

JARIR MARKETING COMPANY
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED FINANCIAL
STATEMENTS (UNAUDITED)
FOR THE THREE- MONTH AND SIX-MONTH PERIODS
ENDED JUNE 30, 2014 AND REVIEW REPORT

JARIR MARKETING COMPANY
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2014

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REVIEW REPORT

July 15, 2014

To the Shareholders of Jarir Marketing Company
(A Saudi Joint Stock Company)

Scope of review

We have reviewed the accompanying interim consolidated balance sheet of Jarir Marketing Company (the "Company") and its subsidiaries (collectively referred to as the "Group") as of June 30, 2014 and the interim consolidated statement of income for the three-month and six-month periods ended June 30, 2014, and the interim consolidated statements of cash flows and changes in shareholders' equity for the six-month period then ended and the related notes which form an integral part of these interim consolidated financial statements. These interim consolidated financial statements are the responsibility of the Group's management and have been prepared by them and submitted to us together with all the information and explanations which we required.

We conducted our review in accordance with the standard of Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants. A review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. The scope of such review is substantially less than an audit conducted in accordance with auditing standards generally accepted in Saudi Arabia, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Review conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements for them to be in conformity with accounting standards generally accepted in Saudi Arabia.

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to be 'Khalid A. Mahdhar', written over a horizontal line.

By: _____
Khalid A. Mahdhar
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JARIR MARKETING COMPANY
(A Saudi Joint Stock Company)
Interim consolidated balance sheet (Unaudited)
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	As at June 30,	
		2014	2013
Assets			
Current assets			
Cash and cash equivalents		110,528	106,189
Accounts receivable		292,473	228,581
Inventories		712,862	815,412
Prepayments and other receivables		69,634	47,197
		<u>1,185,497</u>	<u>1,197,379</u>
Non-current assets			
Investment property		5,198	5,478
Available for sale investment		27,951	27,951
Property and equipment		1,033,901	895,867
		<u>1,067,050</u>	<u>929,296</u>
Total assets		<u>2,252,547</u>	<u>2,126,675</u>
Liabilities			
Current liabilities			
Current portion of bank borrowings and term loans		150,000	150,000
Liabilities against capital leases		462	462
Accounts payable		591,362	476,012
Accrued expenses and other liabilities		70,057	72,328
Current portion of employees' incentives program		1,000	-
Current portion of deferred revenues		20,565	20,464
Zakat payable		17,921	15,781
		<u>851,367</u>	<u>735,047</u>
Non-current liabilities			
Bank borrowings and term loans		50,000	200,000
Liabilities against capital leases		12,936	13,398
Employees' termination benefits		60,778	51,173
Employees' incentives program		29,461	14,995
Deferred revenues		26,785	33,601
		<u>179,960</u>	<u>313,167</u>
Total liabilities		<u>1,031,327</u>	<u>1,048,214</u>
Shareholders' equity			
Share capital	1	900,000	600,000
Statutory reserve	3	98,982	138,987
Retained earnings		222,238	339,474
Total shareholders' equity		<u>1,221,220</u>	<u>1,078,461</u>
Total liabilities and shareholders' equity		<u>2,252,547</u>	<u>2,126,675</u>
Contingencies	7		

The notes on pages 6 to 11 form an integral part of these interim consolidated financial statements.

JARIR MARKETING COMPANY
(A Saudi Joint Stock Company)
Interim consolidated statement of income (Unaudited)
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	Three-month period ended June 30,		Six-month period ended June 30,	
		2014	2013	2014	2013
Sales		1,289,425	1,258,282	2,688,277	2,588,263
Cost of sales		(1,115,762)	(1,094,352)	(2,279,564)	(2,213,582)
Gross profit		173,663	163,930	408,713	374,681
Operating expenses					
General and administrative		(23,206)	(20,821)	(45,906)	(40,109)
Selling and marketing		(17,143)	(15,794)	(29,572)	(27,555)
Income from operations		133,314	127,315	333,235	307,017
Other income (expenses)					
Other income		9,533	5,802	18,699	13,357
Financial charges		(1,328)	(1,850)	(2,803)	(3,217)
Income before zakat		141,519	131,267	349,131	317,157
Zakat		(6,287)	(5,047)	(12,573)	(10,095)
Net income for the period		135,232	126,220	336,558	307,062
Earnings per share (Saudi Riyals):					
• Income from operations	1	1.48	1.41	3.70	3.41
• Net income for the period	1	1.50	1.40	3.74	3.41
Weighted average number of shared (thousand shares)	1	90,000	90,000	90,000	90,000

