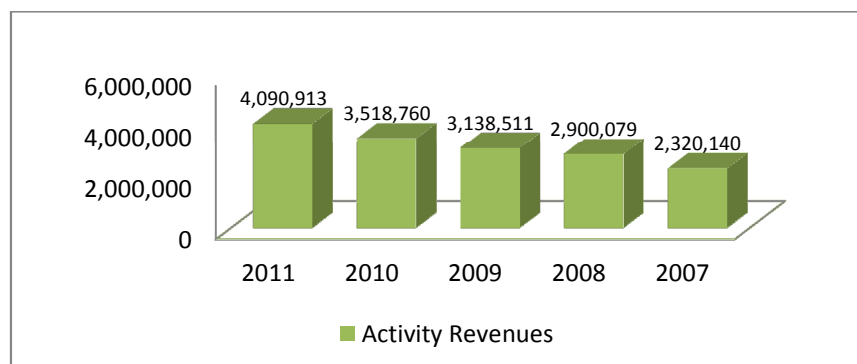
### \* Other income (losses) – net (thousands riyals)

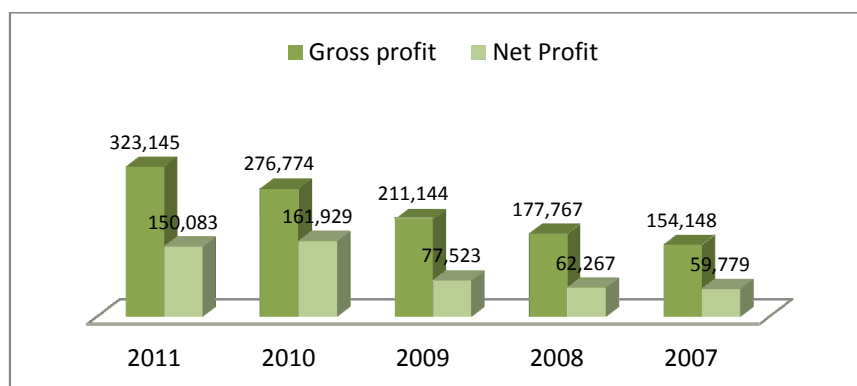
Description	Year ended Dec. 31,	
	2011	2010
Company's share in the net profit of the associated company	12,656	14,459
Financial and operating systems project *	-	6,500
Income from sale of property and equipment	749	988
Others, net	(4,927)	2,985
Total	8,478	24,932

### \* Main financial Indicators

Description	2011	2010	2009	2008	2007
Return on revenues	3.67%	4.60%	2.47%	2.15%	2.58%
Return on shareholders' equity	28.25%	36.10%	22.61%	20.82%	25.24%
Return on assets	9.00%	10.94%	6.26%	6.71%	9%
Sales growth rate	15.20%	11.66%	7.91%	24.91%	28.40%
Net profit growth rate	(7.30%)	108.90%	24.50%	4.16%	2.63%
Earnings per share – Riyals	6.67	7.2	3.45	2.77	2.66

The operating profit was 157.6 million Riyals against 145.1 million Riyals in the previous year, with growth ratio of 8.6%. The increase of net operating profit in the current year compared with the profits of previous year was due to the sales growth of 15.20% from new branches and organic growth of the existing branches in addition to the efficient utilization of the leasing areas and starting the lease agreement of the shopping mall in Dammam.

