

Internal control system evaluation:**Audit Committee report on the effectiveness of the internal control system of Nahdi Medical Company.**

To shareholders,
Nahdi Medical Company
Jeddah, Saudi Arabia

Introduction:

In accordance with the corporate governance regulations issued by the Capital Markets Authority article (55) regarding the main duties of the Board of Directors and the Audit Committee, and in accordance with article (104) from the new companies' law. The audit committee is presenting its opinion on the effectiveness of Nahdi Medical Company's Internal Control System in this report.

The audit committee held (8) eight meetings during the year 2021. During the meetings the committee discussed the preliminary financial statements, annual financial statements, internal and external audit activities, compliance, and risk management.

The Audit Committee's main activities during 2021:

The audit committee performs periodical reviews and carries out responsibilities and tasks appointed by the board of directors. The audit Committee concluded its opinion on the effectiveness of the internal control systems based on the followings:

Appointment of the external auditor: The Committee has reviewed the proposals submitted by a number of external audit companies for reviewing the annual financial statements for the year ended on December 31, 2021 and made a recommendation to the Board of Directors and to the General Assembly to change the external auditors. As part of the tasks entrusted to the Committee in recommending to the Board of Directors the appointment or reappointment of auditors, dismiss them, determine their fees, and evaluate their performance.

Annual audit plan provided by external auditor: The committee approved the plan set by the external auditor after discussing it and ensuring that it is inclusive of the company's main and substantial interests.

Review and discuss with management and with the external auditors the financial statements and the adopted accounting policies: The committee within its periodic meetings during the year discussed the adopted accounting policies used for the preparation of the financial statements in accordance with the International Financial Reporting Standards (IFRS). Then after the review and the discussion of these policies it was approved by the Board of Directors. The Audit Committee also reviewed the quarterly financial statements, the annual financial statements, and the comparative reports, presented their notes and comments and discussed them with the finance department and the external auditor before obtaining the board of director's approval to release the

financial statements. Which in return ensured an unqualified opinion to be given for the consolidated financial statement of the year ending 31 December 2021.

The “management letter” and the observations provided by the external auditor and the extent to which the company’s management has taken corrective actions for these notes: The Committee reviewed the “management letter” submitted by the external audit auditor as part of their annual report and received from the company’s management, the corrective actions plan related to these notes.

Annual audit plan submitted by the internal auditor: The Company’s internal auditor submits the annual audit plan based on assessment of the risks specific to each of the company’s departments, in addition to the directives of senior management and the Audit Committee. The Committee will approve this plan after reviewing these criteria. The committee follows up with the internal auditor the extent of compliance with the approved plan and approves changes according to the justifications given for such change if any.

Review and approval of the “Internal Audit Charter”: The Committee has reviewed and approved the “Internal Audit Charter” in line with the international standards of internal auditing and international best practices, and to ensure the independence of the head of the internal audit which confirms the objectivity desired of the internal audit activities.

Reports and observations provided by the company’s internal auditor and the extent to which the company’s management has taken corrective actions for these notes:

The committee periodically follows up with the internal auditor and the company’s senior management the stages of management’s commitment to the agreed action plans to take corrective actions regarding the observations submitted by the internal auditor. The internal auditor submits and discuss with the committee a periodic report that includes the observations and the completed audit reports as per the agreed audit plan.

The various reports that the committee requests from the company’s management, which it reviews and discusses during its periodic meetings: The committee periodically receives various reports from the company’s senior management regarding the progress of operations, collection processes, legal issues, the status of zakat and VAT. Various reports are discussed during the regular meetings of the Audit Committee, during these meetings, the management provides sufficient information and answers to the committee's inquiries. The committee also discusses and reviews all updates in terms of the new laws and regulations in the Kingdom and ensures that the company complies with all the requirements of the Capital Market Authority and the Companies Law.

The annual report on the risks that the company may face: The committee reviews the report on the risks that the company may face and provide their comments after reviewing the actions taken by the company's management to mitigate the effects of these risks, eliminate them if possible, and submit it to the Board of Directors for final discussion and approval.

Reviewing the extent of cooperation and assistance provided by the management to the external and internal auditors and emphasizing their independence and the absence of any restrictions preventing them from accomplishing the assigned duties: The committee requests the auditors to inform them in case of the presence of any professional difficulties that may prevent them from carrying out their duties. The Committee did not receive any note from the auditors in this regard, the external auditor and the internal auditor have confirmed that they have obtained all the required information and documents to accomplish their duties.

Reviewing compliance reports: The committee periodically reviews compliance reports that reflect the company's compliance with the regulations issued by the relevant government bodies and discusses it with the concerned departments in the company.

