

JARIR MARKETING COMPANY
(A Saudi Joint Stock Company)

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
AND INDEPENDENT AUDITORS' REPORT**

**JARIR MARKETING COMPANY
(A Saudi Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Pages
Independent auditors' report	1
Consolidated balance sheet	2
Consolidated statement of income	3
Consolidated statement of cash flows	4
Consolidated statement of changes in shareholders' equity	5
Notes to the consolidated financial statements	6 - 20



INDEPENDENT AUDITORS' REPORT

February 15, 2017

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

Scope of audit

We have audited the accompanying consolidated balance sheet of Jarir Marketing Company (the "Company") and its subsidiaries (collectively referred to as the "Group") as of December 31, 2016, the consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended, and the notes from (1) to (28) which form an integral part of the consolidated financial statements. These consolidated financial statements, which were prepared by the Company in accordance with the Regulations for Companies and presented to us with all information and explanations which we required, are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified opinion

In our opinion, such consolidated financial statements taken as a whole:

- Present fairly, in all material respects, the financial position of the Group as of December 31, 2016 and the results of its operations and its cash flows for the year then ended in conformity with accounting standards generally accepted in Saudi Arabia appropriate to the circumstances of the Group; and
- Comply, in all material respects, with the requirements of the Regulations for Companies and the Company's By-laws with respect to the preparation and presentation of consolidated financial statements.

PricewaterhouseCoopers

By: _____

Omar M. Al Sagga
License Number 369

JARIR MARKETING COMPANY
(A Saudi Joint Stock Company)
Consolidated balance sheet
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	As at December 31,	
		2016	2015
Assets			
Current assets			
Cash and cash equivalents	3	157,794	109,622
Accounts receivable	4	100,954	152,738
Inventories	5	882,798	792,591
Prepayments and other assets	6	198,747	163,849
Total current assets		1,340,293	1,218,800
Non-current assets			
Available for sale investment	7	27,951	27,951
Investment properties	8	40,441	33,041
Property and equipment	9	1,228,255	1,131,200
Total non-current assets		1,296,647	1,192,192
Total assets		2,636,940	2,410,992
Liabilities and shareholders' equity			
Current liabilities			
Current portion of bank borrowings and term loans	10	-	25,000
Liabilities against capital leases		462	462
Accounts payable	11	793,902	583,631
Accrued expenses and other liabilities	12	121,748	112,431
Employees' incentive program		12,622	2,256
Deferred revenues	13	23,885	22,341
Zakat payable	14	29,825	30,166
Total current liabilities		982,444	776,287
Non-current liabilities			
Liabilities against capital leases		11,781	12,243
Employees' termination benefits	15	85,443	71,317
Employees' incentive program		18,272	31,164
Deferred revenues	13	9,467	16,384
Total non-current liabilities		124,963	131,108
Total liabilities		1,107,407	907,395
Shareholders' equity			
Share capital	17	900,000	900,000
Statutory reserve	18	296,500	222,709
Foreign currency translation reserve	19	(72,973)	-
Retained earnings		406,006	380,888
Total shareholders' equity		1,529,533	1,503,597
Total liabilities and shareholders' equity		2,636,940	2,410,992
Commitments and contingencies	25, 26		

The notes on pages 6 to 20 form an integral part of these consolidated financial statements.

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

		<u>Year ended December 31,</u>	
	Notes	2016	2015
Sales		6,122,559	6,375,378
Cost of sales		<u>(5,247,518)</u>	<u>(5,403,347)</u>
Gross profit		875,041	972,031
Operating expenses			
General and administrative	16,20	(93,075)	(87,169)
Selling and marketing	21	<u>(77,225)</u>	<u>(76,162)</u>
Income from operations		704,741	808,700
Other income (expenses)			
Other income	16	50,436	45,519
Financial charges		<u>(174)</u>	<u>(2,267)</u>
Income before zakat and extraordinary losses		755,003	851,952
Extraordinary losses - fire, net	1	<u>(4,000)</u>	-
Income before zakat		751,003	851,952
Zakat	14	<u>(13,094)</u>	<u>(23,481)</u>
Net income for the year		<u>737,909</u>	<u>828,471</u>
Earnings per share (Saudi Riyals):			
• Income from operations	22	<u>7.83</u>	<u>8.99</u>
• Non-operating income	22	<u>0.56</u>	<u>0.48</u>
• Net income for the year	22	<u>8.20</u>	<u>9.21</u>

The notes on pages 6 to 20 form an integral part of these consolidated financial statements.