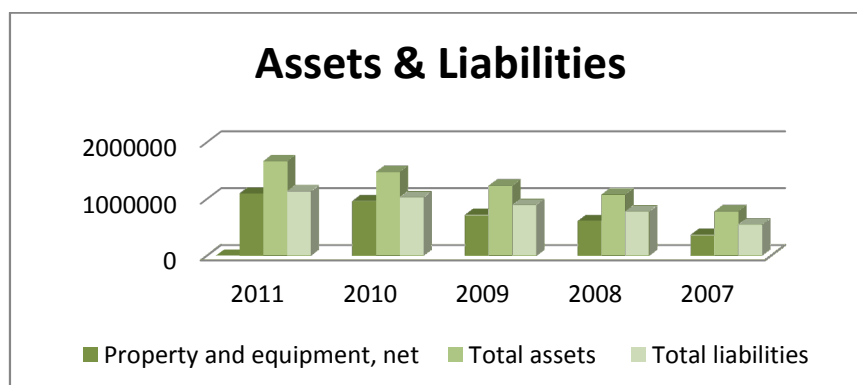


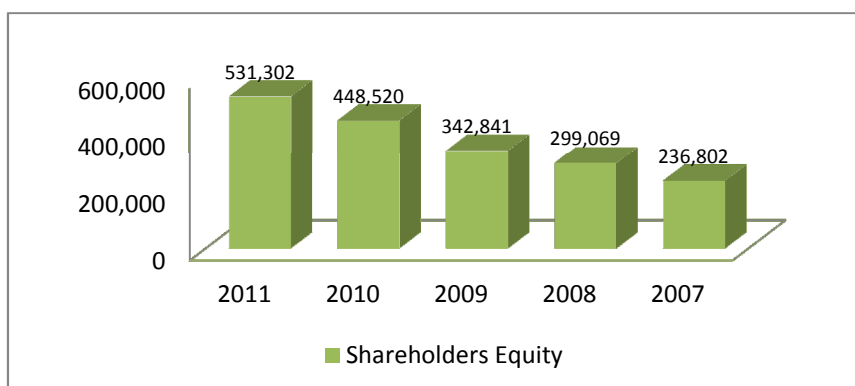


## B) Assets, Liabilities & Shareholders' Equity: (Thousands of Riyals)

Description	2011	2010	2009	2008	2007
Current assets	460,437	419,256	41,748	378,905	330,964
Current liabilities	942,621	830,207	630,587	756,799	509,997
Working capital	(482,184)	(410,951)	(213,107)	(377,894)	(179,033)
Investments in other associate companies	118,945	105,190	99,232	89,609	85,617
Property and equipment, net	1,096,233	962,284	720,771	612,186	368,212
Total assets	1,675,615	1,486,730	1,237,483	1,080,700	784,176
Current liabilities	942,621	830,207	630,587	756,799	509,997
Long term loans	166,231	179,120	242,182	8,797	25,271
Other liabilities	35,461	28,883	21,872	16,034	12,106
Total liabilities	1,144,313	1,038,210	894,642	781,632	547,374
Paid up capital	225,000	225,000	225,000	225,000	225,000
Reserves, retained earnings and unrealized profits	306,302	223,520	117,841	74,069	11,802
Total shareholders' equity	531,302	448,520	342,841	299,069	236,802
Total liabilities & shareholders' equity	1,675,615	1,486,730	1,237,483	1,080,700	784,176

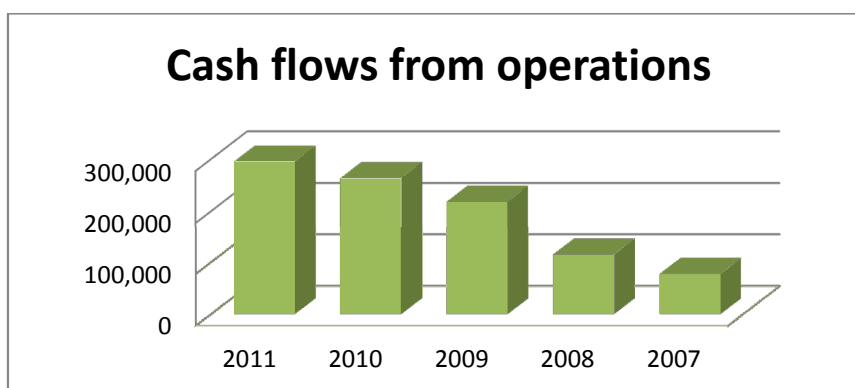
\* During 2011, the Company purchased two parcels of land in Riyadh for an amount of SR 119.4 million for building to be invested in projects that supports company's goals.