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JARIR MARKETING COMPANY
(A Saudi Joint Stock Company)
Interim consolidated statement of cash flow (Unaudited)
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Six-month period ended June 30,	
	2014	2013
Cash flow from operating activities		
Net income for the period	336,558	307,062
<u>Adjustments for non-cash items</u>		
Depreciation	15,345	11,256
Provision for doubtful debts	(9,395)	338
Gain on sale of property and equipment	(3,488)	(66)
Provision for employees' incentives program	9,500	4,376
Provision for employees' termination benefits	5,988	5,155
Provision for zakat	12,573	10,095
<u>Changes in working capital</u>		
Accounts receivable	(26,150)	28,876
Inventories	58,628	(89,494)
Prepayments and other receivables	(10,393)	(9,195)
Accounts payable	63,934	(92,777)
Accrued expenses and other liabilities	(13,913)	(5,115)
Deferred revenues	(1,971)	3,268
Zakat paid	(21,528)	(17,733)
Employees' termination benefits	(1,286)	(977)
Net cash generated from operating activities	414,402	155,069
Cash flow from investing activities		
Additions to property and equipment	(55,806)	(109,371)
Proceeds from sale of property and equipment	4,090	71,505
Net cash utilized in investing activities	(51,716)	(37,866)
Cash flow from financing activities		
Bank borrowings and term loans, net	(50,000)	133,082
Dividends paid	(288,000)	(255,000)
Net cash utilized in financing activities	(338,000)	(121,918)
Net change in cash and cash equivalents	24,686	(4,715)
Cash and cash equivalents at beginning of period	85,842	110,904
Cash and cash equivalents at end of period	110,528	106,189
Non-cash transactions:		
Adjustment to additions to property and equipment with corresponding effect to capital lease obligation	-	13,860
Adjustment to gain on sale of property and equipment with corresponding effect to deferred revenues	-	40,330

The notes on pages 6 to 11 form an integral part of these interim consolidated financial statements.

JARIR MARKETING COMPANY
(A Saudi Joint Stock Company)
Interim consolidated statement of changes in shareholders' equity (Unaudited)
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	Share capital	Statutory reserve	Retained earnings	Total
January 1, 2013		600,000	108,281	318,118	1,026,399
Net income for the period		-	-	307,062	307,062
Transfer to statutory reserve		-	30,706	(30,706)	-
Dividends		-	-	(255,000)	(255,000)
June 30, 2013		600,000	138,987	339,474	1,078,461
Increase in share capital	1	300,000	(108,281)	(191,719)	-
Net income for the period		-	-	346,201	346,201
Transfer to statutory reserve		-	34,620	(34,620)	-
Dividends		-	-	(252,000)	(252,000)
December 31, 2013 (Audited)		900,000	65,326	207,336	1,172,662
Net income for the period		-	-	336,558	336,558
Transfer to statutory reserve		-	33,656	(33,656)	-
Dividends		-	-	(288,000)	(288,000)
June 30, 2014		900,000	98,982	222,238	1,221,220

The notes on pages 6 to 11 form an integral part of these interim consolidated financial statements.

JARIR MARKETING COMPANY
(A Saudi Joint Stock Company)
Notes to the interim consolidated financial statements
For the six-month period ended June 30, 2014 (Unaudited)
(All amounts in Saudi Riyals thousands unless otherwise stated)

1. General information

Jarir Marketing Company (the "Company") is a Saudi joint stock company formed pursuant to the resolution of the Ministry of Commerce and Industry No. 1193 dated Rajab 11, 1421H (corresponding to October 8, 2000) and registered in Riyadh, Kingdom of Saudi Arabia under Commercial Registration No. 1010032264 dated Shaa'ban 18, 1400H (corresponding to July 1, 1980).