JARIR MARKETING COMPANY
(A Saudi Joint Stock Company)
Consolidated statement of cash flows
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	Year ended December 31,	
		2016	2015
Cash flow from operating activities			
Net income for the year		737,909	828,471
<u>Adjustments for non-cash items</u>			
Depreciation	8,9	42,836	32,520
Provision (reversal) for doubtful debts, net	4	1,112	(1,985)
Reversal of provision for slow moving inventory	5	(9)	(67)
Inventory loss due to fire	1	4,000	-
Amortization of deferred revenue		(22,341)	(20,808)
Impairment of investment property	8	5,102	-
Loss on sale of property and equipment		93	63
Provision for employees' incentives program		651	-
Provision for zakat	14	13,094	23,481
Provision for employees' termination benefits	15	19,188	12,150
<u>Changes in working capital</u>			
Accounts receivable		50,672	(10,134)
Inventories		(94,198)	24,596
Prepayments and other current assets		(34,898)	32,782
Accounts payable		210,271	(29,009)
Accrued expenses and other current liabilities		9,317	26,812
Deferred revenues		16,506	14,930
Employees' incentive program paid		(3,177)	(1,004)
Zakat paid	14	(13,435)	(18,798)
Employees' termination benefits paid	15	(5,062)	(4,059)
Net cash generated from operating activities		<u>937,631</u>	<u>909,941</u>
Cash flow from investing activities			
Additions to investment properties	8	(45,658)	(572)
Additions to property and equipment	9	(171,458)	(142,883)
Proceeds from sale of property and equipment		276	5
Net cash utilized in investing activities		<u>(216,840)</u>	<u>(143,450)</u>
Cash flow from financing activities			
Repayments of bank borrowings and term loans	10	(25,000)	(100,000)
Dividends paid	23	(639,000)	(684,900)
Net cash utilized in financing activities		<u>(664,000)</u>	<u>(784,900)</u>
Net change in cash and cash equivalents			
Effect of exchange rate changes in cash and cash equivalents		56,791	(18,409)
Cash and cash equivalents at beginning of the year		(8,619)	-
		<u>109,622</u>	<u>128,031</u>
Cash and cash equivalents at end of the year	3	<u>157,794</u>	<u>109,622</u>

The notes on pages 6 to 20 form an integral part of these consolidated financial statements.

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

	Notes	Share capital	Statutory reserve	Foreign currency translation reserve	Retained earnings	Total
January 1, 2016		900,000	222,709	-	380,888	1,503,597
Net income for the year		-	-	-	737,909	737,909
Transfer to statutory reserve	18	-	73,791	-	(73,791)	-
Dividends	23	-	-	-	(639,000)	(639,000)
Foreign currency translation adjustments		-	-	(72,973)	-	(72,973)
December 31, 2016		900,000	296,500	(72,973)	406,006	1,529,533
January 1, 2015		900,000	139,862	-	320,164	1,360,026
Net income for the year		-	-	-	828,471	828,471
Transfer to statutory reserve	18	-	82,847	-	(82,847)	-
Dividends	23	-	-	-	(684,900)	(684,900)
December 31, 2015		900,000	222,709	-	380,888	1,503,597

The notes on pages 6 to 20 form an integral part of these consolidated financial statements.

JARIR MARKETING COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2016
(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 December 31, 2016, the Company had 49 showrooms (2015: 44 showrooms) including wholesale outlets in the Kingdom of Saudi Arabia and the other Gulf countries, 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 (collectively "the Group") 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 Group.

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

<u>Subsidiaries</u>	<u>Country of incorporation</u>	<u>Direct and indirect ownership as at December 31,</u>	
		<u>2016</u>	<u>2015</u>
		<u>%</u>	<u>%</u>
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.

During the year, a fire incident occurred in one of the Group's showrooms in Jeddah, Saudi Arabia which resulted in losses and damages to certain assets. The net amount of such losses was presented under extraordinary losses - fire in the accompanying consolidated statement of income.

These consolidated financial statements were authorized for issue by the Company's Board of Directors on February 15, 2017.

2. Summary of significant accounting policies

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

2.1 Basis of preparation

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

Effective 1 January 2017, the Company's financial statements will be prepared under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA"). Upon IFRS adoption, the Group will be required to comply with the requirements of IFRS 1 - First-time Adoption of International Financial Reporting Standards for the reporting periods starting 1 January 2017. In preparing the opening IFRS financial statements, the Company will analyze impacts and incorporate any necessary adjustments due to the first time adoption of IFRS.