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

Description	Fiscal year ending on 31 Dec	
	2011	2010
Cash flows from operating activities	295,136	263,423
Cash flows used in investing activities	(209,415)	(283,170)
Cash flows from (used in) financing activities	(87,337)	(42,278)
Increase (decrease) in cash	(1,617)	(62,025)
Cash balance – January 1	45,236	107,261
Cash balance –December 31	43,619	45,236

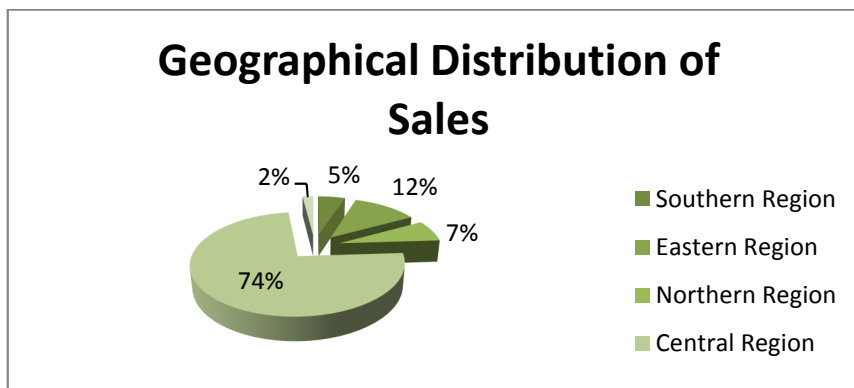


The company achieved growth in cash generated from operating activities which the company relies on to finance its investments and future expansions. This gives an indicator for the efficient management of the working capital.

## 6. 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 Riyals	Ratio
Southern Region	224,626,825	5%
Eastern Region	504,463,523	12%
Northern Region	272,569,443	7%
Central Region	3,018,350,674	74%
Western Region	70,902,366	2%
Total	4,090,912,831	100%



## 7. 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, 2011 and 2010 for each business segment:

Description	For The year Ended December 31, 2011		
	Retail and Wholesale SR	Real Estate and Leasing SR	Total SR
Sales	3,942,797,390	-	3,942,797,390
Rent revenues	84,978,990	63,136,451	148,115,441
Property and equipment, net	496,515,101	528,241,512	1,024,756,613
Gross Profit	294,840,132	28,304,973	323,145,105

Description	For The year Ended December 31,2010		
	Retail and Wholesale SR	Real Estate and Leasing SR	Total SR
Sales	3,422,444,665	-	3,422,444,665
Rent revenues	70,806,568	25,508,897	96,315,465
Property and equipment, net	364,655,998	543,631,158	908,287,156
Gross Profit	267,902,625	10,371,310	278,273,935

## 8. Shareholders' and investors' relations

Abdullah Al-Othaim Markets Co. is keen to update the shareholders & investors of all significant developments that have impact on the company's financial or operational position without affecting its competitive capability by using the official channels such as Tadawul website as well as the company's website and the daily gazettes.

The company values greatly the communications with its shareholders and to answer their inquiries by adopting the "open door policy" by offering adequate information on the company's annual operations and activities through all possible communicating means and according to the disclosure policy adopted by the company by applying the instructions of the Capital Market Authority and the applicable regulations in the Kingdom of Saudi Arabia.

## 9. Development of national human resources

The company is implementing a comprehensive plan to nationalize the jobs as per its strategic plan stemming from the national directives to fulfill the required nationalization percentage by adopting modern concepts in attracting, hiring and training Saudi staff.

In doing so, the company adopted in year 2011 the following measures:

- 1- Adopting the cooperative training programs with the local universities and institutes.
- 2- Cooperating with the governmental organizations and agencies which sponsor the nationalization programs, where agreements were signed with the Human Resource Development Fund to train and hire (1,539) Saudi youth in the various jobs.
- 3- Summer Training: (687) Saudi youth were hired during the summer vacation.
- 4- Offering the theoretical and practical training opportunities for free in Al-Othaim Training Academy, which has trained 1,752 male trainees and 1,842 female trainees in 2011 and prepared them for the labor market in the retail sector.
- 5- 939 of the above mentioned trainees were recruited in the company.
- 6- During the year 2011, the Company recruited 2,389 Saudi male youth and terminated 683 expatriate workers.

## 10. Marketing and Customer Care

The company launched the loyalty card (Iktissab) in 2004 and continued improvement on its identity, policy and operating system. In November 2011, Al-Othaim Markets Co. launched new identity for Iktissab Card which includes improvements in format, content, policy, issuance procedures, operating process in addition to changing the process of collecting points into cash credit according to certain criteria through the IT system. Also the company established a communication center and website to take care of Iktissab members, to activate their cards, and to communicate with them. The main results of the Iktissab new identity process improvement were as follows:

- Achieving growth in sales through Iktissab card by 2.7% although the official launch of Iktissab card did not take place until 23/11/2011.
- Increasing Iktissab share in the total sales from 36% before launching the new identity to 51% after launching its new identity.
- Increasing the average basket of Iktissab customer by 9% after launching the new identity.