The Company's registered office is based in Riyadh. As at June 30, 2014, the Company had 40 showrooms (2013: 37 showrooms) including wholesale outlets in the Kingdom of Saudi Arabia and the GCC, in addition to real estate investments in the Arab Republic of Egypt through Jarir Egypt Financial Leasing Company SAE.

The objectives of the Company and its subsidiaries include; retail and wholesale trading in office and school supplies, children toys, books, educational aids, office furniture, engineering equipment, computers and computer systems, maintenance of computers, sports and scout equipment and paper. It also includes, purchase of residential and commercial buildings and the acquisition of land to construct buildings for sale or lease for the interest of the Company.

On Muharram 24, 1435H (corresponding to November 27, 2013) the shareholders resolved to increase the share capital of the Company from Saudi Riyals 600 million to Saudi Riyals 900 million by granting one share for each two shares, by transferring from statutory reserve Saudi Riyals 108 million and Saudi Riyals 192 million from retained earnings, following this increase the Company's capital became Saudi Riyals 900 million divided into 90 million shares of Saudi Riyals 10 each. The legal procedures relating to increase in share capital were completed by the end of December 31, 2013.

The accompanying interim consolidated financial statements include the accounts of the Company and its following subsidiaries:

Subsidiaries	Country of incorporation	Direct and indirect ownership as at June 30,	
		2014 %	2013 %
United Company for Office Supplies and Stationeries WLL	Qatar	100	100
Jarir Trading Company LLC	Abu Dhabi	100	100
United Bookstore	Abu Dhabi	100	100
Jarir Bookstore	Kuwait	100	100
Jarir Egypt Financial Leasing Company - SAE	Egypt	100	100

Certain ownership interests in the subsidiaries are registered in the name of trustees who have formally assigned their shares to the Company.

These interim consolidated financial statements were authorized for issue by the Company's Board of Directors on July 15, 2014.

2. Summary of significant accounting policies

Significant accounting policies applied in the preparation of these interim consolidated financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

2.1 Basis of preparation

The accompanying interim consolidated financial statements have been prepared under the historical cost convention, as modified by revaluation of available-for-sale investments to fair value, on the accrual basis of accounting and in compliance with accounting standards promulgated by Saudi Organization for Certified Public Accountants ("SOCPA").

The interim consolidated financial statements have been prepared in accordance with SOCPA's Standard on Interim Financial Reporting. The accounting policies used in the preparation of the interim consolidated financial statements are consistent with those used in the preparation of annual consolidated financial statements for the year ended December 31, 2013.

JARIR MARKETING COMPANY
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Notes to the interim consolidated financial statements
For the six-month period ended June 30, 2014 (Unaudited)
(All amounts in Saudi Riyals thousands unless otherwise stated)

The interim consolidated financial statements include the assets, liabilities and the results of operations of the Company and its subsidiaries (the "Group"). A subsidiary is a company in which the Group has, directly or indirectly, long term investment comprising an interest of more than 50% in the voting capital or over which it exerts a practical control. A subsidiary company is consolidated from the date on which the Group obtains a practical control until the date such control ceases. Significant balances and transactions, including unrealized gains or losses on transactions, between the Group companies have been eliminated in the interim consolidated financial statements.

The interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements as at December 31, 2013. In the opinion of management, the interim consolidated financial statements reflect all adjustments (which include normal recurring adjustments) necessary to present fairly the results of operations for the period presented.

The Group's results may not be indicative of its annual results of operations.

2.2 Critical accounting estimates and judgments

The preparation of interim consolidated financial statements in conformity with generally accepted accounting standards requires the use of estimates and assumptions that affect the reported balances of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates and judgments are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

In preparing these interim consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended December 31, 2013.