The consolidated financial statements include the assets, liabilities and the results of operations of the Company and its subsidiaries. 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

JARIR MARKETING COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2016
(All amounts in Saudi Riyals thousands unless otherwise stated)

such control ceases. Significant balances and transactions, including unrealized gains or losses on transactions, between the Group companies have been eliminated in the consolidated financial statements.

2.2 Critical accounting estimates and judgments

The preparation of 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 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. The estimates and assumptions that have a risk of causing an adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Provision for doubtful debts

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

(b) Provision for slow moving inventories

Provision for slow moving inventories is maintained at a level considered adequate to provide for potential loss on inventory items. The level of allowance is determined and guided by the Company's policy and other factors affecting the slow moving inventories. An evaluation of inventories, designed to identify potential charges to provision, is performed on a continuous basis throughout the year. Management uses judgment based on the best available facts and circumstances, including but not limited to evaluation of individual inventory items' future utilization. The amount and timing of recorded expenses for any period would therefore differ based on the judgments or estimates made. An increase in provision for slow moving inventories would increase the Company's recorded expenses and decrease current assets.

(c) Estimated useful life of property and equipment

Management assesses useful lives and residual value of property and equipment on intended use of assets and the economic lives of the assets. Subsequent changes in circumstances such as technological advances could result in the actual useful lives or residual values differing from the initial estimates. Management has reviewed the residual value and useful lives of major property and equipment and determined that no adjustment is necessary.

2.3 Cash and cash equivalents

Cash and cash equivalents include cash in hand and with banks and other short-term highly liquid investments, if any, with maturities of three months or less from the purchase date.

2.4 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 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 consolidated statement of income.

2.5 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.

2.6 Investments

a) 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

JARIR MARKETING COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2016
(All amounts in Saudi Riyals thousands unless otherwise stated)

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. As at December 31, 2016 and 2015, available for sale investment represent investment in a Saudi entity.

b) Investment properties

Properties held to earn rentals or for capital appreciation or both, which are not occupied by the Group are classified as investment properties. Investment properties are recorded at historical cost, net of accumulated depreciation and impairment losses, if any. Land and capital work - in progress is not depreciated and is stated at costs and other directly attributable costs less impairment, if any. When ready for use, capital work - in progress is transferred to investment property. Historical costs include 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 consolidated statement of income during the financial year in which they are incurred. Investment properties are depreciated on a straight line basis over their estimated useful lives of 25 - 33 years.

2.7 Property and equipment

Property and equipment are carried at cost less accumulated depreciation except land and capital work - in progress which are recorded at costs and other directly attributable costs. When ready for use, capital work - in progress is transferred to the appropriate property and equipment category as applicable. Depreciation on property and equipment, other than land and capital work - in progress, is charged to the 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 hardware	5
Leasehold improvements	3

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

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

2.8 Impairment

a) Tangible and intangible assets

Non-current assets other than goodwill, if any, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill, if any, is tested for impairment annually. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-current assets other than goodwill, if any, that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the consolidated statement of income. Impairment losses on goodwill, if any, are not reversible.

JARIR MARKETING COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2016
(All amounts in Saudi Riyals thousands unless otherwise stated)

b) **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. For available for sale investments, impairment is the difference between the carrying amount and fair value, less any impairment loss previously recognized in the consolidated statement of income. Impairment losses recognized on equity investments classified as available for sale are not reversible.

2.9 Borrowings and loans

Borrowings and loans are recognized at the proceeds received, net of transaction costs incurred, if any. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of those assets. Other borrowing costs are charged to the consolidated statement of income.

2.10 Accounts payable and accruals

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

2.11 Provisions

Provisions are recognized when; the Group has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

2.12 Zakat and tax

The Company is subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax (the "GAZT"). 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.

The Company withholds taxes with non-residents as required under Saudi Arabian Income Tax Law.

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

2.13 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.

2.14 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 consolidated financial statements of the Group. Incentive compensation accrued under the Program is classified under current and non-current liability and is adjustable against payments which will be made upon vesting takes place. Compensation charges are expensed throughout the vesting period. The amount recognized in the 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.

2.15 Deferred revenues

Revenues that will benefit future periods are deferred, while revenues that are not of benefit beyond the current period are credited to the consolidated statement of income.

Deferred revenue on rental income received in advance is recognized in the consolidated statement of income over the period of lease term.