The company is looking toward developing the loyalty program, building a customer database, and studying consumer behavior in order to more efficiently directing the marketing campaigns to meet the customers' desires and expectations.

## 11. Information Technology

The company started early to exploit the technology and use the information technology systems to automate its operations to ensure accuracy, quality and ease of control of its operations. During the past period, the company grew rapidly and the need for business solutions increased. It is expected that the growth and development rates continue for the coming period. Thus, a full team work was formed to support the company's strategy and developing and implementing many of IT systems to fulfill the company's needs and expectations.

In year 2011, many IT projects were completed, which help the company's strategy in offering the best technology services, such as:

- Implementing the second phase of the Business intelligence reporting systems BI, Dashboard and data warehouse to ensure ease of control and performance analysis.
- Replacing over 200 points of sale after selecting the latest technologies in points of sale from the German company Wincor Nixdorf. The company is planning to replace another 200 points of sale in 2012.
- Implementing Dynamics systems from Microsoft International Company to cover the needs of the back office.



- Implementing of High Availability systems for the technical systems and services to ensure business availability and existence of alternative plans in case of any system breakdown.
- Upgrading the automatic replenishment of inventory in the JDA supply chain system to be a function of actual sales and available space in the branches.

## 12. Accounting Standards

The company is committed to apply all accounting standards issued by the Saudi Organization for Certified Public Accountants as stated in the auditor's report.

## 13. 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, 2011 was SR 178.6 million (SR 169 million as of Dec 31, 2010). these facilities are secured by personal guarantee of one of the shareholders.

### B) Short Term Loans & Murabaha:

Description	Saudi Industrial Development Fund	SABB Bank	Bank Al Bilad	Saudi Hollandi Bank 1	Saudi Hollandi Bank 2
Total Loan	3,443,500	55,346,503	286,057,983	100,631,222	44,326,700
Paid Installments	2,600,000	39,668,368	155,443,441	-	18,468,175
Paid in year 2011	400,000	17,935,490	60,993,124	-	14,993,367
Loan balance as at 31/12/2011	643,500	15,678,135	130,614,542	100,631,222	25,858,525
Deferred charges	-	400,357	2,625,811	631,222	191,858
Net loan balance	643,500	15,277,778	127,988,731	100,000,000	25,666,667
Loan date	10/2005	05/2009	08/2009	11/2011	09/2010
Loan period	8 years	3 years	58 months	5 years	3 years
Payment method	Semiannual installment	monthly installment	monthly installment	Installment every 3 months	Installment every 3 months
Installment (SR)	200,000	1,500,000	4,784,722	5,000,000	3,666,666
First installment date	08/1426H	12/2009	08/2009	02/2012	12/2010
Last installment date	07/1434H	11/2012	05/2014	10/2016	06/2013
Purpose of the loan	Transferring liability due to acquiring a factory with loan due to SIDF	Financing new branches	Financing Dammam Mall	Financing new branches	
Guarantees	Bank guarantee	Personal guarantees	Lands mortgages amounting SR 64 million	Lands mortgages amounting SR 101 million	Personal guarantees

The following table shows the loan maturities:

Period	2011	2010
Less than a year	103,346,086	100,728,485
From one year to two years	84,427,626	89,954,320
From two years to two years	81,802,964	89,165,873
Total	269,576,676	279,848,678

#### 14. payments to governmental bodies

Period	2011	2010
Zakat and Tax	3,712,420	2,119,255
GOSI	14,774,204	9,486,234
Visas and Passports	10,950,541	9,202,472

#### 15. Associate Companies

During the year, the Company established four limited liability companies in the Kingdom of Saudi Arabia. These companies are fully owned, directly and indirectly, by the Company. These subsidiaries did not engage in any commercial activities from incorporation date and up to financial statements date. The companies are:

- 1- Haley Holding Co.
- 2- Universal Marketing Center Co.
- 3- Seven Services Co.
- 4- Bayt Al-Watan Co.