The audit reports mentioned above did not show a major weakness in the company's internal control system regarding the financial reporting as most of the observations are mainly in the areas of improving performance, activating the work of departments and sections, and improve their efficiency. Completing the documentation of its procedures with the aim of enhancing the control system and the utilizing of the available resources.

Based on the above, with consideration that the objectives of the internal control system are:

- Ensuring that the accounting records were prepared in the correct manner and increasing the accuracy and integrity of the accounting data.
- Safeguard of assets and properties.
- Maintaining integrity while performing transactions.
- Increasing the efficiency of the company's performance and making efficient use of its available resources.
- Compliance with various laws, regulations, and contracts.

The Audit Committee considers that the objectives of the internal control system in relation to financial reports are as stipulated in Nahdi Medical Company have been reasonably achieved. The Committee also considers that the position of the company's management in general regarding internal control is positive, as most activities are governed by written policies and procedures, and management reacts positively to the recommended policies or improvements. Also, there was no conflict between the recommendations and decisions of the Audit Committee and the Board of Directors during the year.

We also emphasize that it cannot be absolutely assured of the comprehensiveness of the examination and assessment processes that are carried out over the internal control procedures, because the review process is based on random sampling process, as well as the diversity of the company's operations. Therefore, the efforts are

ongoing for improvements and enhancements by the committee and the supervisory body within the system of the three lines of defense for governance to ensure the effectiveness and the efficiency in the mechanism of follow-up and improvement of internal control processes and procedures.

The committee will continue its duties during the next year and will report any changes to what mentioned, if any.

Formation and meetings of the audit committee

On November 3, 2021, the General Assembly approved the formation of the Audit Committee for a period of three calendar years ending on November 2, 2024

The following table shows the names of the committee members:

Audit Committee Members

Name	Title
Mr. Abdulatif Ali Abdulatif Al-Seif	Chairman of the Committee
Dr. Wael Kamal Eid *	Independent Member
Dr. Abu Bakr Ali Omar Bajaber	Independent Member

* During the year Dr. Wael Eid was the Chairman of the Audit Committee until the date of formation of the Committee on November 3, 2021.

The Audit Committee held (8) eight meetings during 2021 as below:

Audit Committee	16 Mar	28 Mar	15 Jun	23 Jun	14 Sep	26 Sep	30 Nov	14 Dec
Mr. Abdulatif Ali Abdulatif Al-Seif							√	√
Dr. Wael Kamal Eid	√	√	√	√	√	√	√	√
Dr. Abu Bakr Ali Omar Bajaber	√	√	√	√	√	√	√	√

Risks that could be exposed by Nahdi

In Nahdi, the risks are managed by senior management in accordance with policies accredited by the Board of Directors. The management is responsible for risks identification and assessment, and ensuring mitigation plans through cooperation between the Company's departments. The management evaluates the likelihood and impact of all identified risks then take the necessary measures to reduce and avoid these risks to contain them as much as possible to avoid any damages they may cause if they occur.

There are many risks associated with the activities of the Company, including:

Economic risks:

The risks to which the economy in general is exposed, whether inside or outside the Kingdom, which would have an impact on overall spending for individuals and institutions, and what would have an impact on suppliers and manufacturers.

Strategic risks:

Not being aware of the economic variables, taking the wrong strategic decisions, or applying strategies wrongly. Nahdi is keen to be aware of the economic variables through studying the market and the economic situation and seeking the assistance of the distinct experts to avoid any strategic risks.

Operational risks:

All the errors and deficiencies facing operational operations, and the ability to work in a competitive environment, and these risks include:

1- Credit risk:

It is the inability of one party to meet its financial obligations, which leads to the other party incurring a financial loss. In order to avoid credit risk, cash is deposited with banks with a high credit rate and recording receivables after deducting the provision for doubtful debts.

2- Liquidity risk:

It is the risk of difficulty in securing the necessary liquidity to meet its obligations. Liquidity risk is managed by periodically ensuring that sufficient liquidity is available to meet any future obligations.

3- Human Resources Risks:

The ability to attract and maintain qualified and distinguished human resources, and Nahdi continuously recruits and trains national staff, and develops an incentive bonus to support the continuity and efficiency of its human resources.

4- Legal risks:

Risks related to legislative and legal changes in the Kingdom or the countries in which Nahdi operates, whether from taxes or labor laws and others.

5- Technology risks:

Operational risks associated with technical software in the event of a technical defect, Nahdi continues to develop and support its technical programs and alternative technical infrastructure.

The management of the Company monitors and evaluates all these risks and deals with them on an ongoing basis by conducting periodical follow up, and submitting them to the Board of Directors, which in turn takes the necessary decisions to reduce their impact to an acceptable level.