Gains on sale and lease back assets are deferred and recognized in proportion to the amortization of the leased property except for land in which case any related deferred gains are amortized using the straight-line method

JARIR MARKETING COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2016
(All amounts in Saudi Riyals thousands unless otherwise stated)

over the lease term for capital lease. However, in case the lease is classified as operating lease such deferred gains are amortized using the ratio of related periodic rental charges to total lease payments during the lease term.

2.16 Sales

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

2.17 Costs and expenses

2.17.1 Cost of sales

Represent the cost of revenues incurred during the year which includes the costs of goods sold, direct labor, other overheads and occupancy related to the revenues recognized.

2.17.2 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.

2.17.3 General and administrative expenses

Represent expenses relating to the administration and not related 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.

2.18 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. The Group accounts for property and equipment acquired under capital leases by recording the assets and the related liabilities. These amounts are determined on the basis of the present value of minimum lease payments. Financial charges are allocated to the lease term in a manner so as to provide a constant periodic rate of charge on the outstanding liability. Depreciation on assets under capital leases is charged to statement of income applying the straight-line method at the rates applicable to the related assets (Note 2.7). Leases other than capital 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.

2.19 Foreign currency translation

The consolidated financial statements are presented in Saudi Riyals, which is the Company's functional and Group's presentation currency. Each subsidiary in the Group determines its own functional currency, and as a result, items included in the financial statements of each subsidiary are measured using that functional currency.

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 year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the 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 balance sheet date. All differences are taken to the consolidated statement of income. However, exchange difference arising on monetary items that form part of net investment is recognized in equity in the consolidated balance sheet.

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 year 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.

JARIR MARKETING COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2016
(All amounts in Saudi Riyals thousands unless otherwise stated)

2.20 Segment reporting

(a) Operating segment

An operating segment is group of assets, operations or entities:

- (i) engaged in revenue producing activities;
- (ii) results of its operations are continuously analyzed by management in order to make decisions related to resource allocation and performance assessment; and
- (iii) financial information is separately available.

(b) Geographical segment

A geographical segment is group of assets, operations or entities engaged in revenue producing activities within a particular economic environment that are subject to risks and returns different from those operating in other economic environments.

3. Cash and cash equivalents

	2016	2015
Cash at bank	153,469	105,599
Cash in hand	4,325	4,023
	<u>157,794</u>	<u>109,622</u>

4. Accounts receivable

	2016	2015
Trade	112,792	163,599
Less: provision for doubtful debts	<u>(11,838)</u>	<u>(10,861)</u>
	<u>100,954</u>	<u>152,738</u>

Movement in provision for doubtful debts is as follows:

	2016	2015
January 1	10,861	12,917
Additions	1,531	47
Write-offs	(135)	(71)
Reversals	(419)	(2,032)
December 31	<u>11,838</u>	<u>10,861</u>

5. Inventories

	2016	2015
Gifts and digital systems	353,280	238,978
Computers and related supplies and programs	275,705	275,115
Office supplies	107,939	135,074
Books	83,348	77,085
School supplies	78,072	80,486
Video games	60,309	67,575
Engineering and technical supplies	28,287	23,654
Goods in transit	4,998	3,708
Others	7,692	7,757
	<u>999,630</u>	<u>909,432</u>
Less: provision for slow moving inventories	<u>(116,832)</u>	<u>(116,841)</u>
	<u>882,798</u>	<u>792,591</u>

JARIR MARKETING COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2016
(All amounts in Saudi Riyals thousands unless otherwise stated)

Movement in provision for slow moving inventories is as follows:

	2016	2015
January 1	116,841	116,908
Reversals	(9)	(67)
December 31	<u>(116,832)</u>	<u>116,841</u>

6. Prepayments and other current assets

	2016	2015
Advances to suppliers	78,687	43,569
Prepaid rentals	62,730	60,688
Employees receivable	25,720	24,953
Less: Provision for doubtful employee receivables	(1,760)	(2,393)
	<u>23,960</u>	<u>22,560</u>
Prepaid employees' benefits	11,359	21,331
Claims on vendors	11,261	3,540
Other	12,192	16,187
Less: Provision for doubtful other assets	(1,442)	(4,026)
	<u>10,750</u>	<u>12,161</u>
	<u>198,747</u>	<u>163,849</u>

7. Available for sale investment

Available for sale Investment represents a subscription of 1.26% of share capital in a Saudi Closed Joint Stock Company namely Kinan International Real Estate Development Company. This investment is accounted for at cost.