2.3 Accounts receivable

Accounts receivable are carried at original invoice amount less provision for doubtful debts. A provision against doubtful debts is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Such provisions are charged to the interim consolidated statement of income and reported under "General and administrative expenses". When an account receivable is uncollectible, it is written-off against the provision for doubtful debts. Any subsequent recoveries of amounts previously written-off are credited against "General and administrative expenses" in the interim consolidated statement of income.

2.4 Inventories

Inventories are carried at the lower of cost or net realizable value. Cost is determined using weighted average method. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

2.5 Investments

a) Investment property

Property held to earn rentals or for capital appreciation or both, which is not occupied by the Group is classified as investment property. Investment property is recorded at historical cost, net of accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset's carrying amount will flow to the Group and the cost of the asset can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance costs are charged to the interim consolidated statement of income during the financial period in which they are incurred. Land is not depreciated. Investment properties are depreciated on a straight line basis over their estimated useful lives.

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b) Investment in available-for sale investments

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity are classified as available for sale. Such investments are included in non-current assets unless management has expressed intention of holding the investment for less than twelve months from the balance sheet date, in which case they are included in current assets. After initial recognition, investments purchased neither with the intention of being held to maturity nor for trading purposes are re-measured at fair value as follows:

- (i) Fair values of quoted securities are based on available market prices at the reporting date adjusted for any restriction on the transfer or sale of such investments; and
- (ii) Fair values of unquoted securities are based on a reasonable estimate determined by reference to the current market value of other similar quoted investment securities or is based on the expected discounted cash flows. Where fair values cannot be reliably estimated, the Group records such investments at cost.

Unrealized gains and losses are reported as a separate component of shareholders' equity until the investment is derecognized or the investment is determined to be impaired.

2.6 Property and equipment

Property and equipment are carried at cost less accumulated depreciation except land and capital work in progress which are recorded at cost. Depreciation is charged to the interim consolidated statement of income, using the straight-line method to allocate the costs of the related assets to their residual values over the following estimated useful lives:

	<u>Number of years</u>
Buildings	25 - 33
Machinery and equipment	5 - 13.33
Furniture and fixtures	5 -10
Motor vehicles	4
Computer software and hardware	5
Leasehold improvements	3

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the interim consolidated income statement.

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the interim consolidated income statement as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired.

2.7 Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the interim consolidated statement of income. Impairment is determined as follows:

- a) For assets carried at fair value, impairment is the difference between the carrying amount and fair value, less any impairment loss previously recognized in the interim consolidated statement of income;
- b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and
- c) For assets carried at amortized cost, impairment is based on estimated cash flows that are discounted at the original effective special commission rate.

2.8 Accounts payable and accruals

Liabilities are recognized for amounts to be paid for goods and services received, whether or not billed to the Group.

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(All amounts in Saudi Riyals thousands unless otherwise stated)

2.9 Employees' incentive program

The Group has established an employees' incentive program (the Program) whereby the Group grants selected employees the right to receive incentive cash compensation at the end of a vesting period if specified conditions are met. The amount of compensation is dependent on the growth in net income as reported in the interim consolidated financial statements of the Group. Incentive compensation accrued under the Program is classified under current and non-current liability and adjustable against payments which will be made upon vesting takes place. Compensation charges are expensed throughout the vesting period. The amount recognized in the interim consolidated balance sheet as Employee's Incentive Program is the present value of the expected future payments as provided by the Program resulting from employees' service in the current and prior periods.

2.10 Employees' termination benefits

Employees' termination benefits required by Saudi Labor and Workman Law are accrued by the Group and charged to the consolidated statement of income. The liability is calculated; as the current value of the vested benefits to which the employee is entitled, should the employee leave at the balance sheet date. Termination payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of Saudi Arabia.

2.11 Zakat

The Company is subject to zakat in accordance with the regulations of the Department of Zakat and Income Tax (the "DZIT"). Provision for zakat for the Company is charged to the consolidated statement of income. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

Foreign subsidiaries are subject to income taxes in their respective countries of domicile. Such income taxes are charged to the consolidated statement of income.

2.12 Revenue

Sales are recognized upon delivery of products and customer acceptance, if any. Sales are shown net of discounts, if any.