#### 16. Dividends

##### 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 2011

Description	Percentage of Profits	Amount
Retained earnings from last year		101,592,620
Net profits	100%	15,083,174
Statutory reserve	10%	(15,008,317)
Retained earnings for next year	112.72%	263,667,477

## 17. Board of Directors' Meetings

Board Member's Name	First Meeting on 14/03	Second Meeting on 23/05	Third Meeting on 18/06	Fourth Meeting on 13/09	Fifth Meeting on 19/12
Abdullah Saleh Al-Othaim (Board Chairman)	√	√	√	√	√
Abdulaziz Saleh Al-Othaim	√	√	√	x	x
Youssef Mohammad Al-Gafari	√	√	√	√	√
Fahad Abdullah Al-Othaim	√	√	x	√	√
Saleh Mohammad Al-Othaim	√	√	√	√	√
Abdul Salam Saleh Al Rajhi	√	√	√	√	√
Abdulaziz Saleh Al-Rebdi	√	√	√	√	√
Sabah Mohammad Al-Mutlaq	x	√	√	√	√

## 18. Classification of the Board of Directors' Members & their Memberships

Board Member's Name	Capacity	Joint Stock Companies board membership
Abdullah Saleh Al-Othaim (Chairman)	Non-executive	- Abdulla Al-Othaim Real Estate Investment & Development Company
Abdulaziz Saleh Al-Othaim	executive	- L'Azurde Company for Jewelry - Al Rajhi Cooperative Insurance Co
Youssef Mohammad Al- Gafari	Non-executive	- L'Azurde Company for Jewelry - Abdulla Al-Othaim Real Estate Investment & Development Company
Fahad Abdullah Al-Othaim	Non-executive	- Abdulla Al-Othaim Real Estate Investment & Development Company
Saleh Mohammad Al-Othaim *	Non-executive	
Abdul Salam Saleh Al Rajhi	Independent	Wasatah Capital Co.
Abdulaziz Saleh Al-Rebdi	Independent	- Saudi United Cooperative Insurance Co. (Wala'a) - Al-Obeikan Glass Co.
Sabah Mohammad Al-Mutlaq	Independent	- Mawten Real Estate Company - Mushaid Arabia Co.

\* Representative member for Al-Othaim Holding Co

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

### A) 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	Abdulaziz Saleh Al-Othaim	4,001,000	-	4,001,000	-	-	-
3	Youssef Mohammad Al-Gafari	1,000	-	1,000	-	-	-
4	Fahad Abdullah Al-Othaim	1,000	-	1,000	-	-	-
5	Saleh Mohammad Al-Othaim *	6,225,000	-	6,225,000	-	-	-
6	Abdul Salam Saleh Al Rajhi	1,000	-	1,000	-	-	-
7	Abdulaziz Saleh Al-Rebdi	1,000	-	1,000	-	-	-
8	Sabah Mohammad Al-Mutlaq	1,000	-	1,000	-	-	-

\* Representative member for Al-Othaim Holding Co does not own any shares.

### B) Interest of Senior Executives & their wives and minor children

No	Interest owner	Beginning of the year		Ending of the year		Net change	%Change
		Shares	Debt instruments	Shares	Debt instruments		
1	Bahauddin Barakat Al-Sherbini	2545	-	6216	-	3271	144%

## 20. Board of Directors & Senior Executives remunerations

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	564,286	-	4,328,314
Allowances	9,000	100,226	
Periodic & annual bonuses	150,000	1,053,973	1,045,000
Incentive plans	-	-	-
Any compensations or other benefits in kind paid monthly or annually	-	-	-
<b>Total</b>	<b>723,286</b>	<b>1,154,199</b>	<b>5,373,314</b>

\* 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.

## 21. Board of Directors' Interests

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

### A) 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	2,602,050	01-12-2007	20	Annual
Abdullah Al-Othaim Real Estate Investment & Development Co*	Khurais Hyper Mall	1,718,640	01-03-2008	20	Annual
Abdullah Al-Othaim Real Estate Investment & Development Co*	Rabwa Mall Branch	752,880	01-08-2009	10	Annual
Abdullah Al-Othaim Real Estate Investment & Development Co*	Archive store	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	01-09-2011	5	Semiannual
Abdullah Al-Othaim Real Estate Investment & Development Co*	Onaizah Branch	900,000	01-09-2011	5	Semiannual
Al-Othaim Holding Co.	Trademark fees	10,000	27-01-2008	5	Annual

\* 6.5% discount shall be obtained annually based on the value of contracts for five years due to payment of value of leases in advance on 01/09/2009G.