8. Investment properties

	January 1, 2016	Additions	Transfers	Impairment	Exchange difference	December 31, 2016
Cost						
Buildings	21,663	45,250	28,105	(5,102)	(48,056)	41,860
Construction and other work in progress	17,660	408	(8,355)	-	(9,401)	312
	<u>39,323</u>	<u>45,658</u>	<u>19,750</u>	<u>(5,102)</u>	<u>(57,457)</u>	<u>42,172</u>
Accumulated depreciation						
Buildings	(6,282)	(1,461)	-	-	6,012	(1,731)
	<u>33,041</u>					<u>40,441</u>

	January 1, 2015	Additions	Transfers	December 31, 2015
Cost				
Buildings	8,929	572	12,162	21,663
Construction and other work in progress	29,822	-	(12,162)	17,660
	<u>38,751</u>	<u>572</u>	<u>-</u>	<u>39,323</u>
Accumulated depreciation				
Buildings	(3,974)	(2,308)	-	(6,282)
	<u>34,777</u>			<u>33,041</u>

JARIR MARKETING COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2016
(All amounts in Saudi Riyals thousands unless otherwise stated)

9. Property and equipment

	January 1, 2016	Additions	Disposals	Transfers	December 31, 2016
Cost					
Land	651,880	4,600	-	-	656,480
Buildings	378,553	4,228	-	3,752	386,533
Machinery and equipment	10,046	94	(112)	260	10,288
Furniture and fixtures	108,561	7,174	(2,430)	6,185	119,490
Motor vehicles	18,408	1,193	(515)	628	19,714
Computer hardware	40,227	1,922	(817)	1,287	42,619
Leasehold improvements	66,760	2,208	(1,728)	21,253	88,493
Construction and other work in progress (see note 16)	97,288	150,039	-	*(66,024)	181,303
Capital lease obligation	13,860	-	-	-	13,860
	<u>1,385,583</u>	<u>171,458</u>	<u>(5,602)</u>	<u>(32,659)</u>	<u>1,518,780</u>
Accumulated depreciation					
Buildings	(85,444)	(12,257)	-	-	(97,701)
Machinery and equipment	(8,154)	(663)	112	-	(8,705)
Furniture and fixtures	(70,020)	(7,176)	2,173	-	(75,023)
Motor vehicles	(15,542)	(1,819)	515	-	(16,846)
Computer hardware	(28,587)	(3,848)	705	-	(31,730)
Leasehold improvements	(45,481)	(15,150)	1,728	-	(58,903)
Capital lease obligation	(1,155)	(462)	-	-	(1,617)
	<u>(254,383)</u>	<u>(41,375)</u>	<u>5,233</u>	<u>-</u>	<u>(290,525)</u>
	<u>1,131,200</u>				<u>1,228,255</u>

* As at December 31, 2016 the transfer for the year of Saudi Riyals 66 million (2015: Saudi Riyals 103 million) includes exchange loss amounting to Saudi Riyals 12.9 million (2015: Saudi Riyals Nil).

	January 1, 2015	Additions	Disposals	Transfers	December 31, 2015
Cost					
Land	634,579	452	-	16,849	651,880
Buildings	301,590	7,965	-	68,998	378,553
Machinery and equipment	10,538	104	(600)	4	10,046
Furniture and fixtures	100,475	6,614	(2,905)	4,377	108,561
Motor vehicles	17,362	177	-	869	18,408
Computer hardware	33,491	2,110	(272)	4,898	40,227
Leasehold improvements	54,572	5,209	-	6,979	66,760
Construction and other work in progress (see note 16)	80,010	120,252	-	(102,974)	97,288
Capital lease obligation	13,860	-	-	-	13,860
	<u>1,246,477</u>	<u>142,883</u>	<u>(3,777)</u>	<u>-</u>	<u>1,385,583</u>
Accumulated depreciation					
Buildings	(76,226)	(9,218)	-	-	(85,444)
Machinery and equipment	(8,074)	(680)	600	-	(8,154)
Furniture and fixtures	(66,804)	(6,072)	2,856	-	(70,020)
Motor vehicles	(13,611)	(1,931)	-	-	(15,542)
Computer hardware	(25,818)	(3,022)	253	-	(28,587)
Leasehold improvements	(36,654)	(8,827)	-	-	(45,481)
Capital lease obligation	(693)	(462)	-	-	(1,155)
	<u>(227,880)</u>	<u>(30,212)</u>	<u>3,709</u>	<u>-</u>	<u>(254,383)</u>
	<u>1,018,597</u>				<u>1,131,200</u>

As at December 31, 2016, property and equipment include lands amounting to Saudi Riyals 74.1 million (2015: Saudi Riyals 74.1 million) which are registered under the name of related parties and others and the beneficial ownership has been transferred to the Group.