2.13 Cost of revenues

Represent the cost of revenues incurred during the period, and include the costs of goods ready for sale, direct labor and other overheads related to the revenues recognized.

2.14 Selling and marketing expenses

Represent expenses resulting from the Company's management efforts with regard to the marketing function or the selling and distribution function. Selling and marketing expenses include direct and indirect costs not specifically part of cost of revenues. Allocations between selling and marketing expenses and cost of revenues, when required, are made on a consistent basis.

2.15 General and administrative expenses

Represent expenses relating to the administration and not to the revenue earning function or the selling and distribution functions. General and administrative expenses include direct and indirect costs not specifically part of cost of revenues. Allocations between general and administrative expenses and cost of revenues, when required, are made on a consistent basis.

2.16 Operating and capital leases

Lease agreements are classified as capital leases if the lease agreement transfers substantially all the risks and rewards incidental to ownership of an asset. Other leases are classified as operating leases whereby the expenses and the revenues associated with the operating leases are recognized in the consolidated statement of income on a straight-line basis over the terms of the leases.

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(All amounts in Saudi Riyals thousands unless otherwise stated)

2.17 Foreign currency translation

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the interim consolidated statement of income.

At the subsidiary level, transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the interim balance sheet date. All differences are taken to the interim consolidated statement of income.

At the consolidation level, financial statements of foreign subsidiaries are translated into the Group's presentation currency using the exchange rate at each balance sheet date for assets and liabilities, and the average exchange rate for each period for revenues and expenses. Components of equity, other than retained earnings, are translated at the rate ruling at the date of occurrence of each component. Translation adjustments, if material, are recorded as a separate component of equity.

3. Statutory reserve

In accordance with the Saudi Arabian Regulations for Companies, the Company sets aside 10% of its net income in each quarter to a statutory reserve until such reserve equals to one half of the share capital. This reserve is not available for distribution to the shareholders of the Company.

4. Earnings per share

Earnings per share from income from operations and net income for the period ended June 30, 2013 have been recalculated retrospectively based on the new number of shares to reflect the increase in share capital amounting to Saudi Riyals 300 million (see Note 1).

5. Dividends

Based on pre-approval of the General Assembly, the Board of Directors, in their meeting held on February 4, 2014 and April 16, 2014, resolved to distribute interim cash dividends amounting to Saudi Riyals 126 million and Saudi Riyals 162 million, respectively, which were paid to the shareholders during the six-month period ended June 30, 2014.

Based on pre-approval of the General Assembly, the Board of Directors, in their meeting held on February 5, 2013 and April 16, 2013, resolved to distribute interim cash dividends amounting to Saudi Riyals 111 million and Saudi Riyals 144 million, respectively, which were paid to the shareholders during the six-month period ended June 30, 2013.

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6. Segment information

a) Operating segment

The Group has two major operating segments namely, wholesale and retail. The segmental information for the six-month periods ended June 30, was as follows:

	Retail	Wholesale	Total
	Saudi Riyals in millions		
2014			
Total assets	1,999	253	2,252
Total sales	2,505	183	2,688
Net income	316	21	337
2013			
Total assets	1,829	298	2,127
Total sales	2,427	161	2,588
Total net income	291	16	307

b) Geographical Segment

The Group has two major geographical segments namely, Saudi Arabia and Gulf countries and Egypt. The Group's activity in different geographic areas for the six-month periods ended June 30, was as follows:

	Kingdom of Saudi Arabia	Gulf Countries and Egypt	Total
	Saudi Riyals in millions		
2014			
Total sales	2,473	215	2,688
Total net income	306	31	337
2013			
Total sales	2,398	190	2,588
Total net income	274	33	307

The Group's operating assets are principally located in the Kingdom Saudi Arabia.

Due to the nature of the Group's activity, it is not practical to disclose further segmental information on the Group's assets and liabilities.

7. Contingencies

Contingencies are as follows:

	2014	2013
	Saudi Riyals in millions	
Letter of credits	112	61.8
Letter of guarantees	8.9	6.3