## 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	06-04-1428	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	64,500	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	710,050	01-01-2009	1	Semiannual

## 22. 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 2011 with the presence of the following members:

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

## **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 two times during the year 2011 with the presence of the following members:

1. Abdullah Saleh Al-Othaim – Chairman
2. Abdulaziz Saleh Al-Othaim – Member
3. Fahad Abdullah Al-Othaim – Member

## **23. The Results of Reviewing the Efficiency of the Internal Control Procedures**

The Internal Audit Department is conducting audits about the adequacy of the Internal Control System by testing the applied policies and procedures in order to provide reasonable assurance about safeguarding company assets and to ensure the properness and efficiency of the transactions and compliance with the regulations, instructions and policies in order to achieve the company's goals in an efficient and consistent manner.

All audit reports submitted to the Audit Committee, Board of Directors, senior management, and the various departments included the observations and the weakness points related to the internal control procedures in the departments or operations subject to the audit, with potential effects on the adequacy of the internal control procedures and operations. In addition to that, the internal audit reports includes recommendations about how to deal

with these observations in order to enhance the efficiency of the internal control system. Being informed there were no material findings which require disclosure.

The Internal Audit Department is reporting directly to the Board of Directors and is fully independent from the operations and supervised by the Audit Committee according to the Corporate Governance Rules issued by the Capital Market Authority.

## **24. Risks**

The company's activities, financial position, results of operations, cash flows, and future forecasts might be affected negatively in case any of the following risks occurred or any other risks unknown currently.

### **A) Capital commitments and contingent liabilities**

The company may have obligations for capital expenditures and future investments and there are no guarantees or assurances that the company will be able to pay for these expenditures when needed at on timely basis or by relevant and acceptable terms for the company. The company follows policies and procedures for risk management that ensures continuous audit for all the company's, operating activities, whether marketing or production.

### **B) Saudization**

Based on the implementation of NITAQAT Program by the Ministry of Labor, the company must have Saudi employees representing 25% of the total manpower to stay within Green Zone and to ensure continuity of services, such as renewal of work permits, obtaining visas, recruitment and other services included in this zone. Since most of the company labors are employed in the warehouses and branches and the reliance on expatriate workers, the company is facing major difficulties to increase the number of its Saudi employees who constitute 26% of the company's total manpower at the end of 2011, and thus it is deemed to be close to the minimum nationalization percentage as required by the Ministry of Labor.

### **C) Fluctuation of the Currency Exchange Rates**

The company activity is limited to sales in the Kingdom and importing grocery materials and other goods produced outside the Kingdom. The company does not cover the fluctuation risks in the exchange rates, and thus the exchange rate fluctuations may negatively affect the company results.



## 25. 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 6/B: The Company did not follow the cumulative voting technique to elect the members of the Board of Directors since there is no such mechanism in the company's bylaws.

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. Approving the Board of Directors' report for the fiscal year ending on 31/12/2011.
2. Approving the financial statements for the fiscal year ending on 31/12/2011 and the Auditor's Report thereon.
3. Discharging the Board of Directors' members for their duties for the period from 01/01/2011 until the general assembly meeting date.
4. Approving the contracts and work between the company and Al-Othaim Holding Co. and Abdulla Al-Othaim Real Estate Investment & Development Company as related parties to the Chairman of the Board Mr. Abdullah Saleh Al-Othaim and the Board Member Fahad Abdullah Al-Othaim and authorizing them for the next year.
5. Approving the nomination of an auditor among the nominees for the audit of the company's accounts for the fiscal year 2012 and the quarterly statements and determining his fees.
6. Approving the payment of the Board of Directors' bonuses of SR 150 thousand for each member and SR 170 thousand for the Chairman of the Board and transportation allowance of SR 3,000 for each meeting, and the committees attended by the Board members of SR 25,000 as transportation allowance for each meeting in the year 2011.



### **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**