JARIR MARKETING COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2016
 (All amounts in Saudi Riyals thousands unless otherwise stated)

Depreciation charge for the year is charged to the consolidated statement of income as follows:

	Note	2016	2015
Cost of sales		37,511	28,769
General and administrative expenses	20	3,533	1,220
Selling and marketing expenses	21	331	223
		<u>41,375</u>	<u>30,212</u>

10. Bank borrowings and term loans

	2016	2015
January 1	25,000	125,000
Repayments	<u>(25,000)</u>	<u>(100,000)</u>
December 31	-	25,000
Less: Current maturity shown under current liabilities	<u>-</u>	<u>(25,000)</u>
	<u>-</u>	<u>-</u>

During 2012, the Company obtained a Tawaruq long-term loan amounting to Saudi Riyals 100 million from a local commercial bank. The loan was repayable in four semi-annual installments of Saudi Riyals 25 million each commencing on August 5, 2014 and the last installment was due for payment on January 30, 2016. The last installment was paid during the year. The loan was secured against a promissory note and carried agreed commission rate with the Bank.

Maturity profile of bank borrowings at December 31, as per contractual arrangement is as follows:

	2016	2015
2015	-	-
2016	<u>-</u>	<u>25,000</u>
	<u>-</u>	<u>25,000</u>

11. Accounts payable

	2016	2015
Trade payables	712,072	500,504
Advances from customers	35,515	35,085
Employees	7,104	6,974
Other	<u>39,211</u>	<u>41,068</u>
	<u>793,902</u>	<u>583,631</u>

12. Accrued expenses and other current liabilities

	2016	2015
Accrued bonus and commission	51,830	52,093
Accrued warranty charges	30,135	15,040
Accrued salaries, wages and benefits	29,354	26,960
Accrued promotion and brokerage expenses	3,768	10,989
Other	<u>6,661</u>	<u>7,349</u>
	<u>121,748</u>	<u>112,431</u>

JARIR MARKETING COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2016
(All amounts in Saudi Riyals thousands unless otherwise stated)

13. Deferred revenues

	Note	2016	2015
Gain on sale and lease back	13.1	16,383	23,333
Rental income	13.2	16,969	15,392
		<u>33,352</u>	<u>38,725</u>
Current maturity shown under current liabilities		<u>(23,885)</u>	<u>(22,341)</u>
		<u>9,467</u>	<u>16,384</u>

13.1 Gain on sale and lease back

The gain on sale and leaseback represents the sale of land and buildings at the net book value of Saudi Riyals 31 million for the proceeds of Saudi Riyals 71 million resulting in a gain of Saudi Riyals 40 million. This gain is being amortized over the lease term. During 2016, Saudi Riyals 6.9 million (2015: Saudi Riyals 6.9 million) was amortized and credited to the consolidated statement of income.

13.2 Rental Income

Rental income represents amounts received from rental activity but not earned as at December 31, 2016 and 2015. Such amounts will be recognized as revenue in the subsequent year.

14. Zakat matters

Zakat is calculated at 2.5% on the higher of approximate zakat base or adjusted net income. Zakat is calculated based on the consolidated financial statements of Jarir Marketing Company.

14.1 Component of zakat base

The significant components of the zakat base of the Company under zakat regulations are as follows:

	Note	2016	2015
<u>Components of zakat base</u>			
Shareholders' equity at beginning of year		1,503,597	1,360,026
Provisions at beginning of year		227,267	252,875
Long-term borrowings		-	25,000
Adjusted net income for the year	14.2	771,945	861,331
Property and equipment, as adjusted		(1,228,255)	(1,079,456)
Zakat provision		16,731	6,726
Capital lease obligation		12,243	12,705
Dividends paid		(639,000)	(684,900)
Foreign currency translation reserve		(72,973)	-
Available for sale investment		(27,951)	(27,951)
Investment properties		(40,441)	-
Investment in subsidiaries		-	(101,802)
Approximate zakat base		<u>523,163</u>	<u>624,554</u>

The differences between the financial and the zakat results are mainly due to provisions, which are not allowed in the calculation of adjusted net income.

14.2 Adjusted net income

	2016	2015
Income before zakat - standalone	751,003	851,884
Adjustments:		
Provisions during the year	20,942	9,411
Others	-	36
Adjusted net income for year	<u>771,945</u>	<u>861,331</u>

JARIR MARKETING COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2016
 (All amounts in Saudi Riyals thousands unless otherwise stated)

14.3 Provision for zakat

The movement in the zakat provision for the year was as follows:

	2016	2015
January 1	30,166	25,483
Provisions	13,094	23,481
Payments	(13,435)	(18,798)
December 31	<u>29,825</u>	<u>30,166</u>

14.4 Status of final assessments

The GAZT has finalized the assessments for the years till 2010. Zakat returns for the years ended December 31, 2011, 2012, 2013, 2014 and 2015 are still under review by the GAZT.

15. Employees' termination benefits

	2016	2015
January 1	71,317	63,226
Provisions	19,188	12,150
Payments	(5,062)	(4,059)
December 31	<u>85,443</u>	<u>71,317</u>

16. Related party matters

16.1 Related parties transactions

Significant transactions with related parties in the ordinary course of business included in the consolidated financial statements are summarized below:

		2016	2015
Board of directors	Salaries, wages and benefits	30,066	24,073
Shareholders and parties related to the Board of Directors	Support and construction services	124,251	84,145
Affiliates	Other income	8,204	7,332

16.2 Related parties balance

Significant year-end balance arising from transactions with related parties are as follows:

(i) Payable to related parties		2016	2015
Shareholders and parties related to the Board of Directors	Support and construction services	152	9

17. Share capital

The share capital of the Company as of December 31, 2016 comprises of 90 million shares stated at Saudi Riyals 10 per share.

18. Statutory reserve

In accordance with the new Regulations for Companies in the Kingdom of Saudi Arabia, which became effective during 2016, the Company is required to sets aside 10% of its net income at each year-end to a statutory reserve until such reserve equals to 30% of its share capital. This reserve is currently not available for distribution to the shareholders of the Company.

JARIR MARKETING COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2016
(All amounts in Saudi Riyals thousands unless otherwise stated)

19. Foreign currency translation reserve

Foreign currency translation reserve amounting to Saudi Riyals 73 million resulted from the translation of foreign subsidiaries into the Group's presentation currency. This is mainly attributable to devaluation of the Egyptian Pound in the Company's subsidiary in Egypt resulting from floatation of currency by the Egyptian Central Bank during the year.

20. General and administrative expenses

	Note	2016	2015
Salaries, wages and benefits		75,941	69,964
Depreciation	9	3,533	1,220
Maintenance		2,493	2,479
Professional services		2,354	1,897
Utilities		1,804	2,065
Rentals		754	749
Membership and subscription		522	2,129
Other		5,674	6,666
		<u>93,075</u>	<u>87,169</u>

21. Selling and marketing expenses

	Note	2016	2015
Advertising		40,480	46,230
Salaries, wages and benefits		30,889	28,479
Depreciation	9	331	223
Other		5,525	1,230
		<u>77,225</u>	<u>76,162</u>

22. Earnings per share

Earnings per share has been calculated by dividing income from operations, non-operating income and net income for the years ended December 31, 2016 and 2015 by 90 million shares.

23. Dividends

Based on a pre-approval of the General Assembly, the Board of Directors in their meeting held on February 3, 2016, April 18, 2016, July 24, 2016 and October 17, 2016 resolved to distribute interim cash dividends amounting to Saudi Riyals 175.5 million, Saudi Riyals 157.5 million, Saudi Riyals 112.5 million and Saudi Riyals 193.5 million, respectively, which were paid to the shareholders during the year ended December 31, 2016.

Based on pre-approval of the General Assembly, the Board of Directors, in their meeting held on February 4, 2015, April 16, 2015, August 31, 2015 and October 18, 2015 resolved to distribute interim cash dividends amounting to Saudi Riyals 166.5 million, Saudi Riyals 202.5 million, Saudi Riyals 131.4 million and Saudi Riyals 184.5 million, respectively, which were paid to the shareholders during the year ended December 31, 2015.

JARIR MARKETING COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2016
(All amounts in Saudi Riyals thousands unless otherwise stated)

24. Segment information

a) Operating segment

The Group has two major operating segments namely, wholesale and retail. The segmental information for the years ended December 31, was as follows:

	Retail	Wholesale	Total
	(Saudi Riyals in millions)		
2016			
Sales	5,767	356	6,123
Net income	695	43	738
Depreciation	41	2	43
Property and equipment	1,216	12	1,228
Total assets	2,446	191	2,637
Total liabilities	1,083	24	1,107
2015			
Sales	5,892	483	6,375
Net income	758	70	828
Financial charges	2	-	2
Depreciation	31	2	33
Property and equipment	1,118	13	1,131
Total assets	2,155	256	2,411
Total liabilities	884	23	907

b) Geographical segment

The Group has two major geographical segments namely, Saudi Arabia and other Gulf countries and Egypt. The Group's activity in different geographic areas for the years ended December 31 was as follows:

	Kingdom of Saudi Arabia	Other Gulf Countries and Egypt	Total
	(Saudi Riyals in millions)		
2016			
Sales	5,646	477	6,123
Net income	691	47	738
Depreciation	34	9	43
Property and equipment	1,198	30	1,228
Total assets	2,433	204	2,637
Total liabilities	1,064	43	1,107
2015			
Sales	5,911	464	6,375
Net income	765	63	828
Financial charges	2	-	2
Depreciation	26	7	33
Property and equipment	1,079	52	1,131
Total assets	2,220	191	2,411
Total liabilities	864	43	907

25. Commitments and contingencies

	2016	2015
	Saudi Riyals in millions	
Letters of credit	131.7	107.4
Letters of guarantee	10.1	8.5

Operating leases commitments are disclosed in note 26.

JARIR MARKETING COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2016
(All amounts in Saudi Riyals thousands unless otherwise stated)

26. Operating leases

The Group has various operating leases for its offices, warehouses and production facilities. Rental expenses for the year ended December 31, 2016 amounted to Saudi Riyals 87.5 million (2015: Saudi Riyals 74.0 million). Future rental commitments at December 31, under these operating leases are as follows:

Years ending December 31:	2016	2015
2016	-	90,730
2017	107,193	96,185
2018	90,088	92,374
2019	74,814	91,251
2020	66,332	85,846
2021	64,132	-
	402,559	456,386

Operating leases for rental income with terms expiring within one year and in excess of one year as of December 31, are as follows:

Years ending December 31:	2016	2015
2016	-	42,960
2017	46,716	32,087
2018	23,130	18,049
2019	12,241	10,037
2020	7,097	5,741
2021	3,496	-
	92,680	108,874

27. Financial instruments and risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, price risk, fair value and cash flow interest rate risks and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Risk management is carried out by senior management under policies approved by the Board of Directors. Senior management identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The most important types of risk are credit risk, currency risk and fair value and cash flow interest rate risks.

Financial instruments carried on the consolidated balance sheet include cash and cash equivalents, accounts receivable, investments and certain other assets, bank borrowings and term loans, accounts payable and certain other liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Financial assets and liabilities are offset and net amounts reported in the consolidated financial statements, when the Group has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and liability simultaneously.

27.1 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's transactions are principally in Saudi Riyals, US dollars and Euros.

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. The Group also has investments in foreign subsidiaries whose net assets are exposed to currency translation risk. The Group's management monitors such exposures on regular basis. The Group had no significant exposure to currency risks as of December 31, 2016 and 2015 except as disclosed in Note 19.

JARIR MARKETING COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2016
(All amounts in Saudi Riyals thousands unless otherwise stated)

27.2 Price risk

The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer. Management believes that the Group is not significantly exposed to equity securities price risk because investments held by the Group are not significant.

27.3 Fair value and cash flow interest rate risk

Fair value and cash flow interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's financial positions and cash flows. The Group's interest rate risks arose mainly from bank borrowings and term loans which were at floating rate of interest. The Group had no significant exposure to fair value and cash flow interest rate risks as of December 31, 2016 and 2015 as it does not carry any significant interest bearing assets or liabilities.

27.4 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group has no significant concentration of credit risk. Cash is placed with banks with sound credit ratings. Accounts receivable are carried net of provision for doubtful debts.

27.5 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available through committed credit facilities to meet any future commitments.

27.6 Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the Group's financial instruments are compiled under the historical cost convention, except for available for sale investments which are carried at fair values, differences can arise between the book values and fair value estimates. Management believes that the fair values of the Group financial assets and liabilities are not significantly different from their carrying values.

28. Comparative figures

Certain reclassifications have been made to the 2015 consolidated financial statements to conform with the current year presentation.